Show-Me Institute
Where Liberty Comes First

SHOW-ME newsletter

2020 | Issue 4

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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

2020 has been one of the strangest years in memory by almost any measure. The repercussions of COVID-19 dominated the last nine months. But we're not looking backward at the Show-Me Institute—we're looking ahead. The 2021 legislative session will be here before we know it, and there's much work to be done. Not only are critical reforms needed in several areas, but temporary victories from 2020 need to be solidified with permanent legislation.

Education is top of mind for many Missourians right now, and I have to be frank: the education system's pandemic response was a mess. From the very beginning, schools and districts were sending mixed messages to parents. Plans and policies seemed to change at the drop of a hat. Both the spring and fall semesters have been utter chaos for parents trying to navigate the shifting landscape of in-person learning, remote learning, and the increasingly attractive but more expensive private options.

So what can we do to help parents right now? The crisis of the last year has shown that education savings accounts (ESAs) are more vital than ever. ESAs are flexible accounts students can use to purchase books, tutoring, or tuition, or to fund other academic expenses. Right now, districts are still getting funding for kids who have left their brick-and-mortar schools for pods, private online options, or other schooling options outside the traditional district offerings. Instead of state funding automatically going to districts, it would go into a student's ESA. Parents then would have a flexible source of funding available to assist their children's education in the next crisis—or simply to provide them with the alternatives they need in normal times.

We had unprecedented success this year promoting regulatory relief. Last spring, in response to the pandemic, the state waived a number of regulations that—as we've argued for years—constrict the opportunities of small business. A few examples: Optometrists can now meet requirements for license renewal online. It's now easier for restaurants to sell unprepared food. And pharmacies can use pharmacists and pharmacy technicians that have out-of-state licenses—a particularly helpful reform in a pandemic.

The next step is to make these temporary waivers permanent, and you can be sure we'll make that case in Jefferson City. The last year has shown how unnecessary and burdensome these regulations are; they punish professionals, tradespeople, and entrepreneurs. Why not get rid of them for good?

The legislature also needs to address the low-income housing tax credit (LIHTC). Elias Tsapelas covers this in detail later in this newsletter, but to summarize: the Missouri Housing Development Commission (MHDC) decided to resurrect the LIHTC after it had been dormant for years. That was a huge step backwards. The LIHTC program was for years a poster child for failed crony capitalism. It is one of the state's most expensive tax credits. It didn't increase affordable housing in Missouri, and much of the money for the program was pocketed by developers and investors instead of going toward housing construction.

The governor, who sits on the MHDC, had previously promised not to revive LIHTC absent significant reforms. Well, the program has, zombie-like, risen from the dead—and so far, with no reforms other than illusory ones.

Given the budget constraints that the pandemic is imposing, the last thing we need is more corporate welfare. But if we're going to have it, Missouri should at least make an effort to get some good out of the spending.

The upcoming legislative session is going to be crucial for Missouri. A transition out of the pandemic and back toward normalcy is coming, and we need action from the legislature on the items listed above. We intend to see that it happens.

—Brenda Talent

IS TIF THE WAY TO FIX THE "DELMAR DIVIDE"?

Corianna Baier

Unfortunately, though times are tough, economic development subsidies seem to be alive and well in St. Louis. Developers are asking for millions in tax subsidies for a redevelopment project in hopes of fixing St. Louis's "Delmar Divide" between the Central West End and the low-income neighborhoods north of Delmar Boulevard. I work (and wrote this piece) near the proposed project area, and it's true that the neighborhood has seen better days. But that doesn't mean tax subsidies are the solution.

The Kingsway Commercial Tax Increment Redevelopment Plan involves developing multiple projects where the Central West End meets Delmar Boulevard. A significant amount of funding for these projects would come via a tax-increment financing (TIF) district that would raise $6.2 million over 23 years. The project will also be financed by a mixture of state and federal tax credits. There are additional plans to create a community improvement district (adding to Missouri's growing special taxing district problem).

TIF is an economic development tool meant to spur investment in neglected areas by providing some monetary incentives to developers. Essentially, governments give back the portion of a developer's property tax payment that is due to the increased property value of their development. But the City of St. Louis's TIF program has numerous problems. According to a recent audit, the city's TIF policy "does not clearly define the evaluation process or criteria to be used in project selection." Without clear criteria, city officials have subjective power to pick which companies or developers receive hundreds of millions in tax incentives. This gives city officials too much power and incentivizes companies to waste time and money seeking favors.

In addition, the audit found that the city's TIF policy "does not include effective project cost limits or overall program cost controls." The city's TIF program has grown significantly over the years. Limits and cost controls would cap TIF usage, which would help ensure that the approved projects have been carefully vetted and that only the best projects are selected.

Using TIF means that these projects will be financed at the expense of taxpayers. North of the "Delmar Divide" is generally a low-income area. Should we really be redistributing tax dollars from low-income residents to developers instead of using these dollars for public services? Have we already forgotten the spectacular failure of the Loop Trolley, another publicly funded venture right down the street from this project?

While I'm sure many can appreciate the good intentions behind this project, TIF is a flawed economic development tool that often fails to deliver promised benefits. TIF requires that an area be blighted (for which Missouri has a very broad definition), and that the development would not happen without the public funding. It's hard to believe that development in this area would not occur without millions of public dollars given that the prosperous Central West End is right next door. Moreover, even if this area were blighted, does it really need these perks for the next 23 years? Is diverting tax dollars to a private development project really the best way to develop this area of St. Louis?


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MAKE MISSOURI'S TEMPORARY CORONAVIRUS REFORMS PERMANENT

Patrick Ishmael

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Americans have packed a few lifetimes of events into 2020, and as the year closes, we in Missouri can be happy about several things our state legislators did this year. Interstate license reciprocity, first advanced as an executive waiver and then formally passed into law, opened the door to greater supplies of health care professionals for Missouri patients in the face of the coronavirus pandemic. In the coming year, the state's other temporary health care orders should be made permanent through legislative action.

One of the most important waivers issued this year dealt with scope of practice. A "scope of practice" is the legally defined limits of what a health practitioner can do in a given state. For instance, although training for professionals like advanced practice registered nurses (APRN) is identical nationwide, state regulation of the profession is not. Some states require formal collaborations with physicians as a condition to practice or exclude from a profession's scope activities they're trained to do. This year in Missouri, the governor waived the rule that APRNs had to be within 75 miles of a collaborating physician, allowing them to be anywhere they were needed in the state to provide their services regardless of where the physician was. This is a common-sense change that Missouri should make permanent. However, the state should go even further and adopt the liberal scope of practice rules adopted by many western states that permit nurses and other professions to practice to the full extent of their training and without the barriers that are often erected by other professions with the help of legislatures.

Faced with a contagious illness, many Americans also turned to telemedicine to safely diagnose and treat their health care concerns, coronavirus-related or not. At one point this year nearly 70 percent of health care encounters were conducted via telehealth—that is, services delivered remotely over the internet or phone—and today nearly 3 in 4 Americans say they're comfortable using telemedicine services. Seeing this need and opportunity, Missouri temporarily waived regulations that prevented patients from more easily accessing a doctor from home. But even when there isn't a virus to beat, Missourians should have full access to telemedicine services.

And while the state did not take much action on this front during the coronavirus pandemic, Missouri legislators should finally repeal the state's Certificate of Need (CON) program. CON laws allow the government to restrict the creation of new and competing health care services and hospitals, stifling competition and decreasing choice. Thankfully, coronavirus has not yet gotten completely out of control here and the state hasn't suffered the consequences for not moving on this policy front. But as with health care professionals, restricting access and competition in health care hurts patients.

In 2021, the legislature should act to make these health care regulations, and really all regulations, waived during the pandemic permanent. If Missouri didn't need these laws and regulations when time was of the essence and the health of all Missourians was at stake, it doesn't need these laws and regulations, period.

LIHTC RETURNS AT THE WORST TIME

Elias Tsapelas

The Missouri Housing Development Commission (MHDC) decided it was time to bring back the state's low-income housing tax credit (LIHTC) program after it had been dormant for three years. The unanimous move by the commission breaks one of the very first promises made by Governor Parson (the governor sits on the MHDC), who vowed to keep LIHTC shuttered until the program was substantially reformed. Never mind that the legislature failed to approve any measure that would improve the program. Missouri taxpayers are now back on the hook for one of the least effective and most expensive tax credit programs in the country.

Show-Me Institute researchers have written for years about the many failures of the LIHTC program. The timing of its return is especially bad. Our state is currently facing a historic budget crunch as a result of the pandemic, and the MHDC decided that the best course of action was to dole out new tax dollars to already-wealthy developers.

It is certainly true that COVID-19 has taken a serious toll on Missouri's economy, and it has been especially hard on our state's low-income residents. The problem is that reviving LIHTC does nothing to help those currently struggling to make ends meet, because the program only subsidizes the development of housing. In other words, even if we assume the MHDC starts awarding tax credits this year, the program cannot help anyone find a place to live until that housing can be built, which will take years.

Research has shown that, even in normal economic times, LIHTC is a poor investment for states. For years, Missouri had one of the most generous state LIHTC programs in the country, matching each federal dollar on a one-to-one basis (there is a federal LIHTC program—Missouri's LIHTC program supplements federal dollars). Yet, over the past three years since the state match was halted, the number of affordable housing projects across the state remained largely unchanged.

Developers understand that these housing projects are still profitable without Missouri's investment. Just look at the applications for federal LIHTCs, which have continued to outpace available funding. If these projects are still worthwhile with roughly half the taxpayer subsidies, and the absence of additional subsidies doesn't reduce the amount of housing being built, we are left to wonder the purpose of the program in the first place. Is Missouri's program simply a taxpayer-funded device to favor the pocketbooks of the state's politically well-connected real estate developers?

This is all on top of the tremendous strain the program places on the state government's already troubled budget. Each LIHTC is redeemed over a period of ten years, which means we're still paying for the credits that were awarded before the program was stopped three years ago. In fact, the tax credit cost taxpayers more than $130 million last year alone. Adding new credits on top of the current hole in Missouri's budget, which is expected to exceed more than $400 million this year, is a recipe for disaster.

Despite all the doom and gloom when Missouri's LIHTC program was eliminated a few short years ago, affordable housing continued to be built without state taxpayer's involvement. There's no doubt that many Missourians are facing tough housing decisions during this unprecedented time. But if our elected officials' goal is to address this problem, shouldn't they be searching for solutions that are going to help those in need instead of repeating past mistakes?

IT'S TIME TO FIX HOW WE FUND EDUCATION IN MISSOURI

Susan Pendergrass

State and local budgets are going to be tight for the next year or so. People across Missouri are losing their jobs, and state income tax revenue is going to decline. Education is one of the very few areas of the Missouri budget that can be cut, and it will be. School districts and the legislature should be adjusting now.

One complicating factor is that students are moving around this year to find an environment that works best for them and their families. Missouri state education dollars are distributed based on the number of students enrolled in each traditional school district. Yet, as of November, more than 28,000 Missouri public school students had left their districts—some for homeschooling, some for private schooling. Missouri law, however, allows districts to use their current enrollment or the enrollment from either of the two previous years to calculate state public education spending. Of course, districts want to use the highest possible number. But that will lead to a mismatch between where the funds are flowing and where students are being educated.

The state legislature could fix this. Lawmakers could create education savings accounts (ESAs) that allow public education funding to follow the child. This reform would help Missouri parents who in the past gave little thought to school choice and are now discovering what it means to have no choice but a bad choice. Parents across the state are paying for tutors, pod coaches, private school tuition, and childcare. Meanwhile, their children are still being counted in the enrollment numbers of the school they attended last year. It seems only equitable to give all parents access to a portion of their state education funding to fund whatever option works for them. Several governors have used stimulus funds to give parents quick access to scholarships to pay for these much-needed options. Missouri should do the same and make it permanent.

In addition, the current Missouri school funding formula has too many outdated "hold harmless" clauses that distort the distribution of state public education funds. These clauses are normally intended to temporarily soften the blow of formula changes, guaranteeing a school won't receive less funding than it did the year before. But Missouri's are permanent. In some cases, these distortions send state funds to wealthy districts that would not normally qualify for funding. According to the Still Separate, Still Unequal project, in 2017–18 almost half of the 29 school districts in St. Louis County received hold harmless funding, including $578 in state funding per student in Ladue and $562 in Clayton. In addition, nearly half of the school districts in the state use property values from 15 years ago to calculate how much their local contribution of public education dollars should be, regardless of how property values have risen or fallen. That needs to change.

At a time when public revenue is shrinking, we need to make sure that every dollar is distributed as wisely and effectively as possible. Policymakers need to make these reforms a priority to ensure every child in Missouri is receiving access to the best education possible.

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FUNDING ROADS BY THE MILE, NOT THE GALLON

Jakob Puckett

Missouri's road maintenance funding is on a road to nowhere.

Interstate 70, one of Missouri's economic and transportation lifelines, is falling apart. Many other roads Missourians travel daily need to be fixed but will keep deteriorating because the Missouri Department of Transportation (MoDOT) is running out of money. While travel on Missouri's roads continues to increase (up 12 percent since 2008), MoDOT's budget has decreased (down 15 percent since 2008), resulting in $745 million in unfunded road transportation needs.

MoDOT remains heavily dependent on the state fuel tax (17.4 cents per gallon) for road maintenance, a reliance which is in danger of becoming a problem. Because today's vehicles have better fuel economies, fuel tax receipts have declined even though people drive more and put more wear and tear on the roads. Electric vehicle drivers also pay significantly less for road maintenance, as they don't pay any fuel taxes, although they do pay a higher registration fee. And it's not always clear that heavy trucks, which inflict most of the damage on the road due to their weight, pay their fair share for upkeep.

The current method of transportation funding will face serious challenges down the road. The damage inflicted upon roads is determined by how much drivers drive on them and how much their vehicles weigh, not how much fuel they consume. One option to better pair the damage drivers do to the roads and payment for their upkeep is to charge drivers by the mile rather than by the gallon.

Several states experimenting with programs that charge drivers by the mile demonstrate how such programs could be implemented. One method to record mileage is by odometer readings. This could be done through drivers self-reporting their odometer readings during the annual vehicle registration process or by plugging a recording device into the vehicle's diagnostics port. While this method doesn't threaten driver privacy, it may be unfair for those who frequently drive out of state.

A more controversial method is to record precise in-state mileage using GPS technology. Programs in Oregon and Utah use third-party providers to record in-state mileage either through a GPS-equipped plug-in device or a smartphone app. In both cases, the state receives the total miles driven for billing purposes without location data.

While this option poses more concerns for driver privacy, it should be noted that GPS satellites do not track locations. GPS responders, whether in plug-in devices or cell phones, track location in relation to satellites, but do not necessarily share location data with those satellites. Protecting driver privacy is a serious concern and reporting personal or location-specific data should only be allowed when explicitly agreed to by drivers.

With these first two methods, as drivers pay for their miles driven, they are reimbursed for the gas taxes paid to travel those miles so that they don't pay twice.

A third method is to use electronic tolling to raise funds specifically for heavily traveled highways. Drivers can use transponders that send a signal that is picked up at certain points along the road, and payments can automatically be deducted from the drivers' accounts. Those with privacy concerns wouldn't have to use a transponder. Instead, cameras on the highway could record their license plate number and a bill could be mailed based on their driver registration information.

No system is perfect, but in each case, drivers have the option to choose their payment method and have several choices depending on their privacy concerns.

Ultimately, if Missouri wants drivers to fund road maintenance, it must either raise the fuel tax or consider other types of user fees. The programs of other states offer possible solutions for Missouri to move its transportation funding methods in the right direction.

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