SHOW-ME newsletter

2018 | Issue 4

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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I'm not sure you could call it a tradition just yet, but January 2019 will mark the release of the third edition of our annual *Missouri Blueprint*, which outlines our primary objectives for the coming year.

We made progress last year and will continue the fight in 2019. We don't pick easy battles, and we don't back down from what is right. So we'll continue to point out the folly of lavishing subsidies on developers in the vain hope that doing so will somehow conjure jobs and prosperity. Similarly, we'll keep fighting for the repeal of Missouri's Certificate of Need law, which keeps health care prices high by restricting competition among providers.

Moreover, our education agenda is expanding. Having seen the establishment of a course access program (one of the items in last year's *Blueprint*), we intend to see that the Department of Elementary and Secondary Education implements it faithfully. We will also turn to other reforms that our Director of Research and Education Policy Susan Pendergrass describes in her article in this newsletter.

The 2019 *Blueprint* includes new pieces covering government spending transparency and workforce development. In addition, we are following up on our successful push for public union recertification elections with a call to bring the collective bargaining process for government unions out into the open.

We're proud of the fact that our research has heavily influenced the priorities of state government. I hope you'll visit our website and read our latest Blueprint, which will be released on January 4. And as always, we at the Show-Me Institute wish you a happy and prosperous new year.

–Brenda Talent

TO CURE POVERTY,

Emily Stahly

In 2012, on the heels of the Great Recession, the poverty rate in Missouri peaked at 16.2 percent. The child poverty rate (encompassing those less than 18 years old) was even higher at 22.6 percent. Since then, thankfully, both the overall and child poverty rates have been decreasing steadily and now stand at 13.4 percent and 18.6 percent, respectively.

It is certainly worth celebrating that about 150,000 fewer Missourians are in poverty now than in 2012, but these numbers do not tell the whole story. Specifically, the poverty rate alone does not tell us about the persistent poverty that continues for two or more generations in some families. Digging a little deeper into the data leads to some unsettling discoveries. There are wide disparities in poverty rates across different areas of our state, many people who aren't categorized as being in poverty remain dependent on public assistance, and a significant number of children born into poverty are at risk of staying in poverty throughout their lives.

Missouri's child poverty rate of 18.6 percent is just slightly higher than the national average of 18.4 percent, but county-level data reveal that child poverty rates vary greatly across the state. In three counties—Buchanan, Osage, and St. Charles—less than 10 percent of children are in poverty. Meanwhile, St. Louis City as well as Mississippi, Pemiscot, and Oregon counties in the southeast corner of the state all have child poverty rates above 40 percent. What's more, over half of Missouri's counties have seen increases in child poverty since 2012.

The state as a whole is moving in a positive direction—but state leaders and policymakers should be aware of the pockets of poverty in Missouri, especially in St. Louis, Kansas City, Springfield, and the Bootheel region.

ATTACK THE DISEASE

Additionally, Missourians should be concerned with growing dependence on government assistance for a decent standard of living. Recently, a report from the American Enterprise Institute detailed the gap between the federal poverty rate (based on pre-tax income and adjusted for inflation and family size) and the consumption poverty rate. The consumption poverty rate is based on how much families spend on food, housing, transportation, and other necessities. Some of the money spent comes from personal income, but some of it comes from welfare benefits. As a result, these families are able to consume more than their income alone would indicate.

The federal poverty rate was 13 percent in 1980 and is now slightly higher at 13.4. The consumption poverty rate, on the other hand, has dropped from 13 percent in 1980 to 2.8 percent in 2017. The fact that the consumption poverty rate has fallen relative to the federal poverty rate means that a growing percentage of people whose incomes place them below the federal poverty line are materially better off than those who were in poverty in 1980. This improvement in standard of living for those with low incomes is due in large part to public assistance programs.

In a sense, public assistance has "worked," at least as a way to ensure that basic needs are met for those whose own incomes are not sufficient to support themselves or their families. But public assistance is like a very expensive medical treatment that relieves the symptoms of a disease without curing it. Our ultimate goal is—or should be—to help people who currently depend on welfare to escape poverty by achieving economic independence. With about one-third of the state's budget going to the Department of Social Services (DSS)—and with over 80 percent of DSS's budget being designated for Medicaid—moving people out of poverty and off of welfare is necessary to curb entitlement spending and free up tax dollars for other policy priorities like infrastructure and education.

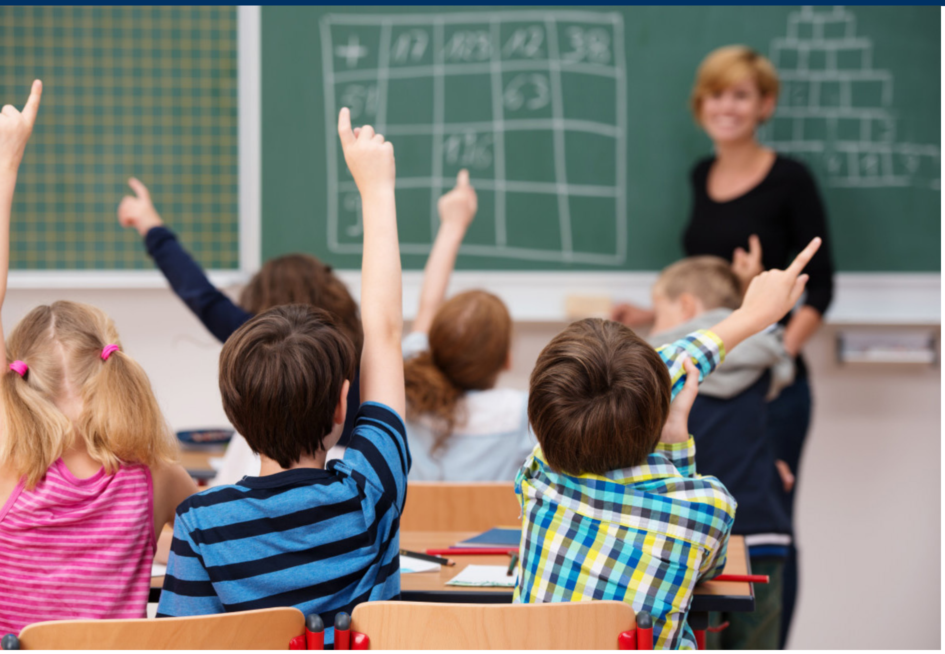
Moreover, the risk that many children from poor families in Missouri will stay poor into adulthood underscores the human element of our state's poverty problem. Rates of upward mobility—how economists measure how far children are likely to climb up the income ladder based on their parents' income—vary across Missouri and are lowest in the areas surrounding Cape Girardeau, Kansas City, Springfield, and St. Louis. In these areas, about one-third of children born into poverty are predicted to stay in poverty.

This combination of high numbers of children in poverty with low rates of upward mobility perpetuates poverty across generations in these areas. Not only does cyclical poverty impact people's quality of life, but it also has consequences for the rest of state and taxpayers. In a pair of forthcoming essays, I use economic mobility data from a group of Harvard economists and estimate that almost 78,000 people who were in poverty as children in the late 1980s in Missouri are still in poverty today as adults. This group, which constitutes about 1.3 percent of Missouri's population, will collect about $15 billion in welfare benefits over the course of their lives.

These problems illustrate the danger in focusing on top-level numbers that can mask deeper problems. What Missouri needs now is an anti-poverty agenda that provides a safety net for those in real need but prioritizes helping able-bodied adults find work and become self-sufficient. By focusing on policies and programs that enable people to provide for themselves and their families, we can help eliminate the misery that comes with poverty while also protecting taxpayers.

EDUCATION GOALS FOR 2019:
WHERE EDUCATION AND THE ECONOMY MEET

Susan Pendergrass



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As we look ahead to the next legislative session, scholars at the Show-Me Institute have identified several education policy priorities. These priorities touch on several aspects of our education system, but all in some way help push toward our larger goals in education reform: Giving parents the freedom to choose an education that best fits the needs of their children and creating great schools with great teachers that help arm Missouri students with the skills they need to flourish once they graduate.

First, there are basic steps that DESE should take—and take quickly—to carry out reforms that have already passed or should already have been in place. We've noted them before: implementing the Missouri Course Access Program (MOCAP), including a fully functional website; revising the Annual Performance Report to make it user friendly, so that parents can actually find out how their schools are performing; and making school finance data transparent and accessible so that parents, teachers, and the press can understand how our schools are spending their money. These are "Education 101" reforms that have been neglected for too long and need to be attended to right away. It's up to DESE to get them done.

In addition, the legislature needs to advance the policies described below.

An ongoing goal for improving education in Missouri is the expansion of school choice, particularly through education savings accounts (ESAs). ESAs are savings accounts that transfer a student's state education funding directly to their parents for exclusively educational purposes, such as school supplies, tutoring, or private school tuition. In many other states, ESAs provide much-needed flexibility for students whose needs don't fit squarely into the traditional public-school paradigm. Examples of students who could benefit from ESAs are myriad, and include students with special educational or medical needs, kids who are struggling with bullying, and gifted students from low-income families, to name a few. ESAs could also be made available to any student who is unable to find adequate services in the current one-size-fits-all system, and their flexibility helps families fill the gaps in their child's education left by their assigned public schools. ESAs in Missouri could be funded through a tax-credit program, in which individuals and organizations donate money to ESA-granting organizations in return for a direct reduction in their taxes. Given the ease of funding and the huge potential impact on Missouri's students, creating an ESA program would be a simple but effective step forward for Missouri.

Another priority is improving career and technical education (CTE) in Missouri. While many Missouri high schools provide CTE programs, and there are even regional CTE high schools, not enough Missouri CTE students are leaving school with the credentials they need to launch their careers. Further, industries across the state are experiencing issues with skill gaps. Giving students the skills and credentials they need to enter the workforce immediately upon graduation will help address this problem. Often these credentials are earned by passing an external assessment developed and administered by an industry group; examples include a Certified Nursing Assistant (CNA) credential or an Automotive Service Excellence (ASE) credential. These industry-recognized credentials (IRCs) serve as proof that an applicant has the right skills for a job, and many employers require them. Missouri high schoolers passed just over 8,000 IRC tests in 2018, but we could be doing much more. Implementing a program to award bonus pay to districts and teachers when students successfully pass an IRC has dramatically boosted IRC attainment in states that have adopted this approach. Policymakers in Missouri should consider such a program.

A second aspect of improving career and technical education in Missouri involves creating the conditions for high-quality regionalized CTE high schools to open and thrive. We believe that the charter school model is the most efficient approach, as it would give schools autonomy in hiring and compensating staff, particularly professionals from the industry, and in tailoring the programs offered to meet the needs of local employers. CTE charter schools, sponsored by the state charter school commission, would have access to federal funds for planning and implementation, as well as for facilities—which can be very expensive. These schools should also be allowed to draw students from multiple school districts.

There is also plenty of room for needed reform in the way Missouri's schools are funded. Two aspects of the current funding formula that are in particular need of reform are the local effort calculation and the weights applied to enrollment of students with extra needs. The local effort calculation—meaning the portion of education funding that the property-tax payers in each school district are expected to provide—is currently based on the prior year's property values or the 2005 property values, depending on which is lower. As a result, nearly half of Missouri districts are currently using 13-year-old property values, or being "held harmless." We believe that that the legislature should revise the formula to continuously update the property values used. Secondly, the weights applied for low-income students, students with disabilities, and students who are learning English as a second language do not accurately reflect the cost differential of educating these students. We would encourage the legislature to make the formula more student-based, rather than building-based.

Finally, Missouri's policies governing teacher retirement benefits, like those in many other states, are outdated and financially unsustainable. It's time to offer teachers a choice when they sign their first teaching contract as to whether they wish to enroll in the state's pension plan or have their own defined-contribution plan, which we're calling a teacher's retirement account (TRA). Just as with the state plan, school districts would make matching contributions to the teacher's retirement benefits in a TRA, but at a much lower rate. A TRA option would grant teachers flexibility for career changes, since the teacher's account would be transportable between jobs. The state option would still be available, but teachers would be able to choose the plan they prefer. Simply providing another option for new teachers would allow them to align their retirement with their career aspirations.

For 2019, we are focusing our efforts in two areas where education policy decisions intersect with the broader Missouri economy. Bringing ESAs to our state and strengthening our CTE programs will mean that students leave school better prepared to enter the workforce and that local employers can find qualified candidates for positions they need to fill. Reforming our teacher retirement system will give flexibility and choice to teachers during their careers and financial stability when their time in the workforce ends. The benefits of success in these areas will extend far beyond Missouri's classrooms.

There is plenty of precedent for enacting these reforms. They've been tried, and have been successful, in other states. This is the year to pass them in Missouri.

HOW NOT TO STUDY ECONOMIC DEVELOPMENT INCENTIVES

Patrick Tuohey

Chris Murphy/Flickr/CC 2.0

Kansas City spends a lot of money on economic development incentives. According to Councilman Quinton Lucas, the city has spent "probably in excess of a billion" dollars in an effort to revitalize downtown alone. Thanks in part to attention brought by Show-Me Institute analysts, city leaders have been feeling pressure to evaluate exactly how effective these subsidies are at driving development.

Mayor Sly James, in a July 2016 story in *The Kansas City Star*, seemed to appreciate the importance of a well-done study of incentives in efforts to improve policy:

> *Such an analysis, if done correctly, will take some time to complete; however, we will be working to complete it as soon as possible. The report will provide the sort of data and facts that can lead to reasonable and responsible improvements to our economic development policy.*

By October 2016, it seemed the mayor was backpedaling. In a speech to city employees, he claimed that "City Hall doesn't do a good enough job of promoting how economic development benefits the city." It was an important pivot from a serious analysis of city policy to a public relations effort to justify existing policy.

Researchers at the Show-Me Institute know what a good economic incentives study looks like. The St. Louis Development Corporation—the very folks who dole out River City incentives—had undertaken an examination of its own programs in 2016. This study—as with many others from around the country—found that economic development subsidies were not creating jobs or boosting investment. They were simply rewarding corporations for doing what they were likely going to do anyway.

The Show-Me Institute has published similar studies that found similar results. Bill Lester of the University of North Carolina had previously studied TIF in Chicago, and he supplied us with his expertise for a policy study on TIF in Missouri. For both his 2014 study of TIF in Chicago and his 2017 study of Kansas City and St. Louis, he compared areas in which TIF had been applied to economically and demographically similar areas where it hadn't. Lester then examined the differences between the two groups over time. He found that that the differences were so small that any growth in the TIF-treated areas could not be said to be the result of the incentive itself. In examining subsidies in St. Louis, the PFM Group (an asset management company) did largely the same thing, comparing different areas over time and concluding that the policies could not be said to have caused an "increase in jobs," or "spillover effects" from incentivized parcels.

Kansas City began the process of studying its economic development program by drawing up a request for proposal and seeking bids. Eight organizations bid on the analysis, including the same PFM Group that conducted the St. Louis study. Other bidders included the Economic Development Research Group, "a firm dedicated to advancing the state-of-the-art in economic evaluation and analysis to support planning and policy," and Crowe Horwath, LLP, a "public accounting, consulting, and technology firm." Bids ranged from $174,000 to $287,000.

The highest bid came from the Council of Development Finance Agencies (CDFA). CDFA is not actually an accounting or economic evaluation firm. It is, according to its website, "a national association dedicated to the advancement of development finance concerns and interests."

The city chose CDFA. Not only was CDFA the highest bidder and possibly conflicted (given its core mission), but the city paid CDFA $350,000 for the study, more than it asked for and approximately twice as much as St. Louis paid PFM for its 2016 study. There was now more reason to suspect this was not going to be a serious, thorough analysis.

The contract was signed on November 1, 2016, and the report was due May 1, 2017. After at least four extensions, CDFA presented its report to the City Council of Kansas City on August 16, 2018—16 months late.

The report was a disappointment, but given what we knew leading up to its release, not a surprise. Rather than undertake the rigorous work of measuring the real impact of subsidies, the CDFA just assumed them. For example, it appears that the report tallied up the value of a given economic development incentive and divided it into the value of the jobs created or tax revenue that project generated. As a result, the CDFA report concluded, incredibly, "each incentive dollar invested generated $3.83 in additional tax revenue."

The report made no attempt to determine how or if a given incentive caused the subsequent development. It made no effort to determine which projects generated more and better returns on incentives invested than others. During the presentation, council members repeatedly questioned the consultants assembled as to how the report could help them make better decisions in the future.

Mayor James, possibly frustrated at the line of aggressive questioning by his colleagues, appeared to try to capture the essence of the report at the end of the meeting. But the responses he received demonstrated the fatal flaw of the study.

> ***Mayor James:*** *If $288 million [in incremental real property taxes] is as a result of some incentive being used, if there is no incentive being used, would the number be zero?*
>
> ***Adam Stroud [PGAV Planners]:*** *I can't answer that.*
>
> ***James:*** *Would it be less than the $288 [million]?*
>
> ***Stroud:*** *I also can't answer that.*

The mayor's questions gave the consultant every chance to claim that there was a connection between the increase in tax revenue and the incentives offered. To his credit, the consultant answered directly that he did not know if such a connection existed because the study did not measure it. An assumption of a direct, positive connection between subsidies and tax revenue couldn't be tested because it was built into the study.

Some organizations with an interest in promoting economic development incentives, such as the Greater Kansas City Chamber of Commerce and the Downtown Council, uncritically parroted the $3.83-per-dollar return rate on incentives, but they might have known better. The editor of the *Kansas City Business Journal* called the report a "hot box of poo" and wondered, "did Kansas City blow a couple hundred thousand dollars on a completely useless study?"

I fear the answer is yes.

SHOW-ME INSTITUTE

WHERE LIBERTY COMES FIRST

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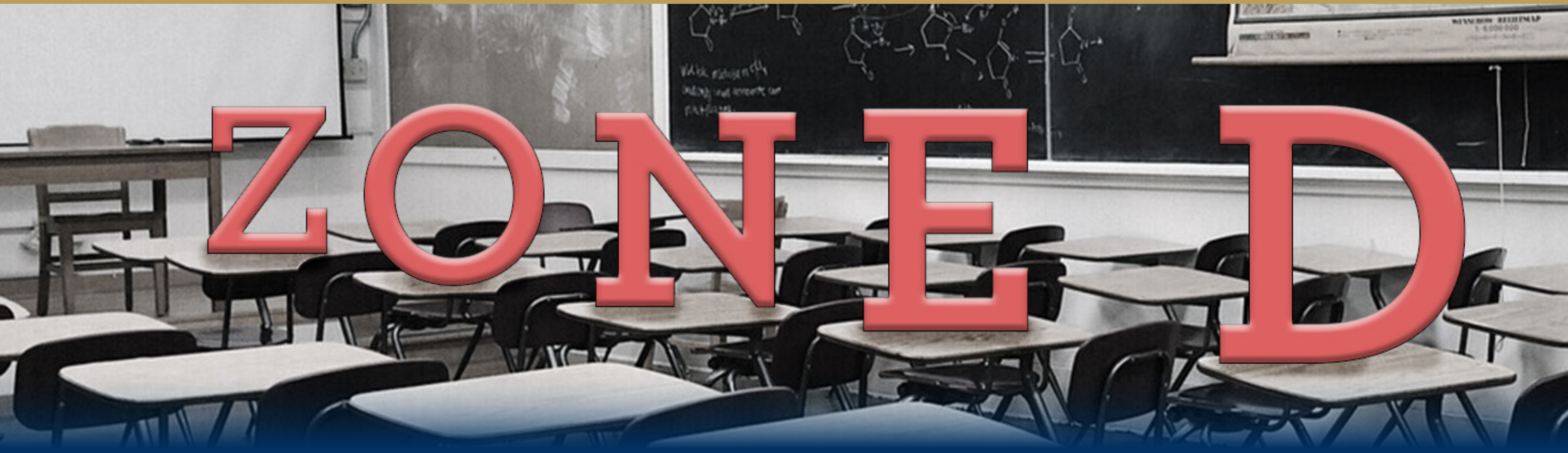
UPCOMING POLICY BREAKFAST / FILM SCREENING



Tuesday, January 22, 2019
7:30–8:30 a.m.

Kingside Diner
4651 Maryland Avenue
St. Louis, MO 63108

Join Show-Me Institute Director of Research and Education Policy Susan Pendergrass and Distinguished Fellow in Education Policy James Shuls for a discussion on education policy and school choice. The presentation will include a screening of the new short film "Zoned," which explores a world in which medical options are determined in the same way that education is currently determined for millions of children—by zip code.