



SHOW-ME newsletter

2019 | ISSUE 1



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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

As in previous years, Show-Me Institute policy analysts have testified before Missouri House and Senate committees several times during the 2019 legislative session, often at the request of lawmakers. We're always eager to do so. An invitation to testify is a validation of the quality of our research, but more importantly it's an opportunity to share our work with those who can advance market-oriented reforms in our state. Following are some highlights of the testimony given by our policy directors this year:

Patrick Ishmael testified on a bill that would cap sales taxes in Missouri. The proliferation of opaque and unaccountable special taxing districts has added to the tax burden for Missourians. A statewide limit on sales taxes has the potential to limit the harm that these districts do to the state economy.

Susan Pendergrass testified in connection with a bill that would help expand charter schools in Missouri. Currently, it is extremely difficult to open charter schools outside of Kansas City or St. Louis despite substantial unmet demand for such schools among parents around the state. No parent wants their child to be trapped in a failing public school, and charter schools could offer these students a way out.

Patrick Tuohey testified on a bill that would limit how municipalities can use tax-increment financing (TIF) in Missouri. TIF has become a corporate welfare bonanza, enriching developers while providing little or no economic growth in the areas where it is used. An argument could be made for ending TIF altogether in Missouri.

Presenting testimony allows our analysts to put the product of their labor into the hands of policymakers whose decisions affect the economic future of our state. We've worked hard to earn our reputation for thorough, unbiased research; I encourage you to visit showmeinstitute.org, where you can read our testimony and the studies that inform it.

—Brenda Talent

MISSOURI SHOULD

Patrick Ishmael

Central to the mission of the Show-Me Institute is the promotion of markets. Markets are, at their core, an assemblage of people and information, of negotiations and transactions, of our collective demands for things that are limited in supply. And why are markets important? Because markets tend to be efficient. We as individuals and as a society are able to maximize our well-being through them, and obstacles to the market more often than not interfere with our ability to make the most of the money we have.

In other words, interfering with markets tends to distort them—often hurting the very people we should be trying to help.

This pattern plays out in all sorts of policy areas that may otherwise seem unrelated. Passing a higher minimum wage, for instance, may help some low-wage earners, but as we have seen in places like Seattle, such changes tend to hurt the lowest wage earners who need their jobs the most—but won't be employed at the new hourly rate. Even well-meaning policies that interfere with the market can have negative consequences, and yet those negative consequences aren't always seriously considered when the government acts.

That is certainly true in the case of Certificates of Need. A "Certificate of Need" (or CON) law allows government to manage a given market of goods and services by allowing (or choosing not to allow) suppliers to enter it. While CON requirements can hypothetically be imposed on any market of goods and services, CON has generally been associated with active government management of health care facilities, and generally at the state level. As the name suggests, CON requires a level of "proof" that a new or updated facility is "needed."

What's of course tricky here is that rather than allowing the market to "prove" whether a service is "needed" by simply letting these enterprises fail or succeed, CON laws prevent the market from resolving such issues on its own. Missouri's CON law affects the construction and renovation of hospitals, nursing homes, and long-term

REPEAL ITS CERTIFICATE OF NEED LAW

care facilities. It also affects whether some new medical services and machines, like MRI machines, can be introduced to a given community, based on whether the state believes Missourians need these additional services.

The obvious question: Why can't Missourians decide for themselves what services they want to support?

Consider the wide variety of goods and services the market provides in other sectors of the economy, and consider what the availability of those goods and services would look like if CON laws were applied to them, too.

Does QuikTrip want to open up a new gas station? Well, now they'll have to prove that the Philips 66 across the street isn't meeting the needs of the community. Want a good steak? Well, you better hope that the local steakhouse is a really good one, because the government may not let another one into the neighborhood. Hoping a new dry cleaner will open nearby that won't scorch your collared shirts, like the current one does? Well, that shirt-ruining dry cleaner can lobby the government to make sure that if you want your clothes professionally starched, you'll have to keep rolling the dice with them and no one else.

And what if you think the local hospital is terrible? What if the closest MRI machine isn't "close," or the closest one is wildly overpriced? And what if you aren't confident about treatment seniors receive at the local long-term care facility? If that's where your parents would have to go, then what?

Government interfering with your gas, your steaks, and your dry cleaning may seem comparatively like small potatoes. But what about when government interferes with your health—and the health of your loved ones?

This isn't a situation where Missouri's CON law just needs a "reform." Tinkering with the composition of the panel that decides whether or not a qualified provider can offer health care services to the public won't solve the problem, and neither will a "fix" that superficially narrows the scope of the projects the government can

block. Replacing elected officials on a CON board with bureaucrats, for example, is not the kind of "reform" free marketeers can hang their hat on. Subjecting health care providers to a new Rube Goldberg-like CON process to establish whether they can help Missourians is not the kind of "progress" that supporters of small government can be happy about.

Missouri's CON law needs to be repealed, full stop.

I don't doubt that when these laws were first proposed in the United States in the 1960s they were intended to improve access and quality of care across the country. Even then, the cost of health care was a hot-button topic, and highly regulated health care regimes cropped up in many forms to try and meet these emerging needs. But CON laws didn't achieve the ends that were contemplated and promised, and with the benefit of decades of data it's becoming clearer that states who maintain these laws are doing so to the detriment of their citizenry.

It's absurd to think that the government would know when your gas station, steak, and dry-cleaning options are "good enough." It's extraordinary that government would have the hubris to think it can credibly claim to know whether available health care options are sufficient to meet your needs—let alone the needs of everyone in your community.

Health care is going to remain an important policy issue at the state and federal levels for years to come, as officials continue to wrestle with the consequences—unintended and otherwise—of decades of government intervention and interference in this marketplace. If policymakers want to help Missouri patients, there are lots of reform options that they can, and should, pursue, including insurance and Medicaid reforms.

But regardless of the other health care policy debates that deserve our attention, the primary importance of repealing the state's CON law remains. Hopefully state legislators put CON reform high on their priority list. Missourians deserve it.

MEDICAID REFORM IN MISSOURI

Elias Tsapelas



As states around the country continue to consider expanding Medicaid, Missouri has rightly held strong against efforts to grow the size of the government-funded health care program. This past December, when asked about expansion's prospects in Missouri, Governor Mike Parson stated: "To expand it with somewhat of a failing system now just won't work." I agree.

If the past decade has taught us anything about the Medicaid program, it's that Missourians should expect Medicaid to continue siphoning more and more of their tax dollars, at least until our lawmakers take steps to control such costs. And each year that Medicaid costs go up, additional funds must be diverted from other worthy state spending priorities.

Show-Me Institute analysts have previously written about the growing proportion of the state's budget that Medicaid consumes, and that trend is expected to continue. In fact, the total cost of Medicaid in Missouri is expected to eclipse the \$11 billion threshold for the first time next fiscal year.

When looking deeper at the budgetary impact of government programs—particularly Medicaid—in Missouri, it is necessary to consider the program's effect on the General Revenue Fund. General Revenue is the state's primary fund and is mostly comprised of individual income and sales tax collections.

The Governor's 2020 fiscal year budget recommendations illustrate the problem. In 2018, Medicaid enrollment dropped by over 70,000 participants, yet the budget recommendations for 2020 anticipate the General Revenue cost of Medicaid to grow by over \$315 million. This is especially alarming because the amount of General Revenue the state expects to collect in that same time period is only anticipated to grow by \$193 million. Over the past decade, nearly 53 percent of all state tax revenue growth in Missouri has been consumed by the growth in cost of the Medicaid program. If the current Medicaid trends aren't addressed, the squeeze will only get worse.

These numbers raise the question of why lawmakers haven't taken more drastic steps to contain this growth.

One thing lawmakers did do last year was commission a study by an outside consultant group to look at Medicaid's current operations and find areas in which savings might be realized. The recently released study proposed reforms that would save up to \$1 billion in total fund spending, but the suggestions are limited to adjustments to payments for already-provided services.

Moreover, the fact that the savings would come from total funds is important, because that includes the federal contribution. That means the proposed reforms, even if enacted, would only amount to around \$300 million in General Revenue savings. This is a result of the way that Medicaid costs are split between the state and federal government. Of course, the state should be pursuing every possible avenue for savings, but it is disappointing, to say the least, that a multimillion-dollar study that was publicized as offering "transformative" changes to the Medicaid program couldn't even find enough savings to offset the expected growth in program costs for next year alone.

The cost trends highlight the need for larger-scale reform, and the timing for change may be favorable in both Jefferson City and Washington D.C. My colleagues have researched and written about potential reforms that would control costs, such as licensing reform, certificate of need repeal, and the conversion of the current Medicaid model into a health savings account program for most recipients.

Eight of the states that similarly declined to expand Medicaid have submitted proposals to the federal government for initiatives that would help contain costs. Two of those proposals—from Wisconsin and Florida—were recently approved and offer policy ideas that could benefit Missouri.

Wisconsin was the first non-expansion state for which a work requirement proposal was approved (five other states have made similar proposals that await approval). Work requirements typically require able-bodied Medicaid recipients meeting certain criteria to

work a specified number of hours per week in order to continue receiving medical services. Researchers at the Show-Me Institute have written about the potential benefits of work requirements in Missouri such as the stream of income the work would provide to help the recipient become less reliant on Medicaid and other welfare programs. Unfortunately, Missouri's lawmakers considered but were unable to pass work-requirement legislation in 2018. With the federal government indicating new willingness to accept such policies, perhaps this issue could serve as a starting point for discussions in Missouri.

A reform proposed in Florida would allow the state to reduce its retroactive eligibility requirement for non-pregnant adults from 90 to 30 days. Currently, Medicaid programs cover the medical costs of beneficiaries up to three months *prior* to their application to the program, provided the individual was deemed to have been eligible during that period. The reduction of that retroactive window could actually be beneficial to applicants. A shorter period of retroactive eligibility incentivizes beneficiaries to apply as soon as possible. Florida officials believe the policy will encourage people to stay continually enrolled in coverage, even when participants are healthy.

Both policies have the potential to save the state tax dollars, but neither should be expected to fully address the growth in Medicaid costs. Nevertheless, lawmakers shouldn't let the perfect be the enemy of good. Implementing the recommendations from the state's recently concluded survey and applying for the initiatives approved for Wisconsin and Florida would be excellent first steps in the incremental process of comprehensive program reform. These measures, coupled with improved program integrity measures that ensure each Medicaid dollar is spent appropriately on eligible individuals, will go a long way toward containing costs and laying the groundwork for future reforms. Going forward, my colleagues and I will continue researching reforms that could save the state tax dollars, because the current Medicaid program isn't going to fix itself.

FOR MISSOURI SCHOOLS, FAILURE IS NOT AN OPTION. BUT SHOULD IT BE?

Susan Pendergrass



Imagine that you're a professor at a large university, and this spring you're teaching one of the big freshman seminar courses—518 students. Your dean comes to you and says, “Look, I know these freshmen come with all different skill levels, but I need their parents to keep paying tuition, so you need to find a way to make them all look like they succeeded in your class.”

Okay, I guess you would start by grading on a curve. Then you would want to make sure that there is a lot of extra credit available. Finally, you would give credit for things like showing up, finishing, and being ready to take another class the next semester.

So, here's what you might come up with for a grading scale:

- Two tests worth 16 points each, with two ways to earn up to 12 extra credit points on each of them, and one worth 8 points and up to 6 extra credit points.
- Three homework assignments worth a total of 10 points, but with two ways to earn up to 7.5 points of extra credit.
- Showing up at least 90 percent of the time gets you 10 points, but there are up to 7.5 points of extra credit if you show up more than you did last semester.
- Finishing—just sticking around until the end of the semester—gets you up to 30 points. That's almost as much as the tests! And, there are up to 24 points of extra credit. Plus—and this is the kicker—you can finish in one semester, or take an extra month, an extra two months, or even finish in two semesters, whichever works out best for you.
- Finally, proving (through a variety of ways) that you're ready for the next class is worth 30 points, with up to 22.5 points of extra credit.

That's a lot of different numbers to try and keep track of, but here's the upshot. To get an A, a student needs to get at least 84 of the "real" 120 points—but since there are 90 extra credit points to work with, a student really just needs 84 points out of a possible **210** to get that A.

Great news! At the end of the semester, you give out 512 A's (86 A+'s with perfect scores!), 5 B's, and just one C. That ought to keep the parents happy. As far as they know, everyone learned an A's worth of material.

This is the grading scale that the Missouri Department of Elementary and Secondary Education (DESE) uses to hold schools and districts accountable. It's called the Annual Performance Report (APR), and it is loaded with opportunities for extra credit. Let's just look at academic achievement, the area we'd all probably agree is most important. Districts are evaluated out of a possible 40 points, divided between math, reading, and social studies. However, they can get up to 30 extra points if students show growth or progress in these scores. That means to get a "perfect" score, districts only have to get 57 percent of the possible points available to them. That's a heck of a curve.

There are four other areas in which districts earn points, and they're rife with the same problems.

So what does this mean, practically speaking? Using this scale, Kansas City got 82.9 percent of the 120 points, even though, on average, almost half of its students scored "Below Basic" across grades and subjects. The district clearly topped up its score with various extra credit opportunities. St. Louis Public Schools got 78.5 percent of its points, again with almost half of students scoring Below Basic. In the Ferguson-Florissant school district, just 3 percent of 8th-grade students scored Proficient or above in mathematics, and yet the district received 92.1 percent of their APR points.

This raises the question: What is the purpose of an accountability system that merely serves as a rubber

stamp? Systems like the APR should be about giving schools and school districts an honest evaluation of their strengths and weaknesses. If they are able to pass with flying colors despite having a legion of deficiencies, where is the incentive to improve and better serve students? If the APR system put real pressure on improving performance, there would be a better chance we'd see innovation and creative solutions to the problems facing schools today. A lack of accountability breeds complacency, and complacency is the enemy of new ideas.

More importantly, the current APR system does a real disservice to families. How are parents supposed to figure out how districts compare to each other in Missouri if the state is handing out passing grades to nearly every district? Without doing a deep dive into a complex set of standards and data that most parents aren't equipped to do, the average family is only going to see the overall APR score and might draw the wrong conclusion. If a parent hears that a district received 90 percent of all possible APR points, they might assume that 90 percent of students in the district are performing at grade level—a reasonable conclusion to draw. In reality, because of how the APR works, many districts have scores of 90 percent or above, despite having far fewer than 90 percent of their students performing at grade level.

Kids are more than the sum of their test scores, and accountability systems should consider more than rates of proficiency. But getting students proficient in grade-level subject matter should count for something. And a system that gives passing grades to 512 out of 518 school districts with academic achievement all over the map is not an accountability system at all. It's an attempt to make everyone feel good.



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EVENTS

Legislative Update



We will host legislative updates in St. Louis on April 12th, in Kansas City on April 19th, in Columbia on April 23rd, and in Springfield on April 26th with lawmakers who will present on the work being done by the state legislature and share what they expect to see before the session's close.

SPEAKERS SERIES

On Thursday, April 25th, the Show-Me Institute will welcome Rik Hafer and William Rogers at the Richard A. Chaifetz School of Business at St. Louis University for its Speakers Series on Economic Policy. Dr. Hafer and Dr. Rogers will talk about, "The Missing Million: Missouri's Economic Performance Since the Moon Landing."

NEXT GENERATION

On May 20th in St. Louis and May 21st in Kansas City, we will host Cato Institute scholars Charles Silver and David Hyman, authors of the recent book, *Overcharged: Why Americans Pay Too Much for Health Care*.

For more information, please contact Bennett Lewis at (314) 454-0467 or bennett.lewis@showmeopportunity.org, or visit www.showmeinstitute.org/events.