



# SHOW-ME newsletter

2021 | ISSUE 2



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

# A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

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For a policy-based organization like the Show-Me Institute, the legislative session can be one of the most exciting and simultaneously frustrating times of the year. As you know, and with your help, Institute staff are constantly researching and advocating for policy reforms that advance liberty and benefit the people of Missouri. When those reforms are enacted, it's very exciting; when the legislature fails to act, and particularly when it fails to for many years, it's equally disappointing. This year we have good news. Patrick Ishmael reports on that in his article on upcoming special sessions, but the success of this legislative session was so important that it bears repeating.

After years of frustrations and false starts, we finally have meaningful progress on school choice in Missouri. New legislation will allow students in Kansas City, St. Louis, Columbia, and Springfield to apply for Empowerment Scholarship Accounts, which can be used to fund a variety of alternative educational options. This is a big and long-overdue win for the families in these communities. The timing of this bill might not be a coincidence, as the reality of pandemic schooling underscored what has been obvious to many for quite some time: families want and deserve options for how their children are educated.

The new law may be even more important for what it portends. The Missouri Legislature has finally recognized the importance of school choice outside of the City of St. Louis and Kansas City. Our state is still behind others in advancing school choice, but this year we broke through in a big way.

Missouri has also now joined most other states in implementing a system for taxing online sales. This will help level the playing field between brick-and-mortar stores and online sellers. The new legislation also has a trigger to ensure that it is revenue-neutral and not a tax increase on Missourians; as online sales tax collections grow, income taxes will be cut.

The same law also included some good news on special taxing district reform. These reforms include mandating competitive bid contracts and annual financial reports, along with requirements for independent board members. Some of these reforms are relatively modest, and there is still much work to be done in reigning in the abuse of special taxing districts in Missouri. Still, these are steps in the right direction.

There was a partial win on infrastructure reform. A bill passed raising the gas tax—a good idea that we have advocated for years. While nobody likes higher taxes, Missouri's roads and bridges are underfunded, and user fees like gas taxes are the fairest way to raise the necessary revenue. However, this law includes a rebate provision: if you keep your gasoline receipts, you can essentially opt out of the tax increase and get a refund on the additional tax.

This was a strange and self-defeating provision. If Missouri needs to raise the gas tax to fund critical infrastructure, what's the point of collecting the money and then giving it back? What's more, there's reason to believe the refund might be a scheme to avoid triggering the Hancock Amendment so that the tax increase would not have to be approved by voters. Legislators ought to be straightforward and honest when implementing policy instead of using subterfuge and misdirection. In any case, an effort is underway to put this gas tax increase on the ballot so that voters can determine whether it is implemented or not.

To be sure, there is, as always, more to do. Charter school expansion did not get across the finish line this year; it will continue to be the subject of our efforts going forward. Many business, health care, and education regulations were waived during the the pandemic; to his credit, the governor has extended many of the waivers, but they should be made permanent. The experience of the last 15 months has shown that most of them are unnecessary burdens on Missourians.

All in all, this was an eventful and largely successful legislative session. I'll give the legislature a "B" for its work. There were real achievements and real indications that this legislature and its leaders have a sincere interest in tackling the tough problems facing our state. The people will benefit, and we will be trying to build on what was accomplished this year.

—Brenda Talent



# MEDICAID EXPANSION GOES TO COURT

*Elias Tsapelas*

**D**espite voters approving the Medicaid expansion ballot initiative last year, Missouri may not be expanding its Medicaid program come July 1st. The question of when expansion eventually happens, or if it happens at all, will soon be decided by the courts.

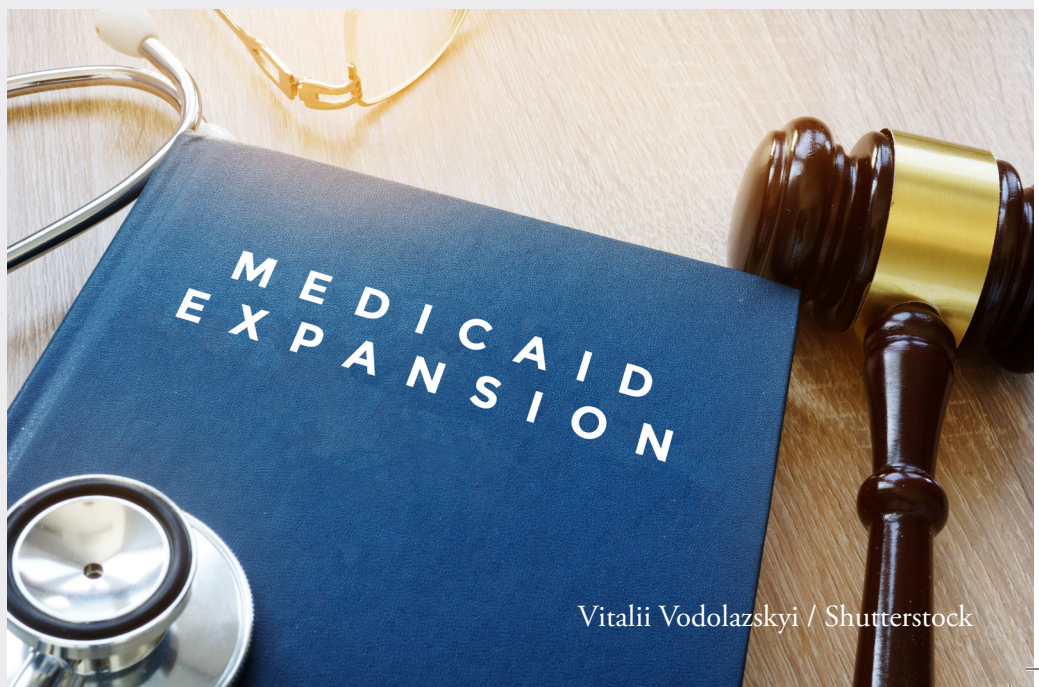
When Missourians voted on Medicaid expansion this past August, they were told the initiative would save the state billions of dollars. I wrote repeatedly at the time about how wrong those estimates would prove to be. Once Missouri's legislature began putting the 2021 budget together, the true cost of expanding Medicaid eligibility came into focus. In the first year alone, expansion was estimated to cost more than \$1.5 billion, with approximately \$100 million coming from state sales and income taxes. This enormous price tag is a far cry from anything resembling savings, and so the legislature responded by approving a budget without funding for expansion.

With the new fiscal year fast approaching and no money appropriated for Medicaid expansion, a lawsuit was filed to require the state to implement Medicaid expansion on July 1st as outlined in the ballot initiative. The legislature's argument against funding Medicaid expansion is straightforward. Missouri's constitution gives the legislature the "power of the purse"—the responsibility of authorizing all state spending. It also provides that constitutional amendments cannot impose a new cost without outlining how that cost would be paid for. Since the Medicaid expansion amendment included no such funding mechanism, the legislature claims it is under no obligation to appropriate any money. And it follows that without any funding for the amendment, Medicaid expansion cannot be implemented.

The recently filed lawsuit takes a different approach. The plaintiffs sidestep whether

the legislature is required to specifically appropriate funding for the amendment. They instead argue that the Missouri Constitution requires that Medicaid eligibility must be expanded regardless. The logic is that Missouri's constitution now states that adults meeting the Medicaid expansion eligibility criteria will be eligible for Missouri's program on July 1st, and that is not dependent on whether there are funds to cover the cost of care. Further, the suit argues that Medicaid funds are appropriated in the state's budget without specifying who they are meant to cover, so those funds could be used to pay for the cost of expansion. Of course, there won't be nearly enough money in next year's budget to cover the program's current enrollees and the estimated 275,000 (or more) Missourians who could enroll under expansion, but that's an issue the legislature would have to deal with when the program runs out of money.

It's important Missourians take notice of how this legal battle plays out in the coming months because it could significantly impact the future of our state. Judicial action could affect the state's initiative petition process, the Medicaid coverage for thousands of Missourians, and billions in future state revenues.



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# SPECIAL SESSIONS LOOM AFTER A SUCCESSFUL LEGISLATIVE SPRING

*Patrick Ishmael*



Missouri's annual legislative session lasts nearly half of a year, but even seasoned observers never really know whether the year will be productive until the last week or two. The line between a successful session and a failure in Missouri is a thin one, with negotiations on most bills continuing all the way up to the last legislative day in mid-May.

Sometimes those negotiations fail. Sometimes an entire session goes by with nothing passing, or even worse, only bad or questionable legislation passing.

And sometimes, the Missouri Legislature actually delivers on real reform. That happened in 2021. Specifically, the legislature passed a law providing education savings accounts for low-income students and students with disabilities, formally established a local spending portal that Show-Me Institute analysts supported for years, continued the work of occupational licensing reform and deregulation, and pushed back against local bureaucrats whose lockdowns disrupted and destroyed countless Missouri businesses. Legislators also tightened the definition of blight (thereby limiting where tax-increment financing can be used), passed a gas tax to fund roads (although this could be challenged in the courts and, possibly, at the ballot box), and adopted an internet sales tax whose revenue will be offset with an income tax cut.

On the surface, these successes may have appeared unlikely given the limited number of bills sent to the governor. According to Legiscan, which tracks legislation, only 24 bills were truly agreed to and finally passed in the legislature this year. That was half the number that passed in the coronavirus-shortened 2020 session and less than a quarter of the number a typical session passes.

When the legislature passes laws, it's often by combining similar bills into one and passing them all at once, but the volume of good laws packed into so few bills this year was unusual.

As readers know, I don't hesitate to criticize the legislature when it falls short, which means that most years I'm critical. But I have to be fair. This was a year of real achievement; freedom was advanced on several fronts, and the people of Missouri will benefit. Kudos to the leadership and members in both chambers for getting good things done.

But that doesn't mean there isn't more to do. Certainly more progress must be made on scope of practice and certificate of need reforms. In addition, the legislature must follow through and make permanent many of the executive orders and waivers that temporarily blocked enforcement of unnecessary laws and regulations.

Missourians may not have to wait long to see the legislature back at work. Special sessions on redistricting, the state's Medicaid program, and election reform already appear to be queued up for policymakers. Critical race theory, a hot educational topic, may also get consideration in a special session.

The 2021 legislative session is over, and it was a success for supporters of free markets and good government. I am pleased to report that many of the bills that were adopted had their roots in our research and advocacy. So this year was a vindication of the power of good ideas forcefully and fairly advanced with persistence over time. We will continue our work next year and hope for even better results.



# GENTLEMEN DO NOT GIVE EACH OTHER TAX SUBSIDIES

*David Stokes*

Reforming Missouri's alphabet soup of tax subsidies and special taxing districts has proven difficult year after year. Our use of TIF, TDD, CID, NID, EEZ, and so on has been complex enough to stump legislative cryptographers for a long time. While you might not expect these various tax subsidies to be as hard to decode as German submarine orders or a serial killer's taunting letters to newspapers, they have proven to be, politically speaking, a tough nut to crack.

That is where Senate Bill 153 (SB 153) comes in this year. The bill is primarily about expanding online sales tax collections in Missouri—an idea whose time has come—but it was also amended to include many important subsidy reforms as well. If it is signed by the governor (and that seems likely), this bill (which did not receive much attention during the legislative session) may prove to be one of the most important bills passed in recent Missouri legislative history.

SB 153 includes multiple tax subsidy reforms that Institute analysts have been advancing for many years. These changes include rules against using tax-increment financing (TIF) in the floodplain, expanding the number of counties with county TIF commissions, requiring competitive bidding for projects undertaken by community improvement districts (CIDs), and ensuring that online sales taxes collected within St. Louis County be distributed by a pooling formula based on population.

Obscure? Perhaps. Unimportant? Far from it. These reforms will end some of the most damaging uses of TIF in our state, increase transparency for CIDs, and

distribute online sales taxes within Missouri's largest county in a sound manner.

Necessary changes are not only incumbent on the state legislature. The Kansas City Auditor recently released a city audit highly critical of the number of CIDs in the city and the manner in which they are approved. Local governments have a responsibility to refuse to allow many of these subsidies when possible, or at a minimum to insist on greater transparency and voter involvement.



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Transportation development districts (TDDs) have the potential to be beneficial to our state. They are the primary way tolling can be used on Missouri's transportation network. Unfortunately, in practice they almost always divert sales taxes to subsidize private developments. A TDD pays for one toll bridge in Missouri (the Lake Ozark Community Bridge), but most

unnecessarily subsidize hundreds of retail developments around the state. We would be much better off if that ratio were reversed.

SB 153 will bring some important changes to the subsidy and tax game in Missouri. The results of that game are not an enigma. We know that enhanced enterprise zones (EEZs), TIFs, and other subsidy-based systems of development fail to grow our economy. We know that TDDs, CIDs, and other special taxing districts fail to deliver what they promise—they represent a failure of government, not an effective substitute. SB 153 will help us address these issues in our state.

# BABY STEPS IN EDUCATION REFORM

*Susan Pendergrass*

**D**uring COVID, families have been DIY-ing their children's education through virtual schooling, tutors, education pods, and micro-schools, to name a few. Many families found that being able to personalize their child's education was a good thing. That's why I expect this trend to continue after the pandemic ends.

A nationwide April survey of parents by EdChoice asked: "After the pandemic, if given the option, to what extent would you prefer schooling to be scheduled each week at home with a parent or tutor to provide the best education for your child?" Incredibly, just 47 percent of public school parents said they would prefer for their children to be educated "completely outside the home." Fully 13 percent said "completely at home." The remaining parents want a combination of days in school and days at home—generally two of one and three of the other. Think about that—almost half of parents surveyed don't want to go back to pre-COVID public education schedules.

Thankfully, the Missouri Legislature has finally recognized that one size does not fit all when it comes to education. This year, the legislature passed a bill that will allow some Missouri families to receive scholarships to customize their children's education outside of their assigned public schools. This is a policy that the Show-Me Institute analysts have been advocating for years.

Once the legislation is signed by the governor, low-income students and students with disabilities in the St. Louis, Kansas City, Springfield, and Columbia areas will be able to apply for Empowerment Scholarship Accounts (ESAs) to pay for private school tuition, tutoring, virtual education, micro-schools, or educational therapies. While students in smaller communities will not yet be able to participate, this legislation is still a huge win for Missouri and for Missouri families.

The scholarships will be funded by donations to non-profits. Donors to the scholarship-granting organizations will receive a dollar-for-dollar credit against their state

taxes for the amount donated up to 50 percent of their tax liability. The next step is to encourage Missourians to change a child's life by donating to these organizations. Initially the available tax credits will be capped at \$25 million. That amount will increase in future years up to a maximum of \$50 million each year.

Missouri joins several other nearby states, such as Oklahoma and Iowa, that have also created school choice programs this year. No doubt the experiences of the past year—when all parents were put in the driver's seat and were forced to simultaneously try both homeschooling and virtual education—underscored that kids need choices. As Show-Me Institute analysts have repeatedly pointed out, parents support school choice, parents need school choice, and the states that give parents school choice outperform those that don't.

I firmly believe that for Missouri to thrive, we need to be a place where parents want to raise their children, and that is fundamentally about the quality of education. It's also about the variety and quality of options available to parents. Hopefully, the ESA bill is just a first step toward offering every family in Missouri more than one publicly funded option.



# WHY IS MISSOURI SUING THE PRESIDENT?

Jakob Puckett

Missouri and eleven other states are suing the president over his administration's handling of an environmental policy instrument billed as "the most important number you've never heard of."

The lawsuit challenges the Biden administration's authority to set the "social cost of carbon" (SCC) through executive order and direct all federal agencies to use this value in their evaluation and issuance of regulations. The SCC is an attempt to place an economic value on the damage that each ton of carbon dioxide (CO<sub>2</sub>) emissions causes to society. The damage comes from things such as health impacts, climate impacts, and the expected impact of future environmental changes on the economy over many decades. The SCC is used in cost-benefit analyses of a wide range of environmental and energy policies, ranging from regulations on air conditioners and microwaves to new laws on electricity generation.

The Biden administration set the SCC at \$51 per metric ton of CO<sub>2</sub>, in contrast to the prior administration's value of \$7 per ton of CO<sub>2</sub>. While there's nothing inherently wrong with trying to evaluate the economic consequences of CO<sub>2</sub> emissions for society as a whole, the SCC has shortcomings as a policy tool.

Here's how a simple cost-benefit analysis using the SCC would work. Suppose a particular policy would reduce 10 tons of CO<sub>2</sub> and costs \$200 to implement. If the SCC is \$51 per ton, this program would provide \$510 (51 times 10) worth of societal benefits. \$510 of benefits is greater than a \$200 cost, meaning the policy theoretically would be a cost-effective way to reduce CO<sub>2</sub> emissions. If the SCC is \$7 per ton, this program would provide \$70 of societal benefits, and would not be worth the \$200 cost.

The SCC is an attempt to place a value in today's dollars on costs that may not occur, if at all, until far into the future. The calculation of this present value of potential future damages is done in the reverse manner to how one

uses interest compounding to project the future value of current investments in a savings account. In this case, though, the "interest rate" in present value calculations is called a discount rate.

Calculating the present value of future potential damages is very sensitive to the chosen discount rate. Relatively modest changes to the discount rate (say, from 3 to 5 percent) produce drastically different estimates of the present value. These changes can be so large as to mean the difference between concluding that additional CO<sub>2</sub> emissions would result in catastrophic environmental damages or that society would be significantly worse off implementing emissions reduction policies. Even if two SCC models have the *exact same* scientific predictions about future climate impacts, slightly different discount rates can produce wildly divergent cost-benefit assessments about environmental policies and the damage of CO<sub>2</sub>.

Recent academic literature on the SCC also reveals uncertainty regarding the economic impacts of climate change. How humanity adapts to a changing climate is an uncertain area of environmental research. Moreover, unforeseen technological breakthroughs can quickly change environmental projections, such as how fracking turned the United States into a world leader in emissions reductions over the last 15 years by replacing coal usage with natural gas.

Calculating the SCC is subject to policy, legal, and value judgments in addition to scientific considerations, all of which can have significant economic and practical consequences.

Missouri's lawsuit raises the important question of which branch of government should determine the official SCC, as well as the appropriate procedures that should be followed in evaluating energy and environmental policies affecting everyday life.



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