Show-Me Institute

Where Liberty Comes First

2022 BLUEPRINT

Moving Missouri FORWARD

showmeinstitute.org

The Show-Me Institute's mission is to advance liberty with individual responsibility by promoting market solutions for Missouri public policy. Our vision is for Missouri to be a place where entrepreneurs can pursue their dreams, parents are free to direct the education and upbringing of their children, and a growing economy provides opportunities for all. Critical to achieving this vision is a state government that understands the value of freedom in the lives and future of our people.

The **2022 Blueprint: Moving Missouri Forward** presents 15 policy ideas aimed at moving Missouri forward to a brighter future. The Blueprint covers a broad range of issues—from education to health care, from public pensions to corporate welfare, and from tax policy to government transparency. Our expert policy team has thoroughly researched and analyzed the problems facing our state today, and their work informs the policy solutions that follow. We believe that with the right policies Missouri could lead the nation in wealth, quality education, and a vibrant and flourishing civil society.

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ECONOMIC DEVELOPMENT SUBSIDIES

THE PROBLEM

Economic development subsidies enrich developers at the expense of schools and other public services.

THE SOLUTION

Eliminate or substantially reduce the use of economic development subsidies by local governments.

KEY FACTS

- State and local tax subsidies in Missouri have totaled over $6 billion since their inception and most have not delivered their promised benefits.
- In St. Louis, less than 25% of TIF spending occurs in the poorer half of the city. The situation is similar in Kansas City.

An Abysmal Track Record

In the past 15 years, Saint Louis City has sent more than $700 million originally intended for municipal services to developers via tax-increment financing (TIF) and tax abatement. For TIF alone, Kansas City currently has anticipated (present and future) tax subsidies of over $3 billion, and for St. Louis the number is almost $1.4 billion.

Research from across the country indicates that subsidies rarely generate promised jobs and growth. TIF gets most of the attention, but numerous local subsidies and incentives are available, including enterprise zones, Chapter 100 and 353 incentives, sales tax exemptions, and property tax abatements. While most fail to promote economic growth, they do succeed in sending tax dollars to private developers. The years 2020 and 2021 saw some positive policy changes on this front, but more can be done.

For a project to qualify for some subsidies, the city must declare a parcel of land "blighted," but the standards for doing so are very low. Developers can qualify for subsidies for undeveloped fields or for buildings that are merely vacant. (Some property owners have even let their own property become blighted in order to qualify for the subsidy to develop it.) Most egregiously, successful shopping malls in wealthy parts of Missouri have been declared "blighted" and granted tax subsidies. Until its definition is made more restrictive, a blight designation will be meaningless as a criterion to limit the proliferation of subsidies.

Change the TIF Decision-making Process

A fundamental flaw in the TIF process is that in most instances, cities can approve tax subsidies that affect other taxing districts. Most TIF commissions are dominated by city appointees who can vote to approve a TIF that appears to be beneficial to the city but is clearly harmful to other taxing districts, such as school and fire districts. This is because cities still collect half of the new sales taxes from the developments, while other taxing districts get zero new property taxes from them. One way to address this problem is to expand the use of county TIF commissions, so that the county appoints most of the members. County officials are more likely to consider the impact of the proposed subsidy for the entire region, not just one municipality. This system currently exists in St. Louis, St. Charles, Cass, and Jefferson counties and has almost ended the use of TIF in St. Charles and Jefferson counties while reducing its use in St. Louis County. (It is too soon to judge the results in Cass County.)

POLICY RECOMMENDATIONS

- Adopt a stringent, narrow definition of blight, and disqualify any property whose poor condition is due to the action (or inaction) of its owner.
- Move TIF decision making to the county level.
- TIF for residential property should not include exemption from paying the full amount of annual taxes to school districts.

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INCOME TAX REFORM

THE PROBLEM

Missouri's economy is suffering because of an overreliance on income taxes as a source of revenue.

THE SOLUTION

Continue to reduce or eliminate the individual income tax and earnings taxes.

Income Taxes Are Holding Missouri Back

Missouri's economy has stalled in the last decade. Those of surrounding states, on the other hand, have grown two to five times faster than Missouri's. State and local tax structures are a part of the problem. Missouri ranked 16th in income tax reliance in 2020, with income taxes making up 19.3% of the state's total revenues. Similarly, the earnings taxes in St. Louis City and Kansas City steer money from private investment and make Missouri's largest cities less competitive. Though the earnings taxes were renewed by voters in 2021, it's important to recognize the far-reaching negative effects of these local income taxes as well. Income taxes have negative effects on growth, encouraging taxpayers to move their work and investments elsewhere. Income tax revenue is also more volatile than other forms of tax revenue. It's not ideal for the state to rely so heavily on a harmful and volatile form of taxation.

Alternatives to the Individual Income Tax

In recent years, Missouri lawmakers have taken some steps to reduce the state individual income tax. The "Wayfair" bill in 2021, for example, added a reduction of the top income tax rate by 0.1% in 2024 and two triggers to eventually lower the top rate to 4.8%.

More drastic reductions could be offset by responsible fiscal practices such as ending corporate handouts in the form of tax subsidies. Not only would income tax reductions allow citizens to keep more of their hard-earned money, but they would reduce the state's reliance on income tax revenue and make the state more competitive in the region.

KEY FACTS

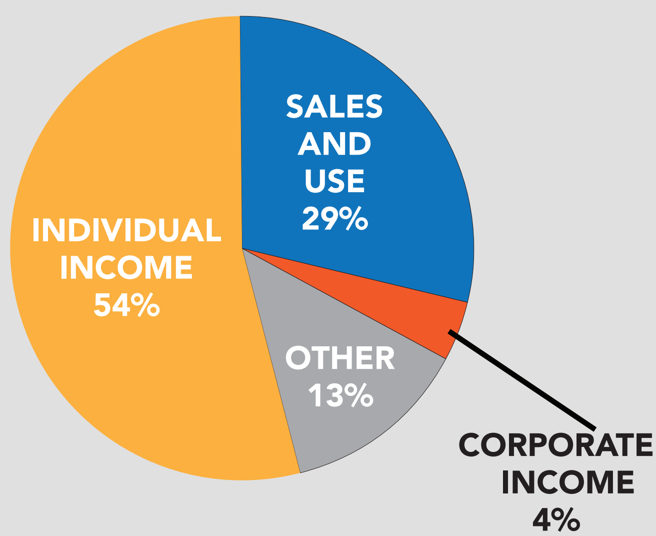
- Missouri's GDP growth rate from 2010 to 2020 was 40th in the nation at 0.3%.
- In 2020, Missouri's state government was the 16th-most-reliant on income taxes.

POLICY RECOMMENDATIONS

- Make Missouri less reliant on income taxes in favor of less-damaging forms of taxation such as property taxes.
- Ensure that the income tax is low and broadly based by reducing or eliminating corporate tax incentives.

MISSOURI TAX REVENUE BY SOURCE: 2020

Although income taxes are harmful to growth, Missouri relies heavily on them for tax revenue.



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TAX CREDIT REFORM

THE PROBLEM

Missouri devotes hundreds of millions of dollars per year to tax credit programs that offer poor returns for state taxpayers.

THE SOLUTION

Wind down poor-performing tax credit programs and cut taxes with the savings.

The Wrong Kind of Leadership

Missouri is a national leader in state spending in the name of "economic development." Over the last few decades, Missouri has spent billions on a host of narrow incentives with poor economic results overall. Missouri ranks in the top five nationally in state investment in low-income housing tax credit programs, yet receives a return on that investment of $0.11 for each state tax dollar spent.

Taxpayers Get Less for Their Money

Diverting tax dollars to tax-credit programs means Missourians are paying more in taxes than they receive in services. Instead of inefficiently allocating taxpayer money into speculative private-sector developments, Missouri should invest in its people by lowering their taxes and paying for the cuts with the savings from reduced tax credit awards.

An Opportunity for a Broad-based Tax Cut

Last year, Missouri spent more than $618 million on its various tax credit programs. A better use of those same funds would be to eliminate the state's corporate income tax entirely, or alternatively, reduce the individual income tax on all Missourians by a smaller increment.

Face Reality and Prepare for the Future

State tax credits awards can typically be redeemed over a period of years, with many redemption periods approaching a decade or more. This means that any reforms adopted today will require a commitment from future elected officials to finish what was started. One of the best ways to prepare for the transition would be to begin budgeting for tax credit awards today. Tax credits are not currently part of the budget, which helps hide the true cost of these programs.

KEY FACTS

- Over the past decade, Missouri has devoted more than $5.6 billion in state tax dollars to various tax credit programs.
- Missouri's two largest tax-credit programs—the Historic Preservation Tax Credit and the Low-Income Housing Tax Credit—are state-funded supplements to already generous federal programs.
- Missouri's own Department of Economic Development acknowledges that the state's Low-Income Housing Tax Credit program offers a return on investment of $0.11 for each state tax dollar spent.
- Instead of spending more than $500 million per year subsidizing chosen private entities, Missouri could eliminate the corporate income tax entirely.

POLICY RECOMMENDATIONS

- Eliminate all economic development tax-credit programs and institute a broad-based tax cut with the savings.
- Increase transparency and accountability by including foregone revenues in the annual budget.

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RETAIL ELECTRICITY COMPETITION

THE PROBLEM

Missouri's monopoly model for electricity at the retail level has led to higher prices and less innovation.

THE SOLUTION

Break with the monopoly model and let Missourians benefit from competition among retail providers.

Missouri's Electricity Prices Have Risen at the Fourth-fastest Rate in the Country since 2008

Due to Missouri's monopolized electricity structure, customers are stuck with higher prices. The regulated monopoly model encourages expensive projects over cost-saving innovation because costs are simply passed onto ratepayers. Regulated electric monopolies were intended to protect customers from price increases and ensure sufficient capital investment, but—in states that allow it—competition is achieving these goals better than the monopoly model does.

Retail-level Competition Can Help

Allowing electric retail competition can help lower Missourians' electric bills and provide them with more plans to choose from. Since 2008, customers in competitive states have seen their electricity prices fall by an average of 17%. The average monopolized customer nationwide saw his bill increase 1%, and the average electricity bill in Missouri increased by 17%.

Customers Could Choose from Competing Plans Based on Service and Price

Customers in competitive states also have easier access to a wider array of products ranging from reduced rates during low-demand hours to all-renewable power plans. In contrast to monopolies, for which every utility action must be approved by the state government, the reduced regulatory barriers accompanying competition and retail choice encourage innovations such as customers producing their own power through technology like rooftop solar panels.

KEY FACTS

- Electricity prices in Missouri have risen 17% since 2008—the fourth-fastest rate in the nation.
- In states with competitive retail electricity markets, electricity prices have fallen by 17%.
- Retail electric competition would not mean new, redundant power lines or electric towers.

Retail electric competition would not mean duplication of power lines and electric towers; the former monopolies would retain wire services, and the competing retail providers would pay to use them. Moreover, Missouri already allows competition at the power-generation stage, as most utilities are part of wholesale markets that are designed to produce cheaper electricity through a competitive, region-wide bidding process.

Retail electricity choice has benefited residents of the 13 states (and Washington, D.C.) who have experienced it. Allowing market forces to operate at both the producer and customer ends can incentivize the most effective electricity generation and usage.

POLICY RECOMMENDATION

- Revise Missouri law to allow customers to choose from competing electric service providers.

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OCCUPATIONAL LICENSING REFORM

THE PROBLEM

Needless occupational licensing requirements are standing between people and the work they want to do.

THE SOLUTION

Periodic review of all licensing requirements and elimination of those deemed to be unnecessary.

Regulations Burden Businesses and Consumers

Occupational licensing is the government giving a worker permission to work. An occupational license often includes fees, educational requirements, and other obstacles that stand between a person and their chosen profession. The number of jobs requiring an occupational license has ballooned over the last several decades. In the 1950s, 1 in 20 workers needed permission from the government to do their job. Today it is more like one in five.

Licensure is often framed as a safety or quality-assurance measure, but don't be fooled. Practitioners personally benefit from limited competition and higher prices brought about by licensing. Attempts to license certain occupations are almost always initiated by the current practitioners in that field.

In addition, regulatory capture of licensing boards is a common occurrence that negatively affects industries and consumers. Regulatory capture happens when a licensing board is dominated by license holders, meaning that the regulators are also the ones being regulated. Under the guise of societal safety, regulators (who are also current practitioners) can create and enforce overly burdensome regulations that punish competitors or make it harder for new workers to enter the market, reducing the supply of services and increasing prices. Missouri licensing boards are certainly not immune to regulatory capture; a recent study found that Missouri's Cosmetology Licensing Board is the 14th-most-captured in the country. It's a problem if regulators on the licensing board are regulating based on special interests and not the interest of the public.

KEY FACTS

- In 2018, 21.8% of U.S. workers needed a license from the government to do their jobs.
- Missouri licenses over 60 occupations and has 39 licensing boards under the Division of Professional Registration.
- In Missouri, the educational requirements for a cosmetology license take five or more times longer to complete than those for an emergency medical technician (EMT) license.

Ultimately the expectations for what occupational licensing will achieve are often unmet. The promise of improving service quality is often a cornerstone in implementing licenses, but there's little evidence that a license actually achieves this. Instead, we see unintended consequences like more do-it-yourself accidents and stifled innovation. Much of this can be explained by the fact that licensing increases costs. For example, higher costs discourage some individuals from seeking a licensed professional, leading to more do-it-yourself work, and that can lead to more accidents.

Sensible Reform for Licensing Requirements

It can be difficult to realize just how onerous licensing requirements are; often only those in the industry who are directly affected give them much thought. An automatic sunset provision would force the legislature to consider the legitimacy, costs, and benefits of each occupational license and any corresponding regulations every five years. The reviews could be staggered so that one fifth of professional licenses are reviewed each year. Provisions of this nature are not unheard of in the United States. Thirty-six states have adopted some kind of sunset provision for occupational licenses, though not all remain active today.

Periodic reviews would make it easier for lawmakers to uncover inefficient, overly burdensome regulations, which could ultimately lead to the removal of onerous requirements, a restructuring or broadening of licensing boards, or the complete elimination of licenses that are found to be unnecessary. Lawmakers have already made some progress in removing unnecessary regulations—for example, shampooers are no longer required to have a full cosmetology or barber licenses as of 2021. This will save a shampooer hundreds of dollars and hours of educational requirements for training that does not pertain to their job.

Reducing the burden of occupational licensing will create opportunities for workers and consumers, lower prices, and increase economic growth. Licensed occupations should be the exception, not the rule, and licensing requirements should only be enacted when safety concerns demand it.

POLICY RECOMMENDATION

- Establish an automatic five-year sunset for all professional licenses and licensing boards.

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UNEMPLOYMENT INSURANCE

THE PROBLEM

Missouri's unemployment system is inefficient and inflexible, and it doesn't do enough to encourage the unemployed to find new jobs.

THE SOLUTION

Modernize Missouri's unemployment system to improve processing and encourage work.

KEY FACTS

- Federal unemployment benefit supplements during COVID-19 paid the typical unemployed worker more than they would have earned by working.
- Unemployment benefit extensions helped fuel worker shortages that could slow the recovery.
- The unemployment insurance system suffers from both fraud and payment processing delays.

Alleviating Shortages and Accelerating the Return to Work

In response to the economic shock from COVID-19, the federal government subsidized the expansion of unemployment insurance (UI) eligibility and generosity through flat weekly $600 supplements. As a result, most unemployed workers received more from benefits than they would have earned at work, even after the supplement fell to $300 per week.

The federal rescue efforts helped sustain familes and small businesses through the lockdowns, but the decision to extend enhanced unemployment benefits contributed to serious worker shortages. In Missouri the unemployment rate sits at 3.8%, but many workers are still on the sidelines. As of August 2021, the state was still roughly 80,000 jobs short of its pre-pandemic level, and 23% of the jobs gap created by COVID-19 remained unfilled.

Reforming partial unemployment benefits could reduce layoffs and promote work. Reducing the offset rate for partial unemployment benefits from 100% to 50% would give employers an incentive to avoid layoffs in favor of temporary pay cuts and would encourage unemployed workers to accept part-time or lower-paid work. With this change, a worker would only lose $0.50 in benefits for every $1 earned, rather than losing $1 for $1.

Fraud and Payment Delays

Even before COVID-19, research found that 10% of total unemployment benefits paid were fraudulent, mostly from people continuing to collect benefits after starting a new job.

During COVID-19, fraud detection has largely fallen by the wayside, while payment delays have increased. In Missouri, the percentage of eligible claimants who received their first payment within three weeks of filing fell from 95% before COVID-19 to only 54% in August 2020. One way to address fraud would be to require employers to promptly report new hires to the Department of Labor. In addition, investing in the department's IT systems would improve efficiency.

Areas for Further Research

Research suggests that re-employment bonuses that pay a sum to the unemployed if they expeditiously find a new job could encourage re-entry into the workforce. For example, a bonus amount based on the average weekly UI benefit in Missouri could be paid to workers who find new jobs within eight weeks of filing an initial UI claim and who remain on the job for three consecutive months.

Unemployment savings accounts akin to health savings accounts could also reduce the duration of jobless spells. These accounts would let workers save tax-free up to an annual ceiling. During jobless spells, workers would first draw from their unemployment savings accounts. State unemployment benefits would start once the account was drained. Workers could only tap these accounts while unemployed or after reaching retirement age.

Research specific to Missouri is being undertaken to determine the proper scope of a re-employment bonus and operation of an unemployment savings account program.

POLICY RECOMMENDATIONS

- Prohibit unemployment benefit amounts from exceeding 100% of a worker's previous weekly wages.
- Reduce the offset rate for partial unemployment benefits from 100% to 50%.
- Require that employers immediately report hires to the Missouri Department of Labor.
- Upgrade IT systems for better tracking and administration of payments.

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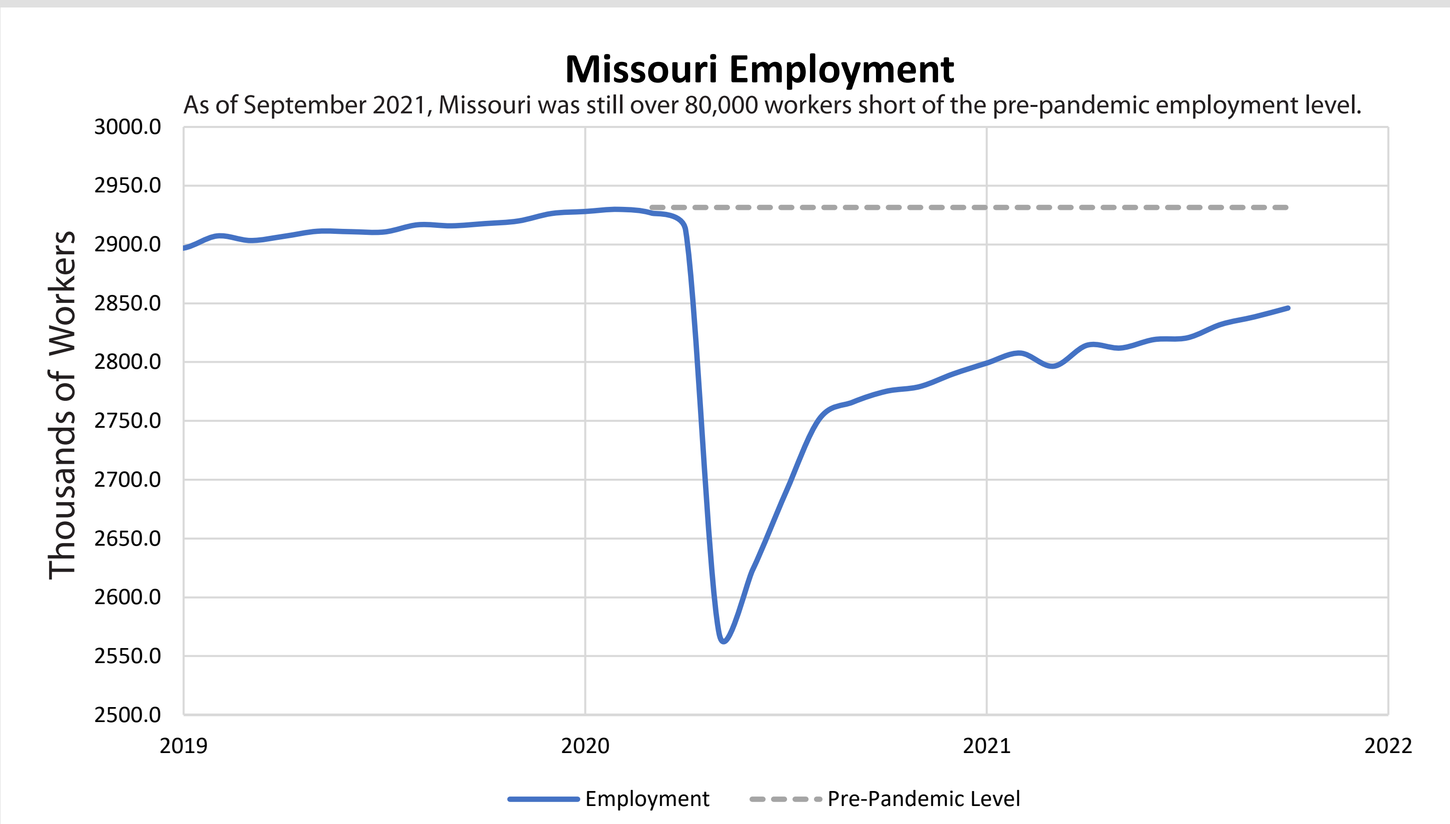


BUDGETARY REFORM

THE PROBLEM

Missouri's budget has more than doubled in size over the past two decades, and if this troubling trend of government spending growth continues, it could soon prove disastrous for state taxpayers.

THE SOLUTION

Limit spending growth, increase accountability, and improve budget resilience through reforms that protect taxpayers and prioritize Missouri's long-term financial health.

Spending at Record Levels

Missouri's budget has been growing for years, and this year is no exception. Our state is currently on track to spend more this year than ever before. Despite the purported protections against unchecked government growth provided by Missouri's Hancock Amendment, state spending continues to drastically outstrip both inflation and population growth. In fact, over the past two decades, Missouri's budget has approximately doubled in size.

Current Practices Encourage More and More Spending

Missouri currently uses what is called an "incremental" approach to budgeting, which means that budget items from one year automatically roll over into the next and establish the new baseline for state spending. This makes budgeting easier for legislators because the practice focuses attention on new funding requests, but also allows many old programs and spending items to escape annual scrutiny. The result is snowballing government growth. Missouri should require legislators to evaluate program effectiveness regularly and use "zero-based budgeting," meaning that lawmakers must build the state's budget from square one.

You Can't Fix What You Can't See

Currently, most state budget documents are difficult to find, hard to interpret, and in a form that requires citizens to manually transcribe the data to be studied. Such hurdles mean that lawmakers and state bureaucrats can act with greater impunity and less oversight. There is no good reason why the documents that detail where taxpayer money is going should not be easy for any citizen to access and understand.

Missouri Isn't Ready for the Next Recession

The boom–bust cycles of state finances create budgetary chaos. Each economic downturn forces elected officials to make difficult spending decisions that can be at odds with the state's long-term funding priorities. As a result of the 2007–2009 Great Recession, general revenues fell by over $1.2 billion, leading to abrupt cuts in education, corrections, and other priorities that lasted for several years after the recession. Almost every other state in the country has a rainy-day fund to help when these situations arise, but Missouri's Budget Reserve Fund is too small and too hamstrung by restrictions to be used in a downturn. In fact, it's never once been used for this purpose.

KEY FACTS

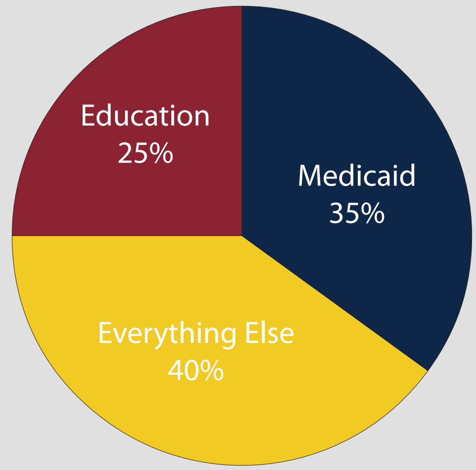
- Missouri's government is on track to spend more this year than ever before, even after adjusting for inflation.
- Currently, Missouri lacks strong protections against excessive government growth; in fact, the state's current budgeting practices encourage greater spending.
- Most state budget documents are difficult to find, hard to interpret, and in a form that requires citizens to manually transcribe the data to be studied.
- According to Moody's Analytics, Missouri is one of the least-prepared states in the country for an economic downturn.

POLICY RECOMMENDATIONS

- Establish clear and meaningful state program performance metrics that allow objective assessments and implement zero-based budgeting.
- Make all state budget documents available, in easily accessible machine readable formats (e.g., in Excel or CSV).
- Create a separate budget stabilization fund with the sole task of stabilizing revenues in the event of an economic downturn. The fund should be large enough to fully replace state revenues during a crisis comparable in magnitude to the Great Recession with strong protections against improper use. Repayment to the fund should also be dependent on the pace of economic recovery.

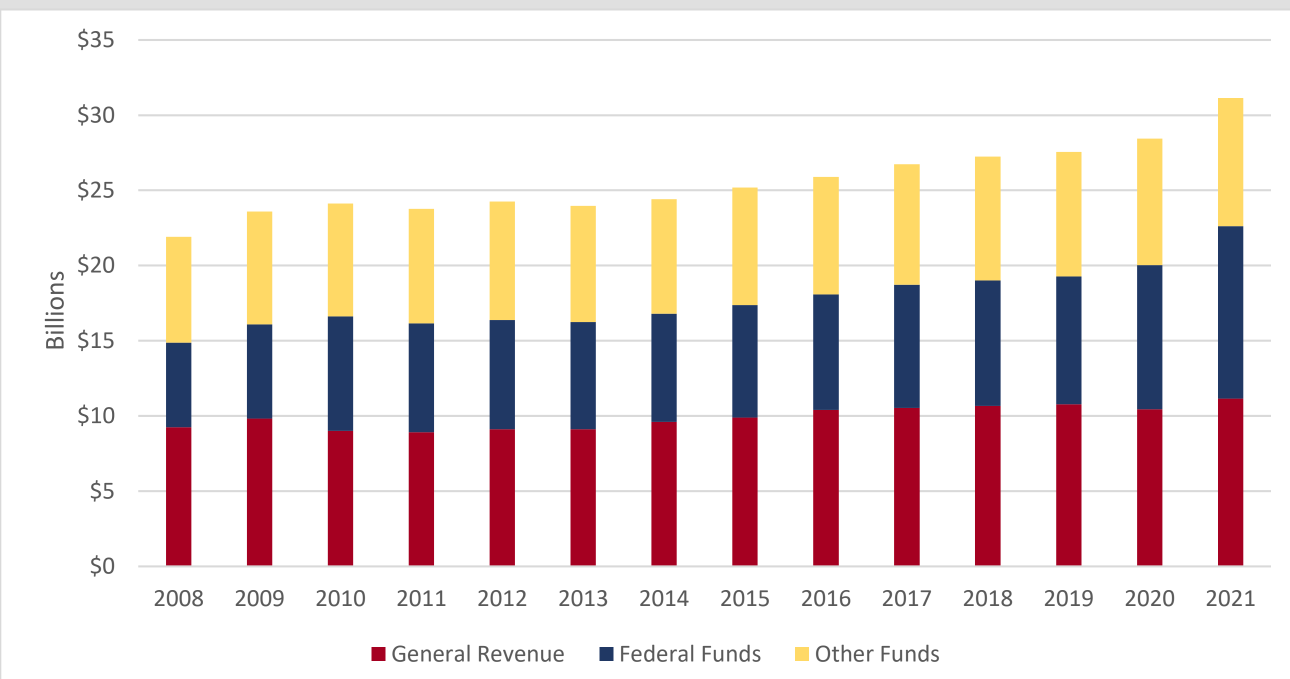
FY 2022 OPERATING BUDGET

With approximately 60% of all state spending devoted to education and health care, continued budgetary growth puts enormous pressure on every other state spending priority.



BUDGETARY GROWTH: FY 2008–2021

Missouri's total operating budget has grown by nearly $10 billion since state fiscal year 2008.



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LOCAL GOVERNMENT TRANSPARENCY

THE PROBLEM

Local governments often hide documents and spending records from the taxpaying public despite legal requirements that mandate transparency.

THE SOLUTION

Require that local governments report spending information, and that school districts report on both spending and curricula.

A Checkbook for Missouri

The creation of the Show-Me Checkbook in the state treasurer's office in 2018 and passage of HB 271 in 2021 was a positive development for transparency in local government, establishing voluntary reporting programs in the state for local governments. But more remains to be done. Local governing bodies should be required, not invited, to report their spending as a condition of being able to take money from the public through taxation.

School districts owe taxpayers a similar obligation, and as it has with the online checkbooks set up by the state for local governments, the state should establish an online database of elementary and secondary school curricula, lesson plans, and spending so that taxpayers can know what is being taught to K–12 students with public dollars.

Accountability Pays Dividends

How do these online resources benefit local governing bodies? From a good governance perspective, they ensure that rather than respond to Sunshine Law requests seeking these data, local governments can simply refer requestors to the continuously updating online resource. They allow any local government to proactively show that it is a good actor and open book, promoting positive relationships between the governed and those with the privilege of governing.

How do these online resources benefit taxpayers? They will be able to see in a continuously updated and understandable format where their money is going and will be able to keep tabs on the activities of elected leaders and bureaucrats when they choose—not when government chooses to give them spending and curricula information.

Moreover, the very existence of these online projects will act as a defense against wrongdoing in the future; when public officials understand that their spending and instructional activities will be available for all taxpayers to see, they will be more likely to be prudent in their decision making.

The public deserves to know where their tax dollars are going. After all, taxpayers are the bosses of government, not its subjects.

KEY FACTS

- Missouri already has a program through which local governments may report their spending, but participation is voluntary.
- The only way for many taxpayers to obtain detailed information about their government's expenditures is through the submission of a Sunshine Law request.

POLICY RECOMMENDATIONS

- Make the reporting of local government spending data to the Show-Me Checkbook database mandatory rather than voluntary.
- Establish (and mandate reporting to) a similar database for school districts that would track both expenditures and curricula.

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TEACHER RETIREMENT PLANS

THE PROBLEM

Missouri's retirement plans for public school teachers have saddled the state with unfunded liabilities while making it costly for teachers to change careers or even move to a different area and continue teaching.

THE SOLUTION

Give teachers the option of a portable defined-contribution retirement plan.

Outdated Retirement Plans Handcuff Districts

Teacher defined-benefit retirement plans create burdensome legacy costs for teachers and districts. Designed decades ago, these plans are often thought of as "taking care of" teachers after they retire in exchange for lower salaries while they are employed. This antiquated system takes large chunks of money from teachers' paychecks, while committing district finances into the indefinite future. It also leads to teachers retiring at an age that is now considered to be middle aged.

Twenty-nine states and the District of Columbia offer teachers plans other than traditional defined-benefit pensions. Seven states—Colorado, Indiana, Montana, North Dakota, Ohio, South Carolina, and Florida—allow teachers to select between plan types. Eleven other states offer combination hybrid plans that have a defined-benefit portion and a defined-contribution portion.

Teachers Deserve a Choice

In addition, the way pension benefits accumulate for teachers is back loaded, meaning that teachers who leave the profession in the beginning or middle of their careers don't receive benefits that are proportionate to the numbers of years they taught. Studies by national organizations have found that a teacher in Missouri has to work and contribute to the state pension system for at least 26 years before the amount they receive in retirement exceeds the amount they contributed. Teachers who leave the profession before they hit that point (that is, most teachers) would be better served by having a transportable retirement plan, such as a 401(k), that they could take with them to their next career.

Giving teachers the option of a teacher retirement account (TRA) would create a transportable retirement plan that is similar to those found in the private sector. It would also allow districts to raise teacher salaries while eliminating a long-term commitment of district finances.

KEY FACTS

- Missouri has three separate teacher pension plans—the Public School Retirement System of the City of St. Louis (PSRSSTL), the Kansas City Public School Retirement System (KCPSRS), and the Public School Retirement System (PSRS), which serves teachers in the rest of the state.
- The PSRS, PSRSSTL, and KCPSRS have accrued nearly $9 billion in unfunded liabilities toward what they expect to pay retired teachers. Both PSRSSTL and KCPSRS have assets that are less than 80% of what is owed to future retirees.
- Leaving a Kansas City or City of St. Louis school and going outside the cities means switching to a fundamentally different pension plan and starting over.

POLICY RECOMMENDATION

- Allow teachers to choose a defined contribution retirement plan, or TRA, similar to a 401(k), with a matching contribution from their school system.

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SCHOOL FUNDING FORMULA

THE PROBLEM

Missouri's outdated school funding formula results in the overfunding of some wealthy districts and penalizes public charter schools.

THE SOLUTION

Replace the current formula with one that is updated annually and funds students rather than schools.

It Isn't 2005 Anymore

Missouri's school funding formula is not designed for 2022. It was last revised in 2004 and the educational landscape has changed in the last two decades, particularly in light of the COVID-19 pandemic. The formula should be updated to account for property value changes and to fund all public school students equitably.

The education foundation formula has several "hold-harmless" provisions that have outlived their usefulness. According to one, the amount districts are expected to raise through local property taxes uses property values from 2005 unless those values have declined since then. This skews the distribution of state funds and often results in state money going to districts with very high property values.

Another hold-harmless provision lets districts use average daily attendance numbers from any of the three previous years. For various reasons, nearly 4% of Missouri public school students did not enroll in their assigned public school during the 2020–21 school year—the height of the pandemic. Nonetheless, their home districts can continue to count them in their enrollment numbers by using 2018–19 or 2019–20 data. At the same time, the families of these students may be paying out of pocket to place their children in an education environment, such as a learning pod, that works for them. A fairer funding formula would allow a student's funding to follow him to the school of his choice.

Public Charter Schools Are Treated Unfairly

Finally, Missouri students who attend public charter schools receive fewer funds than those who attend non-charter public schools. The Kansas City and St. Louis Public School Districts have access to a set of funds (about $2,000 per student) that the charter schools in those cities do not.And, by law, Kansas City and St. Louis charter schools have to use 2005 property values to determine the local effort to be shared with charter schools, regardless of how property values have changed.

KEY FACTS

- Because of the COVID pandemic, approximately 30,000 students who were expected to enroll in the 2020–21 school year did not—but their home districts continue to receive funding for them.
- Over one-third (182) of Missouri school districts are considered "hold harmless" for purposes of the foundation formula.
- Public school students in Kansas City's and St. Louis's district schools have access to more local revenue per student than public school students in Kansas City's and St. Louis's charter schools.

POLICY RECOMMENDATIONS

Update the foundation formula so that it:

- Is based on annually updated property values
- Funds students who attend public charter schools equitably
- Allows funding to follow students who pursue broader education options

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SCHOOL REPORT CARDS

THE PROBLEM

Missouri parents don't have a source of information about the quality of their children's schools that is accurate, accessible, and easy to understand.

THE SOLUTION

Mandate the creation of a transparent online school report card system (including an easy-to-interpret rating system) that clearly communicates measures of school quality to parents and community members.

Parents Are Being Kept in the Dark

Information about the performance of a school in Missouri is very difficult to find and not user-friendly. When done well, report cards can be a useful and valuable way to communicate school information to parents. In 2019, a Phi Delta Kappa survey found in a nationally representative population that when parents are aware of school report cards, 66% of them read them. Of those who read report cards, 82% of parents found them useful.

DESE is required by federal law to produce parent-friendly report cards on every school and district in the state. Technically it has produced them, but the DESE report cards contain significant language and technical obstacles. They are difficult to navigate, have undefined acronyms, and are filled with technical jargon that makes them very difficult to understand. In 2020, DESE released a data dashboard that has contextual information on Missouri districts, but not on schools. The current report cards and data dashboard do not, either together or separately, provide easily accessible and understandable information for parents and community members.

Give Parents the Information They Need

Missouri needs a report card that contains a rating system across multiple performance measures, including proficiency in English/language arts and math, growth in English/language arts and math, and performance broken out by subgroup for the same.

KEY FACTS

- DESE is required by federal law to produce parent-friendly report cards for every school and district in the state.
- DESE has technically complied with the law in that it has produced report cards, but they aren't parent friendly unless the parent in question reads at a graduate-school level and is familiar with the technical jargon used by education professionals.

There are many examples of high-quality report cards available from other states. In addition, the U.S. Department of Education and the ExcelinEd Foundation have held school report card design competitions. Much is now known about what makes a school report card useful, relevant, and easy to understand. We need to put that knowledge into practice in Missouri.

POLICY RECOMMENDATIONS

- School report cards should contain the information parents want, such as how well their children's schools are performing in English/language arts and math and how much academic growth students are gaining each year.
- Report cards should show parents how their children's school stacks up against other schools in the state.
- Report cards should be easy for parents to access, should present information in plain language, and should be free of technical jargon.

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STATEWIDE SCHOOL CHOICE

THE PROBLEM

Options for Missouri's public school students are limited by narrow district offerings.

THE SOLUTION

Broaden opportunities for public school students through charter schools, interdistrict choice, virtual learning, and education savings accounts.

> Charter schools are public schools that are given more autonomy but are held accountable for their performance.

Charter School Expansion

In nearly every state in the United States, public charter schools are available to families in every type of community, and these schools are most likely to be sponsored by a local school board. In Missouri, charter schools are a district intervention for poor performance, currently limited to families in just 3 out of 520 school districts (Kansas City, St. Louis, and Normandy). While technically allowed to sponsor a charter school, local school boards in Missouri continue to view charter schools as a threat rather than an opportunity. As a result, no school board has sponsored a charter school.

Flexibility, opportunity for innovation, and freedom from bureaucracy can make charter schools a great addition to a school district's portfolio of schools—even in remote rural areas. They present an opportunity to create a specialized school within a district, or across districts, for those parents who choose them.

The Missouri Legislature can encourage charter schools to form across the state by creating an appeals process that would give charter applicants denied by local school boards the opportunity to apply for sponsorship from the Missouri Charter Public School Commission. In addition, a fast-track charter school application process could be created for select groups, such as teachers with at least five years of teaching experience or organizations that have been providing education during the pandemic.

> In 2017–18, just 9% of rural Missouri high school students took an Advanced Placement course, well below the state and national averages.

Interdistrict Choice / Innovation Zones

Many high schools in Missouri are too small to offer a comprehensive education to their students. Staffing and administrative difficulties limit the quality and scope of high school coursework. Yet, students who graduate from these high schools will enter the workforce or postsecondary education with peers who have had substantially more preparation opportunities.

Missouri can increase educational opportunity for its students by allowing high school students to cross district lines to access a broader array of high school coursework. An initial pilot program could be authorized for a group of interested districts. Although the students would remain in their home district's weighted average daily attendance (WADA), cost sharing for transportation and staffing could be arranged.

Texas offers an example of what interdistrict school choice could look like in practice. The Texas Rural Schools Innovation Zone (RSIZ) is a collaboration between three rural school districts and two postsecondary institutions. Students in RSIZ can attend classes at any of six specialized academies in the zone—including arts, career and technical education, health and science, and STEM—while maintaining enrollment in their home district.

> School districts can prevent students from enrolling in the MOCAP program by denying permission.

MOCAP School District

Many Missouri public schools were caught unprepared when the COVID pandemic necessitated a switch to virtual learning. In a December 2020 survey of Missouri parents, one quarter of respondents gave their children's virtual learning experience a "D" or "F" grade. But while individual districts might have struggled to create and operate online learning programs, Missouri already has an existing, approved online educational framework in the form of the Missouri Course Access Program (MOCAP), which works with eleven virtual education providers that have been vetted and approved by the Department of Elementary and Secondary Education.

Although the law regarding MOCAP was vastly improved in 2019, it still requires that parents who want to choose MOCAP first get permission from their local school districts. In addition, the funding for and test scores of MOCAP students continue to filter through their local school districts. Both of these create a disincentive for school districts to allow students to enroll in the program. Missouri should create a separate school district (local education agency) for the MOCAP program. Students would be counted as enrolled in MOCAP for all or part of the school day and would be included in the WADA for MOCAP for the same proportion. If this change were made, students would not need permission to enroll in MOCAP. MOCAP would be incentivized to monitor student attendance and would also be held accountable for student performance.

Because of the $25 million cap on donations, the Missouri ESA Program will only be able to serve about 3,900 students, or about 0.6% of Missouri's K–12 student population.

Expansion of the Empowerment Scholarship Accounts Program

Missouri finally has a private school choice program—the Empowerment Scholarship Account (ESA) program—that parents of students with disabilities and low-income students can access. Unfortunately, the legislature chose to limit this opportunity so that only Missouri families in communities of more than 30,000 people are eligible to participate. This leaves Missouri students across most of the state with, once again, no options. In addition, the $25 million limitation on total donations restricts the number of scholarships that can be distributed to fewer than 4,000 (out of a total public school enrollment of more than 850,000).

On the supply side, there are hundreds of private schools in Missouri that are outside of large cities. In addition, the Missouri ESA program can be used for education materials, tutoring, and hiring educators directly. This opens up the program to homeschoolers, families in cooperative education hubs, and families receiving educational services through local nonprofits such as the Boys and Girls Clubs. The families that could benefit from this program are throughout the state, not just in some communities.

Voter and parent support for school choice programs has been steady and widespread. It is not the case that only children in large cities and towns want or need options other than their assigned public schools. If the legislature supports this program for some children, it should support it for all children.

POLICY RECOMMENDATIONS

- Amend Missouri's charter school law to allow rejected applicants to request sponsorship by the Missouri Charter Public School Commission.
- Allow students to choose schools outside their home districts in order to access broader education options.
- Make the MOCAP program its own school district and allow students to enroll in the program without requiring approval from their home districts.
- Expand Missouri's ESA program so that it serves all qualified students in the state.

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FREE-MARKET HEALTH CARE REFORM

THE PROBLEM

Health care supply is needlessly limited by regulations that protect incumbent providers at the expense of patients.

THE SOLUTION

Enact free-market reforms to create opportunities for new entrants in the health care field, lower prices, and increase the availability of care across the state.

Make Temporary COVID Reforms Permanent

The covid pandemic disrupted the world's health care systems and forced both medical professionals and policymakers to rethink how medical services are provided. Legislators and executive officials across the country took bold action to cut red tape and maximize access to care. Two areas where Missouri cut red tape during the pandemic were related to scope of practice and telemedicine.

"Scope of practice" defines what medical professions can do in a state, given their training. Depending on the state, practitioners like nurses can be limited in what they can do and where they can do it, despite having the training to provide certain types of care. For example, prior to the pandemic, advanced-practice registered nurses were limited to practicing within 75 miles of a collaborating physician. The waiver of this requirement was the right call in 2020, and making that waiver permanent is the right call today. More treatment options for patients means more competition among providers, which is good for consumers in terms of service and price.

"Telemedicine" is what it sounds like: the provision of medical care over the telephone and the internet. For the sake of public health and because many patients felt more comfortable staying at home during the pandemic, the state temporarily loosened the regulations for who could see a physician online and under what circumstances. As with making scope-of-practice expansions permanent, making telemedicine regulatory reforms permanent would expand the ways that patients could receive care and increase the number of potential care providers—increasing competition and, over time, bringing prices down.

KEY FACTS

- Temporary waivers of restrictions on medical professionals' scopes of practice and telemedicine have been successful, increasing access to health care providers.
- Certificate of Need laws separate patients who need care from doctors who want to provide it.

Repeal Certificate of Need

Missouri's Certificate of Need law restricts health care competition by requiring many health care providers to get state approval before entering new markets or expanding services offered in existing facilities. This restriction hampers innovative start-ups and market newcomers that would provide Missourians care. It also puts upward pressure on health care prices by restricting supply as demand for services rises. Hospitals shouldn't have a say in whether new entrants can compete with them. After all, competition benefits consumers; established hospitals should have to innovate and compete to keep their customers, just like every other business in the state.

POLICY RECOMMENDATIONS

- Make the temporary waivers of scope-of-practice and telemedicine restrictions permanent.
- Repeal Missouri's Certificate of Need law.

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HEALTH CARE PRICE TRANSPARENCY

THE PROBLEM

The lack of transparency in health care pricing means that patients don't know the price of the treatment they receive until they get the bill.

THE SOLUTION

Arm consumers with the information they need to make health care decisions.

What We Don't Know Is Costing Us

Advocates of government-run health care often claim that market forces do not operate in health care. However, they neglect to mention that competition has been artificially suppressed by a lack of price transparency. Studies have found wide variation in prices paid for health care procedures across regions, among hospitals, and most alarmingly, within the same hospital based on the type of insurance or lack thereof.

With average deductibles up 79% over the past decade, price transparency is critical for both the insured and the uninsured because it opens up several ways to control costs:

- It allows patients to compare providers.
- It helps insurers negotiate lower rates.
- It aids employers in offering cost-effective plans to workers.
- It facilitates alternatives to fee-for-service payment models.
- It enables physicians to partner in cost-containment efforts.

Hospitals Are Ignoring Transparency Rules

In June 2019, the Trump Administration issued an executive order requiring hospital price transparency. Starting January 2021, hospitals must provide not just list prices but also negotiated charges for 300 shoppable services. Hospitals must make this information available both in machine-readable and consumer-friendly formats. However, with a noncompliance penalty of only $300 per day, only 42% of Missouri hospitals are compliant. *The Wall Street Journal* reports that hundreds of hospitals have embedded code in their price transparency websites that prevents search engines from returning pages with the price lists. Furthermore, hospitals aren't the only providers of care; clinics, imaging centers, and other providers should be bound by transparency requirements as well. Until patients can be informed consumers of the care they purchase, we can't expect to keep the cost of medical services under control.

KEY FACTS

- In Missouri, prices of the same service can differ widely depending on a patient's insurance. For example, the price of a pelvic CT scan at a single hospital can vary by a multiple of 20.
- Uninsured patients—who tend to be among the poorest—are routinely charged the highest prices.

POLICY RECOMMENDATIONS

- Require hospitals and other health care providers to publish pricing information to the public in user-friendly, machine-readable form.
- Expand requirements at the state level for health care pricing transparency to cover non-hospital providers; include strong noncompliance penalties for providers that withhold information from patients and insurers.
- Encourage both doctors and insurers to show patients how to look up prices.

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MEDICAID REFORM

THE PROBLEM

Enrollment in Missouri's Medicaid program is at its highest point in state history, and with Medicaid expansion now underway the program's cost growth will soon prove unsustainable.

THE SOLUTION

Reform the Medicaid program to ensure the continued financial stability of the state. Institute free-market reforms to empower individual recipients of Medicaid services and implement stronger program integrity measures to rein in health care costs.

KEY FACTS

- Medicaid is Missouri's largest government-run program, and its costs are growing faster than the state's economy.
- State officials expect to spend more on the Medicaid program this year than ever before.
- Prior to expanding eligibility under the Affordable Care Act, more than 1 in 6 Missourians were enrolled in the state's program, including more than half the children under the age of 18 in the state.

More Enrollees, Higher Costs

Medicaid is Missouri's single largest government-run program, and it's about to get bigger. Enrollment is the biggest driver of Medicaid costs, and the state's program has grown for 17 consecutive months. There are now more than one million Missourians on the program, which is a 28% increase since the beginning of 2020.

Missouri's economy can't keep up with spiraling Medicaid costs, which is a serious problem for the state's budget. Each year that Medicaid spending continues this troubling trend further jeopardizes the state's ability to fund other public policy priorities, such as roads and education.

Estimates suggest that more than 275,000 Missourians will become newly eligible for Medicaid under expansion, adding to the program's costs by approximately $2 billion per year.

Reform Can't Wait

The need to reform Missouri's Medicaid program is not new, but with an expanded Medicaid program, the state simply cannot wait any longer to take serious action. In 2019, Missouri's own Department of Social Services commissioned an audit to identify areas of the state's Medicaid program in need of improvement, yet few of the proposed reforms have gained much traction. To start, policymakers should address the program's many misaligned incentive structures and update obsolete information systems.

According to the report, "methods to pay providers lack incentives to contain costs or enhance quality." Further, "approaches to utilization management; eligibility management; fraud, waste, and abuse; are limited" due to inadequacies with the state's information systems. By adopting more value-based payment initiatives, Missouri can empower patients to seek the appropriate amount of care while also encouraging providers to treat patients in the most cost-effective manner. Doing so would help to improve the health of Medicaid recipients while containing costs and increasing program accountability. For example, several states are using a "shared savings" approach where providers can receive additional payment for successfully treating patients in a more cost-effective manner than expected. But for such initiatives to work, Missouri must upgrade the state's information technology (IT) systems to better track outcomes while also minimizing waste, fraud, and abuse.

Finally, policymakers should explore taking whatever steps are necessary, whether at the state or federal level, to allow greater flexibility in administering the program for the expansion population that would help contain impending costs and better tailor coverage to meet the needs of new recipients. Significant improvement to Missouri's Medicaid program will ultimately require better incentives, better data, and greater flexibility.

POLICY RECOMMENDATIONS

- Expand value-based payment initiatives to encourage high-quality, cost-effective care.
- Upgrade Medicaid's IT systems to encourage greater accountability by minimizing waste, fraud, and abuse.
- Give elected officials the flexibility needed to successfully reform Missouri's program and rein in costs to protect the state's financial future.

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MEDICAID BY THE NUMBERS

In 2021, Missouri spent **$11,501,002,891** on the Medicaid program.

Nearly **1 in 5** Missourians are covered under Medicaid.

Medicaid's cost growth consumed nearly **40%** of Missouri's tax revenue growth between 2010 and 2020.

Medicaid pays for **65%** of all nursing home care in the state.

Since the beginning of 2020, enrollment in Missouri's Medicaid program has increased for **21** consecutive months

21¢ of every dollar paid in state taxes goes to Medicaid.

In 2021, about **37%** of Missouri's budget went to Medicaid, making it the program with the largest budget in the state.

25% MEDICAID EXPANSION EXTENDS ELIGIBILITY FOR SUBSIDIZED COVERAGE TO ABLE-BODIED ADULTS AND IS EXPECTED TO INCREASE THE SIZE OF THE PROGRAM BY APPROXIMATELY 25% OVER THE NEXT YEAR.

As of October 2021, Missouri's Medicaid program has **1,132,481** participants, with **685,923** of those being children.

More than **1 in 2** children are enrolled.

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MISSOURI PARENTS' BILL OF RIGHTS

Missouri parents have a fundamental right to participate in and direct the education of their children. Missouri should adopt a parents' bill of rights to ensure that parents can see and understand what is happening in their children's schools.

Those Rights Include but Are Not Limited to:

- The right to know what Missouri schools are teaching
- The right to know how Missouri schools are performing
- The right to know how Missouri schools are spending taxpayer money
- The right to choose the existing educational option that works best for their children
- The right to control their children's health and identifying markers, including but not limited to the right to opt out of health measures not required by state order or statute

Failure by a school or school district to abide by these rights and expectations could subject the school or school district to financial penalties by the state and administrative penalties affecting the privileges afforded districts under state law.

See the full copy of the Missouri Parents' Bill of Rights at:

www.showmeinstitute.org

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