



SHOW-ME newsletter

2021 | ISSUE 3



f11photo/Shutterstock

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

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Brenda Talent

There has been so much bad news over the last few months that I'm reluctant to report any more, but honesty compels me to tell you this: Missouri is continuing to fall behind other states, in both population and economic growth.

At the turn of the 20th century, Missouri was fifth in the United States in state population; it is now nineteenth. This is per recently released data from the U.S. Census Bureau. Missouri's population grew by 2.8 percent over the last decade, an embarrassingly meager fraction of the national average of 7.4 percent. In a 2019 paper published by the Show-Me Institute, Rik Hafer and William Rogers found that if Missouri's population growth had simply been average since 1969, Missouri would be home to 1.2 million more people today.

Missouri's woes aren't confined to population growth. Between 1997 and 2006, Missouri ranked 48th out of all 50 states and the District of Columbia in GDP growth. One big reason is that Missouri's biggest cities are really struggling. According to the same Census Bureau data, St. Louis is no longer one of the 20 biggest Metropolitan Statistical Areas in the United States (MSAs). In fact, it had the worst population growth of any MSA in the top 25. Kansas City, on the other hand, is being buoyed almost entirely by the part of the region on the Kansas side. A 2020 paper by Aaron Renn published by the Institute found that the Missouri side of the border lags the Kansas side in nearly every significant measure, including per-capita income, job growth, college degree attainment, and population growth.

What's going on? Why is Missouri continually falling further and further behind? It's difficult to find one simple cause for such a big and broad problem, but there are some obvious culprits here. Taxes are a good place

to start. There is a correlation between states that gained the most population in the 2020 census results and low tax rates. While Missouri's tax burden isn't among the highest, taxes are still too high here for too many. The scourge of subsidies and special taxing districts inflates sales tax rates above 10 percent in many places, and all we get in return are public tax dollars steered to favored private developers.

Missouri's schools aren't helping, either. School choice still remains out of reach for the vast majority of Missouri families. Families are stuck with their assigned neighborhood school—but many of those schools aren't performing. In 2019, a mere 25 percent of Missouri high schoolers met all four college readiness benchmarks on the ACT. In the same year, more than half of Missouri eighth-graders scored below Proficient in math and English/language arts. Math scores were particularly bad; just 29 percent scored Proficient or above.

What about public safety? A *US News and World Report* survey ranked St. Louis as the 4th-most-dangerous city in the United States. St. Louis had its highest number of homicides in 50 years in 2020; not to be outdone, Kansas City had its highest-ever year for homicides as well.

This is not an exhaustive list of issues facing Missouri. It's just some of the lowlights. The problems are fixable, but they won't solve themselves. We are working on solutions and making gradual progress. We could make a lot more progress a lot faster if our leaders would face up to what's happening in the state, challenge the status quo, and accept responsibility for implementing policies that will allow Missouri to thrive.

IS HOUSING IN KANSAS CITY “UNAFFORDABLE”?

Patrick Ishmael

One of Kansas City’s long-time advantages for attracting and keeping residents has been its affordability. In a 2016 study published by the Show-Me Institute, “Kansas City: Genuinely World Class,” housing expert Wendell Cox wrote that the City of Fountains ranks among “the best in the world in housing affordability, traffic congestion, and productivity.”

Congestion can affect housing to the extent that it limits where people can live relative to their jobs, and productivity can affect housing to the extent that gainful employment can be found in a metropolitan area. Kansas City’s robust transportation network enables people to find affordable housing in more far-flung areas because they can still get to work quickly from those locations. Taken together, Kansas City’s housing market has historically been seen as very affordable.

Well, that was 2016. Have circumstances changed for Kansas City in 2021? Yes and no.

One important metric for determining housing affordability is the “median multiple,” which is used by Cox in his Demographia line of studies to compare the affordability of housing across the country. The median multiple is calculated by dividing the median housing price in a region by the median household income of the region. In 2016, Kansas City was ranked 10th in the world in affordability among major housing markets; now it’s ranked 17th. A close look at the recently released Census and housing data confirms Demographia’s conclusion that at present, Kansas City’s housing prices are growing faster than the incomes of area residents, and that its housing is becoming less affordable than its competitors.

That said, there needs to be context added. Although Kansas City’s housing prices have risen in recent years, that rise has coincided with a national rise in the price of housing. Moreover, the difference between 10th and 17th place in Demographia’s median multiple is

fractions of a point; it wouldn’t take much to bring Kansas City back up to its previous position.

This doesn’t mean that Kansas City doesn’t have potential housing policy problems. Burdensome land use regulations, increased intervention in the rental housing market, and higher taxes could encourage new builds to be placed in other parts of the region, or not built at all. Indeed, the national conversation about “affordability” is often centered around places like San Francisco and New York, whose policy and geographic challenges are very different than the Midwest.

Fortunately, in comparison to such metro areas, Kansas City has ample land on which to add new housing stock and keep housing prices low. Unfortunately, that advantage doesn’t mean the city won’t import “solutions” that would make the region’s (modest) housing challenges worse.

Notably, according to the Census, the Kansas City metropolitan population grew faster than the national average over the last ten years. But to ensure that growth continues, Kansas Citians will need a place to live. Policymakers should recognize that Kansas City’s affordability is an asset, and they should tailor policies to cultivate the region’s housing advantages by keeping local regulations and taxes as low as possible.



Cafer Akdeniz/Shutterstock

IT'S NOT ABOUT THE ABC'S—IT'S ABOUT THE V'S, L'S AND K'S

Susan Pendergrass



BalanceFormCreative/Shutterstock

It's not about the ABC's—it's about the V's, L's and K's

There's no question that the COVID-19 pandemic caused a near immediate recession that started in 2020. The shape of the recovery, though, is still to be determined. It seemed like we might pop out of it when most Americans were vaccinated—making it a sharp “V.” Or, we may have a slower recovery as more variants show up—making it more of lazy “L.”

In education, as in the economy, recovery from the pandemic is happening at different paces for different groups. In fact, the education recovery, regardless of how steep the upward slope is overall, is already a “K.” The downward leg of the K is made up of several types of students, including those who were not able to quickly transition to a virtual education of even modest quality. These students probably sat out the end of the 2019–20 school year and at least part of the following one. Incredibly, as of summer 2021, nearly one-quarter of Missouri students still did not have access to high-speed internet. The bottom leg also has students—as much as 3.5 percent of enrollment in Missouri—who simply didn't show up for the 2020–21 school year. We're not

sure where they are or how they're doing. Finally, we have many students who have simply struggled for the last year and lost critical time in their education—from kindergartners needing to launch, to third graders needing to read fluently, to high school students heading out into college or careers. These same students are likely our most disadvantaged to begin with.

Of course, there are many examples of students who thrived last year and are in the top leg of the K. They may have attended private schools that knew tuition-paying parents were not going to settle for online learning for very long. They may have been public school students who found virtual learning to be a great fit. They may be in families who realized how great the homeschool experience could be as kids can work at their own pace with no limits.

Eventually, we will have some form of state-level test scores that will reveal how well or how poorly Missouri fared during the pandemic. While we should brace for the worst, it's likely that students in the top leg of the K will be overrepresented in the assessment. It goes without saying that policymakers in Missouri—both the legislature and the Department of Elementary and Secondary Education (DESE)—need to focus on the bottom leg of the K.

So what should be done? First, we need high-quality diagnostic assessments that will honestly inform students and parents about any academic growth lost due to the pandemic. Then, we need to make public funds available to families so that they can find the academic resources their children need. Parents have expressed a strong desire to be able to get tutoring for their children. Parents want to be able to participate in learning hubs or pods, most of which require some out-of-pocket expense. We need to empower parents and give them the help they need.

IT'S TIME TO JUMP OFF THE TIF BANDWAGON

Corianna Baier

Tax-increment financing (TIF) is a hugely popular way for governments to subsidize developments across Missouri. TIF projects help to finance a development by diverting property tax revenue back to the developer to cover development costs. The hope is that TIF projects will spur additional development in the surrounding area. The research, however, shows little to no evidence of this actually happening. Often, TIF is a handout that benefits the developer but not the community.

Despite the evidence, local lawmakers throughout Missouri have enthusiastically jumped on the TIF bandwagon. The 2020 Annual TIF Report from the Missouri Department of Revenue included 413 reports from individual TIF districts throughout the state. Lawmakers have no business diverting taxpayer dollars to influence development, but that's what they've been trying to do throughout the state.

For example, the long-abandoned Crestwood Plaza mall site was approved for a TIF in 2016. This TIF was never acted upon, and a new developer (Dierbergs) was angling for a new TIF deal for the property earlier this year. Dierbergs asked for \$17 million in subsidies—\$13.5 million via TIF and \$3.5 million from a community improvement district—for a Dierbergs grocery store and a strip mall. I can appreciate the desire to develop the vacant space, but it's unnecessary to use taxpayer dollars to build a grocery store steps away from another grocery store. A few months after presenting the initial proposal, Dierbergs backpedaled and decided to take on the remainder of the previously approved TIF from 2016. I'm not theoretically opposed to the transfer

of the \$15 million pre-existing TIF (the project was already approved, and there's nothing to be done about that now), but it's unfortunate that taxpayer dollars are being used to develop this area at all. This TIF project will have a shortened timeline of 18 years (the project was approved for 23 years of financing in 2016), but that's small consolation.

Another example of TIF misadventure comes from halfway across the state, where developers asked the

City of Boonville for \$40 million by way of TIF for a 400-unit subdivision earlier this year. This residential project would inevitably mean more people in the area, imposing new costs on entities that provide services but depend on property tax revenue such as the school district and the health department. But the property taxes the development pays to local

taxing districts are frozen for the entire duration of the project. That means these taxing districts have to provide services to more people with effectively less money over time. Luckily, after receiving pushback, this Boonville TIF proposal has been taken off the table (at least for now).

Forty-nine states and the District of Columbia have some sort of TIF statute, but it's time for Missouri to jump off this bandwagon. TIF is often just a way for lawmakers to look like they are "doing something" while throwing away taxpayer dollars. In the search for economic development and growth, TIF is simply not the answer. Lawmakers need to back off and allow the market to work on its own.



NOW YOU TELL US

David Stokes

This past spring, on May 21, the Kansas City Council passed major changes to police department funding in the city. The council, under the enthusiastic leadership of the mayor, took \$44 million from the police budget and transferred it to a new Community Services and Prevention Fund. The intention is to focus that spending on alternatives to policing, such as mental health care and other community services. The police board has sued to prevent the budgetary changes, and the issue is tied up in court at this time.

Is this defunding the police or not? The overall public safety budget is remaining the same, and improved mental health and community services may help address skyrocketing crime rates. But any way you slice it, these changes dramatically reduce the funds available for traditional police work in Kansas City.

On April 6, voters in Kansas City approved retention of the one-percent earnings tax. During the campaign leading up to the vote, earnings tax supporters vociferously argued that the earnings tax was needed to fund services like the police. While stumping for the earnings tax and the importance of funding public safety, do you think proponents mentioned the plan to move \$44 million into “community services and prevention”? Of course not. Perhaps it was just a coincidence this major police funding change was announced soon after the earnings tax vote? Perhaps.

With crime increasing in our large cities and throughout our state (Kansas City and St. Louis both experienced record levels of homicide in 2020), people are right to be concerned. Earlier this month, voters in Camden County (in the Lake of the Ozarks region) approved a new sales tax for the sheriff’s department to hire more officers. Voters want public safety, and they are often willing to pay for it. Would they have been willing to pay for it in Kansas City if the earnings tax supporters had told the voters of the funding shift before the vote? Who

knows, but the politicians in Kansas City apparently were not willing to take that bet.

Not to be outdone by Kansas City, the new leadership in St. Louis followed through on campaign promises to close the city’s second jail, known as the Workhouse. The closure of the Workhouse, which admittedly has structural problems, turned out to be short lived. Workhouse prisoners were initially all transferred to the new city jail. That jail turned out to have its own structural issues—mainly the fact that the locks on many cells didn’t work. It doesn’t take a PhD in criminology to realize that faulty locks in a jail makes things go to hell faster than having Johnny Appleseed working the Garden of Eden. So, after the few minor riots, the prisoners were shipped back to the Workhouse.

The final straw in St. Louis for the surge in criminal activity has been the conduct of the city’s circuit attorney. The city has seen a terrifying trend of murder charges being dropped due to prosecutorial errors, and the people of St. Louis are paying the price in blood.

For a variety of reasons, crime had decreased dramatically in America over the prior two decades. Certain abuses and incidents, such as the murder of George Floyd in Minneapolis last year, have fueled a movement for significant reforms in our criminal justice system. Many of those have widespread support. But America is now facing the reality of a small but loud group taking power in many of our communities and following through on incendiary promises to “defund” the police and close jails they were in no position to close.

Voters voted for taxes to fund public safety, but with the maladministration of those funds from leaders in St. Louis and Kansas City, voters will continue to vote with their feet and leave our urban core for safer, suburban pastures.

ILLUSORY HANCOCK AMENDMENT PROTECTIONS

Elias Tsapelas



For the past four decades, Missouri's Hancock Amendment has purportedly played an important role in containing the size of our state's ever-growing government. But the events of the past year have shown the amendment's protections may be more illusion than reality.

When the Hancock Amendment was added to Missouri's Constitution in 1980, one key component was a cap on state revenue growth. The measure limited state tax revenues to a fraction of Missourian's income and triggered taxpayer refunds if that ratio was exceeded. In theory, this ceiling protected taxpayers from their government growing faster than their paychecks. Before long, however, the provision proved ineffective.

Lawmakers found the allowable revenue ceiling was growing each year regardless of whether actual revenue collections followed suit. As long as taxpayer incomes kept growing, there would always be room for elected officials to raise taxes and grow government. Then in 1996, Missouri voters added another protection to the Hancock Amendment to try to curtail such efforts by prohibiting elected officials from raising taxes above a certain threshold without first asking for voter approval. In the more than two decades since, Missouri's lawmakers shied away from Jefferson City-imposed tax

hikes, but questions remain regarding the role that Hancock played in these decisions.

This year, after years of voters consistently and resoundingly saying no to higher taxes at the ballot box, state legislators showed that voter approval never really was a requisite for raising taxes. On October 1, the state's gas tax will increase by 2.5 cents per gallon, then by 2.5 cents more for each of the next five years. What changed to allow this tax hike to avoid a public vote like the many gas tax proposals of years past? Nothing—except that lawmakers finally decided to take advantage of an apparent weakness in the amendment.

The deficiency has to do with the way compliance with the provision is calculated. Each year, state budgeters measure the revenue impact of all bills passed by Missouri's legislature. If the cumulative effect exceeds the Hancock-defined cap, the bill(s) that raise the most revenue are sent for voter approval. By phasing the gas higher tax in over five years, lawmakers are hoping each year's hike will raise revenues by a small enough amount to stay below the yearly cap. Further, they're betting the Hancock Amendment protections won't apply to the total cost of the bill. The problem is that even if Hancock does apply, the determination likely won't happen until long after the tax hike is fully phased in.

In other words, Missourians will soon begin paying higher taxes that they did not approve without knowing whether the tax hike violated the state's constitution. While there are many questions left to answer regarding the gas tax and Hancock Amendment in the coming years, it's clear our state is entering uncharted territory. Missouri's budget has more than doubled over the past two decades, and this trend is likely to continue with higher taxes on the horizon. If this is all the protection the Hancock Amendment can afford, it's time to start thinking about a stronger alternative.



5297 Washington Place
Saint Louis, MO 63108
314-454-0647

1520 Clay Street, Suite B-6
North Kansas City, MO 64116
816-561-1777

Visit us at:
showmeinstitute.org

Find us on Facebook:
Show-Me Institute

Follow us on Twitter:
@showme

Watch us on YouTube:
Show-Me Institute

A PODCAST FOR MISSOURI

THE SHOW-ME INSTITUTE PODCAST



Each episode is a free-flowing conversation focused on free-market solutions to issues that impact Missourians. Topics include: expanding educational freedom, increasing government transparency, and uncovering the hidden taxes that line the pockets of private developers.

LISTEN AND SUBSCRIBE TO THE **SHOW-ME INSTITUTE** PODCAST AT [SOUNDCLOUD.COM/SHOW-ME-INSTITUTE](https://soundcloud.com/show-me-institute) OR ON APPLE PODCASTS.

THE SHOW-ME INSTITUTE PODCAST IS BROUGHT TO YOU BY SHOW-ME OPPORTUNITY AND THE SHOW-ME INSTITUTE