Show-Me Institute
Where Liberty Comes First

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SHOW-ME newsletter

KANSAS CITY ECONOMIC DEVELOPMENT AND HOMICIDE

By Patrick Tuohey

Kansas City desperately wants to grow, and it's spending or diverting tens of millions of dollars of taxpayer money each year on economic development, mostly downtown, in order to attract tourists and residents. When pitching the streetcar expansion, the $800 million general obligation bond, or a convention hotel, the Mayor tells taxpayers they have to build the city for the next 75 years.

But present-day Kansas City is floundering. Population growth is flat and economic growth is weak. The homicide rate jumped 40 percent from 2014 to 2015, and increased again last year. As the online news service *The Sentinel* reported in a recent article, "in Kansas City you were seven times more likely to be murdered than you were in New York City" in 2016. Though Chicago grabs headlines for having an almost unfathomable 762 homicides in 2016, *The Sentinel* notes, "Chicago is only 4 percent more lethal. There is no solace in that."

How did we get here? One answer may be police resources. According to 2015 data from governing.com, Kansas City had 28.7 police officers per 10,000 people, while New York City had 41.4—and Kansas City Police Department Annual Reports show that there are fewer officers in uniform today then in 2009. While the new city budget includes an increase for public safety, it is not clear if this would allow for hiring new officers.

To no one's surprise, *The New York Times* reports that high crime hinders economic and population growth, stating that:

> *when violent crime falls sharply, wealthier and educated people are more likely to move into lower-income and predominantly minority urban neighborhoods.*

Subsidized coffee shops and condominiums won't help if the city can't deal with runaway crime. And tax increases intended to spur development will likely fail if the basic safety needs of a community are neglected. What Kansas City needs is not more wide-eyed development schemes, but more effort delivering basic services efficiently and effectively.

ADVANCING LIBERTY WITH RESPONSIBILITY BY PROMOTING MARKET SOLUTIONS FOR MISSOURI PUBLIC POLICY

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Brenda Talent
Chief Executive Officer

I had high hopes for this session of the State Legislature. *Strategic patience,* our long-term approach to achieving policy goals, means working to make incremental progress while awaiting opportunities for bolder action. It also means laying a solid foundation of research and asking hard questions about our own analysis so that it can stand up to scrutiny when given a hearing. I believed that 2017 would be the year our patience paid off.

Certainly there has been progress. The passage of right-to-work legislation in Jefferson City this February signaled that many ideas Show-Me Institute analysts have championed for years have been accepted by a critical mass of policymakers. Other vital labor reforms under consideration in the legislature—paycheck protection and new financial transparency requirements among them—have, for the first time, a serious chance of being passed into law and signed by the Governor.

And when our new Governor's first State of the State address included calls for education savings accounts and course access programs, we recognized principles that animate our own work—namely, that Missouri's education system exists to serve its students (and not the other way around) and that parents can best determine how to meet their children's educational needs. The possibility that meaningful school choice measures are on the horizon is a hopeful sign for parents, students, and teachers alike.

But I must tell you I am concerned by the lack of action in the State Senate. A small minority has filibustered much needed reform in many areas. As our Director of Government Accountability, Patrick Ishmael, observed in a recent Forbes article:

> *[T]he Senate has allowed Democrats to filibuster at length and without realistic consequence legislative reform after legislative reform, killing some legislation and, in the process, closing the window within which other bills have to be passed before the session ends in May.*
>
> *Ethics reform. Tax reform. Education reform. Government union reform. Certificate of Need reform. Licensing reform. Public construction reform. Tax credit reform.*

The session isn't over yet, and many of these ideas may yet be rescued. But I cannot report the level of progress I had hoped.

There are other areas of concern. Abuse of development subsidy programs and calls to increase the minimum wage, for example—two hardy perennials of bad policy—are still with us despite our repeated attempts to explain the harm they do. Part of their appeal is rooted in a desire for simple answers to complex questions and a misplaced faith in government-imposed solutions.

Proponents of economic development subsidies often invoke a spirit of optimism when a company asks for a taxpayer handout as a condition of moving into an area. The public will see idealized sketches of the stadium or shopping venue that can't fail to rejuvenate a downtrodden neighborhood—and all taxpayers have to do is contribute a little money to make it worth the developer's while. Our counterarguments, based on historical and economic analysis rather than wishful thinking, can seem prosaic by comparison. But that's reality for you. We can't show you a sketch depicting exactly how that neighborhood would develop organically if policymakers lowered taxes for everyone rather than favoring one business over others.

Nor can we show you the people who won't be hired when an increase in the minimum wage makes bringing on new workers too costly. Job applications tossed aside, hours cut, expansion plans cancelled: these are inevitable consequences of artificially raising the cost of labor. Bad ideas can be stubbornly resistant to logic, but they aren't completely immune. Fact-based analysis eventually wears away the arguments that prop up unsound policy.

Despite the disappointing pace so far, I do expect more to be accomplished in 2017. And no matter what happens, the Show-Me Institute will keep fighting for the families and taxpayers of our state, for their freedom to learn and work and enjoy the fruits of their right to "pursue happiness" in their own way.

FOOL ME ONCE: WILL SOCCER FILL THE "SUBSIDY VACUUM" LEFT BY THE NFL?

By Michael Highsmith

Nature abhors a vacuum, and some developers seem to feel similarly about leaving public money on the table. Roughly a year after the Rams left for Los Angeles, Saint Louis finds itself debating whether to bring a Major League Soccer (MLS) team to the city. An MLS team downtown could help fill the entertainment void created by the Rams' departure, but residents should be skeptical of using $60 million in public subsidies to construct a new stadium. It's a bad bet—one we've made (and lost) before.

One need look no further than the Edward Jones Dome and the surrounding lots to see how tenuous—or imaginary—the connection is between stadium spending and economic development. The overwhelming majority of economists agree that public benefits from stadiums are overstated by proponents. While stadiums can be extremely lucrative for private entities, taxpayers often get the raw end of the deal when they put money on the line.

But how can this be if stadiums draw such large crowds on game nights, create jobs, and add to a city's tax revenue? A successful sports team will often draw a large audience during its home games, but there's an important distinction between creating *new* economic activity and rearranging *existing* economic activity. People spending money on game tickets and concessions are bringing revenues into the stadium, but much if not most of this spending would otherwise go toward entertainment options such as restaurants and theaters. Economists find that this substitution effect helps explain why even when a stadium itself is successful, it does not cause overall economic growth in its region.

Arguments for subsidization that cite job creation and increased tax revenue for Saint Louis also fall flat. Tax-funded jobs are dependent upon money taken out of the local economy. More importantly, many of the jobs created are either temporary construction jobs or part-time, low-wage jobs.

Of course, factors other than economics also belong in a discussion about whether to use public money to lure a team to Saint Louis. Residents can take pride in a nationally recognized team, and rallying behind a successful team can be exhilarating. These intangible benefits (at least for soccer fans) would accompany an MLS team here, and proponents of the new stadium could make their case to the public based on the emotional lift an MLS team could provide. Arguments based on the promise of economic revitalization and increased revenues for the city, however, don't square with the research or with the recent experience with the Rams.

RIGHT TO WORK PASSES IN MISSOURI, BUT MORE REFORMS MUST FOLLOW

By Patrick Ishmael

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After years of attempts, the Missouri legislature has passed and the governor has signed right-to-work (RTW) legislation into law. RTW ends compulsory union membership as a condition of employment, allowing workers to decide whether a given labor organization meets their needs and deserves their support. Missouri becomes the 28th RTW state in the country.

The good news is that the law passed. The bad news is that Missouri was already playing catch-up with its neighboring states. When the legislature passed RTW in February, every state bordering Missouri, with the exception of Illinois, had already passed a RTW law.

Companies consider various factors when they decide where to move or expand operations. Infrastructure, a trained workforce, and education are all important considerations. But a state's labor policies are also critical, and for a long time Missouri hasn't been able to check the box for RTW. To use a basketball analogy, that's like putting only four players on the court; your team could still win, but it would be a lot easier if you had all of your assets in play.

Still, RTW is only one piece of the labor reform puzzle, and it appears our legislators may intend to put other pieces in place. Along with RTW reforms, proposals are under consideration that would reform project labor agreements (PLAs) and the state's prevailing wage law. PLAs restrict who can work on public projects, and prevailing wage laws work as a kind of minimum wage for public works construction jobs. Both can tilt the playing field for public construction jobs in favor of unions. Bills currently circulating through the legislature, if passed, could address these problems.

Reforms of government unions appear forthcoming as well. Along with paycheck protection legislation, a transformative proposal that would require common-sense transparency and financial reporting from government unions appears to be on a path to passage. If both government union reforms pass, Missouri would be on the leading edge of reform with Wisconsin when it comes to pro-worker, pro-growth labor law improvements.

The opportunity for progress in labor reform in Missouri has never been greater, and the prompt passage of RTW legislation was a great opening act. If the other labor reforms on the table are enacted, Missouri may finally lead the pack and force its peers to do the chasing for once.

MOVEMENT ON SCHOOL CHOICE IN MISSOURI: GREAT NEEDS, GREAT OPPORTUNITIES

By Emily Runge

At the beginning of the 2016–2017 school year, over 52,000 students were enrolled in provisionally accredited or unaccredited school districts in Missouri. And although the Saint Louis City School District regained its accreditation in January of this year, only one-third of its 22,500 students scored proficient or better in English on the Missouri Assessment Program (MAP) test and only one-quarter did so in math. The number of kids attending failing schools in Missouri's two largest cities alone is staggering.

Although students in Kansas City or Saint Louis can apply to attend charter schools, there are not nearly enough seats to meet demand. University Academy in Kansas City—one of the top-performing charter schools in the state—has a wait list of over 700 children. KIPP Saint Louis currently has over 400 students on its wait list. Other charter schools have also reported that the number of applications and the size of their wait lists are growing every year.

For students living in the Normandy school district just outside of Saint Louis (the lowest performing district in the state), the only silver lining is that the district is still unaccredited. According to state law, students living in unaccredited districts may transfer to a better-performing district at no cost to their families.

Once a district is classified as even provisionally accredited, however, students no longer have the right to transfer unless they foot the bill themselves. This is exactly what happened in Riverview Gardens when the State Board of Education upgraded the district in January. Thankfully, the surrounding school districts reached an agreement so students would not have to immediately return to the Riverview district.

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But what of the students in other underperforming districts like Calhoun, Hayti, Hickman Mills, and Pemiscot? While these districts fall far below the state average for proficiency rates in math and English, they hold on to their accreditation, preventing students from transferring to better schools. Unless their families can afford to move or pay for private school tuition, they are trapped in schools with unacceptably low performance.

While educators and administrators are working hard to improve these schools, Missourians must realize two things: These schools will not turn around overnight, and it is unfair to expect the thousands of students who attend them to stay put until they do. We must provide them with quality alternatives as soon as possible.

In terms of school choice, Missouri is far behind other states. Charter schools only operate in two districts and we have no private-school choice options that would assist students in underperforming districts with tuition at a private school. Fortunately, families may soon have other alternatives because of recent developments in Jefferson City. In January, Governor Eric Greitens expressed his support for school choice, specifically education savings accounts (ESAs) and course access, in his State of the State Address. Currently, these measures (along with charter school expansion) are being considered by the legislature.

As parents and lawmakers realize that we cannot sit and wait for neighborhood schools to improve, the support for school choice is increasing. Isn't it time to expand our state's school choice portfolio and give more opportunities to kids stuck in failing schools and districts?

SPECIAL TAXING DISTRICTS: MISSOURI'S NEW INVASIVE SPECIES

By Graham Renz

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For the past few decades, tax-increment financing (TIF) has been used to subsidize real estate developments across the Show-Me state. TIF diverts to developers a portion of the tax revenue a new development generates that would otherwise go to schools, libraries, and public safety. To date, the 474 active TIF projects in Missouri have diverted more than $2.6 billion in would-be tax revenues. Unfortunately, TIF isn't the only tool in the corporate welfare toolbox.

Over the past 20 years, there has been an explosion in the number of special taxing districts in Missouri. Special taxing districts are micro-governmental entities, formed through petition processes, which can levy property taxes, special assessments, and sales taxes. The most common of these districts in Missouri are transportation development districts (TDDs) and community improvement districts (CIDs). In 1996, there were no TDDs or CIDs; today, there are roughly 500 such districts, and their collective tab runs into the billions of dollars.

TDDs and CIDs were intended to help fund improvements—ranging from parking lots to road interchanges to neighborhood security—that residents in a particular area might desire, but that a city or county could not provide. To raise funds for these improvements, TDDs and CIDs impose a tax or fee within the district's boundaries; an area or development simply "taxes itself" to fund the improvements. Proponents claim this feature of TDDs and CIDs makes them preferable to TIF since they *create*, rather than *divert*, tax revenue. While this advantage is real, TDDs and CIDs come with unique troubles of their own; these districts are just another mutation in the evolutionary history of corporate welfare.

For one, there are very few restrictions on how district boundaries may be formed, so districts are often gerrymandered to serve corporate interests. For instance, if boundaries are drawn such that no *residents* live within a district, statute dictates that the *property owners* in the district decide on if and how taxes are raised and spent. Not surprisingly, developers and businesses often propose districts encompassing just their businesses but no residences, more or less granting themselves a say on how taxpayer dollars are spent. A recent example is the City Foundry development in midtown Saint Louis, which created both a CID and a TDD to each levy additional 1% sales taxes on sales made on its property. Taxpayers will contribute millions to this development, but they'll have no say in how that revenue is spent.

Since many TDDS and CIDs are created *by* developers *for* developers, taxpayers often have no outlet for expressing their concerns about them. Unlike a city council, where business is conducted in the open and citizens can hold their representatives accountable, special taxing districts operate mostly in the dark and in isolation. This lack of transparency leads to accountability issues, as the State Auditor has noted for years. In fact, the most recent TDD report revealed that 20 percent of districts failed to file financial reports on time. If a district can't even properly file statutorily required documents, is it any surprise taxpayers might be skeptical about their goings-on?

There are numerous opportunities for reform, including rigorous reporting mandates, issuing consumer awareness materials, and even requiring strict residence minimums. It's time policymakers put their weight behind reining in the growth and abuse of special taxing districts, because such growth and abuse are likely to continue unabated unless significant reforms are enacted.

WHAT DOES THE NEW SECRETARY OF EDUCATION MEAN FOR MISSOURI?

By Michael Q. McShane

In a historic vote that required Vice President Mike Pence to break a 50-50 tie, Betsy DeVos was confirmed as the Secretary of Education on February 7. Her nomination fight was contentious, but as she settles into her new role, our attention can shift to what her appointment as Secretary means for Missouri.

I can think of three key issues.

1. MORE RESPONSIBILITY

Secretary DeVos and President Trump have made it clear that they want to transfer education power from the federal government back to the states. This is a great opportunity to roll back many of the unnecessary regulations that have stacked up over the years and stymied hard-working teachers and school leaders. Ask any principal about how much work they have to do to stay in compliance with the messy patchwork of federal mandates, and you'll see the opportunity that is available to help educators get back to focusing on educating children, not filling out paperwork to keep the feds off of their backs.

But we must be careful not to simply replace one stifling bureaucracy with another. We have an opportunity to do a line-by-line review of what we require of educators and schools and ask of each regulation: "Does this prevent educators from meeting the needs of children?" If the answer is "yes," we probably need to modify or get rid of it.

2. MORE CHOICE

Secretary DeVos has made her name in the education world as a school choice advocate. The organization she helped found, the American Federation for Children, is one of the nation's largest private school choice advocacy groups. President Trump spoke about promoting school choice repeatedly during his campaign and signaled that he meant business by nominating Mrs. DeVos.

But here too we must be careful. Just because we believe in promoting school choice does not mean that we want a massive federal program to do so. The Secretary and the Trump administration would be much better served to support and encourage nascent, local school choice efforts across the country than try to do it themselves. Washington, D.C., is a place where good ideas in education go to die. States are where the action should be.

3. MORE RANCOR

The public's interest in education reform tends to ebb and flow. When it is flowing, tempers run hotter, debates feature more shouting, and less gets done. We have been in a bit of an ebb over the past few years, particularly with respect to school choice (the contentious Common Core fight being a notable exception.) In this relatively calm environment, states across the country have introduced, debated, passed, and implemented new school choice programs, granting hundreds of thousands of children the opportunity to attend schools that better meet their needs.

Buckle up, because things are about to change. The all-out assaults on Secretary DeVos in the days following her confirmation hearing are harbingers of things to come. The vested interests of the educational status quo are under threat and may lash out against efforts at reform—so those of us who believe in empowering parents need to be prepared.

There is an old Chinese curse: "May you live in interesting times." We are doing just that, but with a commitment to principles, and with a steadfast focus on doing what is right for kids, it can be a time of great opportunity as well.

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UPCOMING EVENTS

In April, Kevin Murphy, Professor of Economics at the University of Chicago, will deliver lectures in Saint Louis and Kansas City on income inequality and its relationship to economic growth. The presentations are part of the Speakers Series co-sponsored by the Show-Me Institute, the Saint Louis University John Cook School of Business, the Kansas City Public Library, and the Sinquefield Charitable Foundation.

In May, Show-Me Institute Western Missouri Field Manager Patrick Tuohey will discuss development subsidies at policy forums in Saint Louis, Columbia, Springfield, and Kansas City.

Kevin Murphy

"Income Inequality, Human Capital, and Economic Growth"

Saint Louis: April 19
5:30 p.m. Reception
6:00 p.m. Lecture

Kansas City: April 20
6:00 p.m. Reception
6:30 p.m. Lecture

Patrick Tuohey

"Missouri's Misuse of Economic Development Subsidies"

Saint Louis: May 9

Columbia: May 16

Kansas City: May 23

Springfield: May 24

For more information, please visit www.showmeinstitute.org/events