SHOW-ME newsletter

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

A MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER

Brenda Talent

September 2022 could end up being remembered for either a crowning achievement or a huge failure on the part of the Missouri Legislature. I'm referring to the special session the governor called with the goal of cutting income taxes for all Missourians. By the time you read this, the session will have concluded, and we'll know if the legislature delivered. Anything short of a substantial tax cut—for all Missourians instead of just a select few—will be a serious disappointment. Before delving any deeper, some background: Back in July, the governor announced he was vetoing a plan to provide one-time tax rebates to those earning less than $150,000 ($300,000 for couples). Instead, he announced he was calling a special session to propose a permanent income tax cut. The governor's rationale: "In Missouri, we want to provide permanent tax cuts for permanent relief, not temporary stimulus." It's not clear why the permanent tax cut plan was saved for a special session instead of being presented during the regular legislative session. But I certainly agree with the sentiment that Missourians deserve permanent tax relief.

Cutting the income tax is one of the Show-Me Institute's highest priorities and one we've been advocating for a long time. Our analysts and scholars have written scores of papers, op-eds, and blog posts stretching back over 15 years on the topic. The income tax is a destructive tax that hurts economic growth and makes Missouri a less attractive place to live and work. It's hard not to be envious of states such as Tennessee, Florida, and Texas, among others, that have reaped the benefits of eliminating the state income tax.

To be clear, eliminating the income tax entirely doesn't appear to be on the table right now. But progress, in the form of a significant reduction, would be welcome. Given that the governor is proposing the plan, and that essentially all elected Republicans in the state claim to believe in lower taxes, there doesn't seem to be any reason for legislators to not get this done.

One potential monkey wrench: In addition to a tax cut, the governor wants to extend (and in a few instances, create) several agricultural tax credits. This would be a mistake; Institute analysts have exhaustively detailed how such tax-credit schemes waste taxpayer money and fail to deliver promised benefits. Linking the tax cut to these agricultural subsidies is a curious move, given that the governor claimed he was vetoing the initial income tax rebates because he wanted a tax cut for all Missourians rather than just a subgroup. As Elias Tsapelas detailed in a recent blog post on the topic, just 71 entities used the agricultural tax credits in question in the last year the credits were active. That doesn't sound like tax relief for everyone.

We'll know soon enough how all this shakes out. For now, it's clear that lawmakers in Missouri have an opportunity to change Missouri for the better. Let's hope they don't waste it.

RUNNING THE NUMBERS ON MISSOURI SCHOOLS

Susan Pendergrass

The Missouri Board of Education recently released preliminary test results for the 2021–22 school year, and the results show a system in crisis. Just 43 percent of Missouri students scored Proficient (grade level) or higher in English/language arts (ELA), and just 39 percent of students did so in math. What's worse, ELA scores have declined for four straight years in nearly every grade. Missouri 6th-graders scores have declined by 9 points since 2018 and 8th-graders have declined by 6 points. Only one in four low-income students in Missouri scored at grade level on the assessments, and only one in five Black children did so.

Of course, the results came with a press release from the Department of Elementary and Secondary Education (DESE) that cautioned all of us to "review the data through an informational lens." And we were reminded that "nothing about this past school year was typical." Missouri children get (hopefully) one shot at kindergarten, which sets them on their educational path. They get one shot at 3rd grade, which they need to leave as competent readers if they are going to figure out the subjects that are in front of them. They get one shot at preparing for high school, where they'll be expected to begin to learn independently. The latest test scores indicate that far too many Missouri students are off track.

Meanwhile, the Missouri Legislature just passed a whopping $10.4 billion budget for DESE for the upcoming school year, which is over $12,000 per student in non-local money. This includes over $3 billion in COVID-19 stimulus funds from the federal government. When the local money is included, Missouri is on track to spend north of $15,000 per student on public education this year.

According to its presentation to the board of education, DESE will be spending some of that money on providing teachers evidence-based training in reading and math, addressing teacher recruitment and retention, and investigating the results. While these efforts are laudable and probably necessary, there doesn't seem to be a sense of urgency here. DESE seems to be suggesting that Missouri students will have to wait for teachers to get up to speed.

It's time to hold DESE and school districts accountable. Unfortunately, DESE's new accountability system, MSIP 6, is even more watered down than the previous version, rendering accreditation even less meaningful at a time when we should be carefully analyzing data to pinpoint our greatest deficiencies. DESE has already indicated that 99 percent of public school districts in the state will continue to be "fully accredited" for at least a few more years, which seems incredibly detached from the test results that were just released.

Maybe the state board of education is afraid that calling a public school district "low performing" or giving out low grades such as a "D" or an "F" will make the adults in that system feel badly. Worse, maybe they're afraid the legislature won't be willing to increase DESE's funding if they're honest about how badly some of our schools and districts are doing. It's hard to say. But the clock is ticking for the next generation of Missourians, and it's time to get honest.

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GOVERNMENT TRANSPARENCY REMAINS A CHALLENGE IN MISSOURI

Patrick Ishmael

Over the past five years, Show-Me Institute analysts have made a concerted effort to investigate how transparent local government is in Missouri. Like the state and federal governments, local governments have the power to tax, but with that power comes the responsibility to tell taxpayers exactly how that money is being spent. This summer, I helped continue the transparency work with the Show-Me Checkbook and Show-Me Curricula Projects, asking cities and school districts from across the state how they were using taxpayer funds.

The results of these requests were mixed. In all, Institute researchers gathered financial records for about 20 percent of Missouri's over 900 cities—a marked improvement that follows several years of work promoting local transparency. Now, with both the treasurer's office and the office of administration building out competing local spending transparency projects, Missouri cities are coming around to the reality that their spending records are going to be public sooner rather than later. That makes inquiries from the public to cities today much easier than when I first started our Show-Me Checkbook project in 2017. So that's a positive.

Unfortunately, my experience this year with schools and districts was more negative and is emblematic of the continuing problems in Missouri's "Sunshine Law," which Institute staff has used thousands of times to get documents from the government. For those unfamiliar with it, the Sunshine Law outlines what government has to produce when asked for information and how it must be done, but under most circumstances government subdivisions can charge to produce documents.

Therein lies the main problem. It's not always obvious what a "reasonable" price for government records is, and government subdivisions have often tried to avoid producing documents by demanding outlandish sums for their records. This year, several school districts even attempted to charge us $200,000 to access what they were teaching kids, and demands for money by districts in response to our inquiries were up overall in 2022.

Indeed, pricing out requestors is a common tactic that schools—after a year of scrutiny of their curricula—are only now taking full advantage of, thanks to the Sunshine Law's inadequate provisions.

And that's also the simplest explanation for this price spike (compared to 2021): School districts figured out that in Missouri, as elsewhere, the Sunshine law is pretty weak, giving great latitude to political subdivisions to avoid transparency. If a requestor doesn't pay the outlandish sum, escalate matters to the attorney general, or file a lawsuit to compel document production, school districts often bet they won't have to show the public what they're teaching kids or how they're training teachers. And all things considered, given the rules of the game, that's not a bad bet.

But what that does mean is the rules of the transparency game need to change in Missouri, and I'm preparing to lead that charge. In the coming months, I will be proposing transparency reforms in state and local government, including updates to the state's Sunshine Law, to ensure local government can be held accountable by taxpayers. Again, if governments can take your money, they have to tell you how it's being used. And if they refuse? That's a problem, and it's one I'm looking forward to solving.

MEDICAID ENCOURAGES WASTEFUL SPENDING

Elias Tsapelas

When Missouri voted to expand its Medicaid program nearly two years ago, there was a lot of discussion about how much it would cost and whether our state was ready for the influx of new enrollees. One of the most common arguments in support of expansion was that Uncle Sam would be picking up most of the tab for new enrollees, so of course Missouri could handle it. At the time, I wrote repeatedly about how wrong this argument would prove to be, but even I didn't expect what the next two years had in store.

Prior to 2020, enrolling in Medicaid was pretty straightforward. When someone applied, the state checked whether they were eligible, and if they were, they were enrolled. Eligibility tests mean checking how much money they make, how many people are in their family, where they live, and and gathering other relevant information. For most enrollees, Medicaid coverage works just like normal health insurance (except the recipient doesn't pay anything). And like most employer-sponsored coverage, a monthly rate is paid regardless of whether any services are received. Then, state Medicaid agencies will check back occasionally to see whether those enrolled are still eligible to receive services. That is, until the COVID-19 pandemic came around.

COVID relief money included funding for Medicaid. But that money came with strings attached, which required states to stop checking whether those already enrolled in their Medicaid programs were still eligible to receive services. The only way enrollees could be removed from the program was if they asked for removal, moved out of state, or died. It should not be surprising that very few enrollees have since been removed from the rolls. In the months that followed, program enrollment skyrocketed.

Then, in August of 2020, Missouri voters decided to expand Medicaid eligibility under the Affordable Care Act, which under the most conservative estimates was expected to bring more than 200,000 new enrollees to the program. As a result of expansion and pandemic enrollment rules, today Missouri's program has more than 1.3 million enrollees. For context, that's 57% more than it had at the start of 2020, or an increase of approximately 480,000 enrollees. And perhaps more alarming, the state says it is about 50,000 applications behind in processing new enrollment forms.

This backlog is a big problem for Missouri's program because the federal government requires applications be processed within 45 days. As of last report, the average wait time for the state to process applications (which used to be less than a week) has risen to more than 115 days. So, now that Missouri has fallen behind, the federal government has decided to step in to help.

As the result of new backlog mitigation plan, it's likely now easier than ever before to get onto Missouri's Medicaid program. So gone are the days when the state required you to provide your address or prove your income to receive services. To reduce the backlog, the government's apparent answer is to enroll now and figure out the rest later. Meanwhile, the state is also still barred from checking eligibility once someone is enrolled until the federal public health emergency ends. The federal emergency was recently extended once again, and it now will not end until sometime next year at the earliest.

It should be obvious that the federal government's policies over the past two years have significantly increased the number of ineligible individuals enrolled in Missouri's Medicaid program. It should also be clear that these ineligible enrollees come at a significant cost to state taxpayers. While Missourians continue to foot the bill for the never-ending cycle of compulsory government waste, it's time to start wondering whether such excess will ever end. At this point, it's at least fair to conclude that wasting money is feature, not a bug, in the program's current iteration.

NORMALIZING WELFARE

David Stokes

The influential left-wing writer and analyst Matt Yglesias has long argued that the federal government should routinely fight recessions and unemployment by directly sending people money. The federal government has engaged in this tactic twice in the past 20 years—during the financial crisis of 2008 and at the height of the recent pandemic. Yglesias and others think that the strategy should become far more common; anytime there is a dip in demand, just have the federal government deposit money in people's bank accounts and let them spend it. Getting checks from the government would become a typical part of life, as routine as driving on government roads.

During the pandemic, public schools across America dropped the "free and reduced-price" lunch program and just started serving free lunches to all children. That program has ended for the 2022–2023 school year, but plenty of people think it should continue. (The *St. Louis Post-Dispatch* ran an op-ed in March from Prof. Marlene Schwartz arguing to make the "free school lunches for all" plan permanent.) The free lunches for all kids argument has a few points worth considering; the reduction of paperwork is the point most appealing to me.

But other arguments for it are harder to swallow, and give the impression that the larger goal is simply to expand the welfare state at every opportunity. One key argument made by many who support universal free lunches in public schools is that there is a stigma attached to receiving the free lunches. So, if I have this straight, the solution to some children being ashamed to get free lunches is to put everyone in the program, regardless of whether their families need or want it.

C.S. Lewis famously stated why giving power to the do-gooders was the worst of all possible options:

> Of all tyrannies, a tyranny sincerely exercised for the good of its victims may be the most oppressive. It would be better to live under robber barons than under omnipotent moral busybodies. The robber baron's cruelty may sometimes sleep, his cupidity may at some point be satiated; but those who torment us for our own good will torment us without end for they do so with the approval of their own conscience.

We have long passed the idea that the welfare state is for the truly needy among us. Government and its statist supporters figured out long ago that the secret was to take money before people saw it through tax withholding and to compel people to enroll in social programs by force of law. Whether it is Social Security, Medicare, or the recent local St. Louis requirements that landlords must accept Section 8 housing vouchers, welfare programs are forced on you whether you want to participate or not. Even the most strident opponents of social security are going to accept their retirement payments after spending a working lifetime paying into the system. Similarly, what family is going to tell their children not to eat lunch just because taxpayers paid for it?

The normalization of welfare, the dole, the safety net — whatever one chooses to call it — is exactly the goal. Put every kid on the lunch program. Make unemployment benefits permanent. Mandate paid time off and force private companies to pay for it. Is the economy slowing down? Hey, here's $1,000 to help you this month. It may be a long and winding road from a generous welfare state to taking the local landlord out to the village green, tying him to a pole, and having radicalized college kids screaming at him to confess his crimes while beating him with rods, but it is a road nonetheless. If and when we lose the sense that individual and familial responsibility are at the core of society, the road trip is going to end in disaster.

THE COMING PROPERTY TAX UPROAR

David Stokes

Predicting things is hard, especially if it's about the future. Yes, the sun will rise tomorrow in the east, and as prices rise demand will fall, but beyond such immutable laws, predictions are impossible. Sometimes you may get lucky, of course, but pundits generally feel free to predict the future because there's no harm in being wrong.

But I'll toss caution to the wind and make a prediction: the 2023 reassessment process in Missouri is going to be a madhouse. The taxpayer uproar will begin this November when people get their personal property bills. Used car prices have increased substantially since the pandemic began. According to one source, the average used car increased 25 percent in value in 2021. While prices have started to come down recently, they remain significantly above historic averages.

I have been told that county assessors in major Missouri counties such as St. Louis and Jackson are experiencing a greater than 20% increase in personal property tax valuations (cars, boats, etc.). Unlike real property taxes, personal property taxes are largely exempt from Hancock Amendment rules requiring tax rate rollbacks when valuations increase—cities, counties, and school districts are not required to roll back rates to offset those valuation increases. As a result, many Missourians are going to get hit with substantially higher personal property tax bills later this fall.

But that is just start of it. Next year is a reassessment year in Missouri. According to Redfin, a real-estate brokerage, home prices around the nation have increased 44 percent in the past two years. Missouri's home prices have increased somewhat less than that average, but prices are still very high. From January 2021 (the date of the last assessment valuation) to July 2022, the average home price in Missouri (also according to Redfin) has increased from $199,000 to $252,200, a 27 percent increase. It remains to be seen whether the leveling off the housing market has experienced recently is just that—a leveling—or if housing values will actually decline before January 2023.

In normal times, home valuation increases would be offset *at least in part* by tax-rate reductions. However, the tax-rate calculations after reassessments allow governments to include inflation in their math, and that is the scary part here. With the dramatic inflation we are experiencing in 2022, the tax rate reductions local governments calculate for 2023 may be tiny compared to the assessed value increases they see. Missouri's current assessment system was introduced in 1985, so this is the first time the process is being conducted during high inflation. I don't think the results are going to be pretty. If residential real estate values rise in the realm of 25 percent, and local governments calculate their rate reductions with an allowance of eight percent inflation, the tax increases on Missouri property owners are going to be enormous.

I was a political aide at the St. Louis County Council in 2001 when councilmembers exposed that assessors were simply driving by homes with large assessment increases instead of actually inspecting them as required by law—the infamous "drive-by assessment" scandal in St. Louis. I saw the anger and frustration in people's eyes at that time. The people of Kansas City had a similar experience in 2019 when the state-ordered changes to the assessment system in Jackson County led to enormous tax increases on residents. I fear the looming combination of high housing prices and high inflation may lead to a potential tax uproar that will make the British poll tax protests seem quaint.

It doesn't have to be this way. Local politicians can reduce tax rates beyond what the formulas dictate if they choose to—and they probably should. St. Charles County is doing that this year for the county's property tax rates as used car values increase, and other local governments should follow that lead. Without that type of leadership around the state—absent a real decline in housing values before January—next year may be a fascinating one for public policy and a very expensive one for taxpayers.

I'll bet your house on it.

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

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

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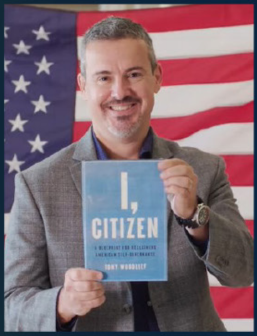
THE RED VS. BLUE MYTH AND THE REAL THREAT TO AMERICAN STABILITY

Thursday
DECEMBER 1
5:30 p.m. Reception
6:00–7:00 p.m. Presentation

World Chess Hall of Fame
4652 Maryland Ave.
Saint Louis, MO 63108

Cost: $15



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