SHOW-ME newsletter

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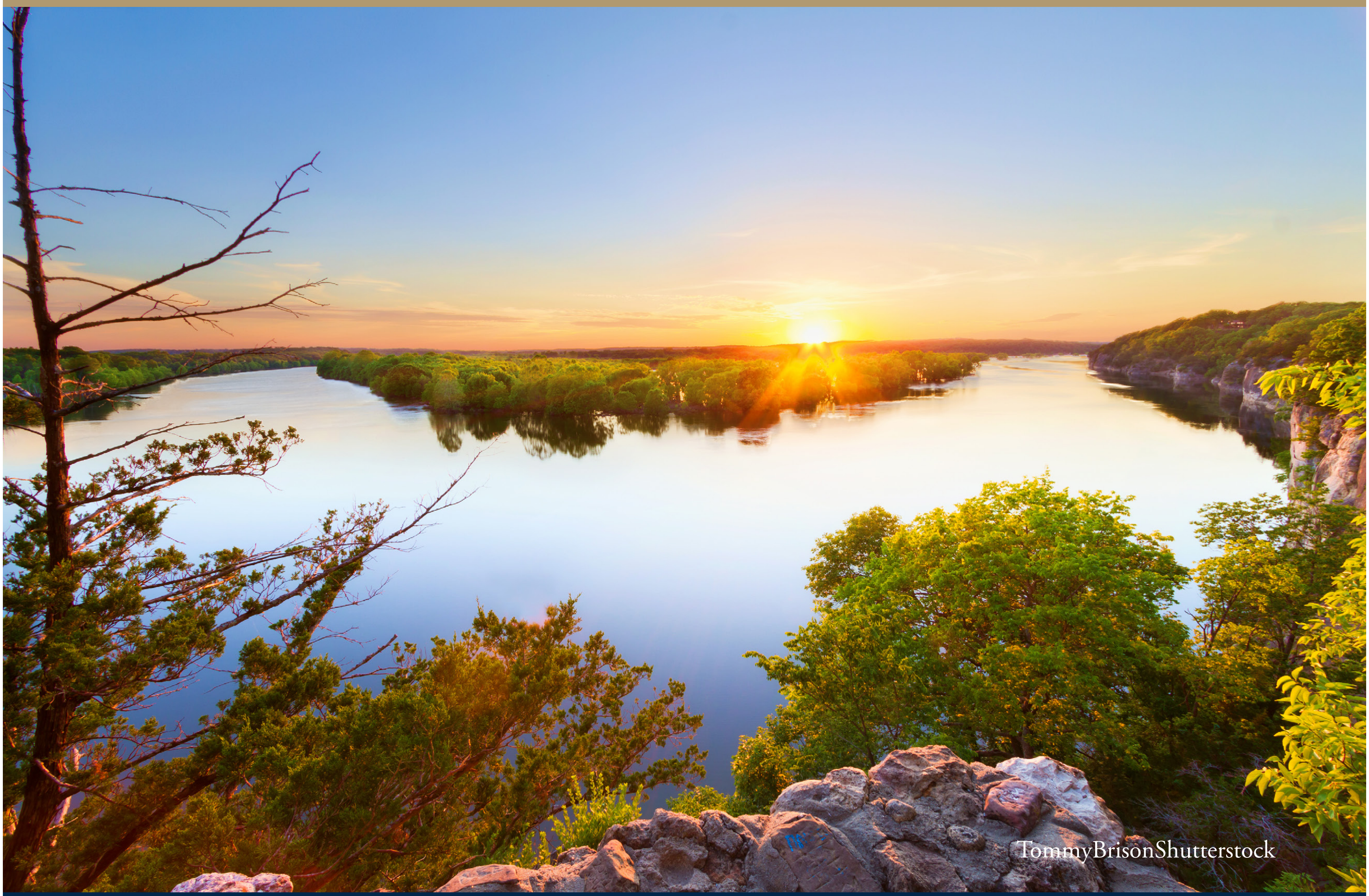
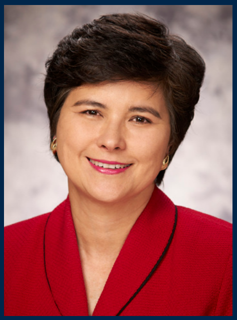


ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

A MESSAGE FROM THE

CHIEF EXECUTIVE OFFICER


Brenda Talent

When I think about 2022 in Missouri, I see it as a year of continued progress toward the goal. My main message is this: the game plan is working. We're controlling the line of scrimmage and getting first downs. But we understand that the closer we get to the red zone the tougher the opposition will be, so everyone on our team is preparing to push even harder to reach the end zone.

Ok, that's the end of the football analogies.

Our biggest victory in 2022 was the income tax cut. Passed during a special session in October, the income tax cut will take Missouri's income tax rate under five percent for the first time in history, with the rate eventually dropping to 4.5 percent. For Missouri government—which tends to move incrementally—that was a huge step forward, and since eliminating the income tax is one of the Institute's oldest and most important policy goals, we were very gratified to have played a part in the achievement.

At the same time, our goal is to get rid of the income tax entirely, so we must and will continue our advocacy on this front. Institute analysts and economists have spent more than a decade and a half detailing the enormous benefits Missouri would reap if it eliminated the income tax—our message next year will be that it is time to take the plunge.

We also made more progress on our education agenda with passage of the "fix the glitch" legislation, which reformed a provision that was shortchanging charter schools. Because charter school funding comes from the local district's state funding pool, there was effectively a cap on funding—once a local district ran out of state money, a charter couldn't receive additional money even if it added more students. The legislation passed earlier this year solves the problem, as state funding will now cover this gap.

However, too many Missouri students remain trapped in underperforming schools with no realistic alternatives. Until every family in Missouri has choice in education, there will be work left to be done.

I also want to highlight a change in occupational licensing laws. Earlier this year, Missouri joined a Speech-Language Pathology Interstate Compact. Joining the compact creates mutual license recognition for Missouri and the other states in the compact for those working in speech pathology, which means that pathologists accredited in other states will not have to get reaccredited if they move to Missouri. This was another in a series of targeted reforms that are making it easier for people to live and work in our state. Of course, our ultimate goal is to convince the legislature to sunset all occupational licensing requirements; that would force the state to consider which of those requirements really are directly related to important health or safety concerns.

Our position, as always, is that the default policy of government ought to be more freedom rather than less.

So as we approach the end of the year—and while always remembering that there is much more yet to be accomplished—we are grateful for another successful legislative session. It didn't happen in a vacuum; the steady drumbeat of our advocacy over the years is convincing leaders that the key to a better Missouri, and to a better life for all Missourians, is to make government less intrusive, more transparent, and more focused on unleashing the potential of our people.

In short, they are beginning to understand that freedom works. We're not going to let them forget it.

CLAY COUNTY LEADS THE WAY ON LOCAL TAX CUTS

David Stokes

In our Spring 2010 Show-Me Institute newsletter, I first wrote about the county commercial surtax. The surtax is an extra property tax on commercial property that operates differently than other property taxes, primarily in that the rate does not roll back at all as commercial assessed valuations increase. The rate varies widely by county and can only be lowered by voters. Legislation had been introduced in 2010 to make changes to the surtax rules, which I addressed in the newsletter. At the end of that article I stated (emphasis added):

> It is still too early to know if the legislation will pass the House and Senate this year, but many **worthy legislative efforts take several years to come to fruition**. The Show-Me Institute will continue to **be involved in this issue for as long as it takes** to improve the economic climate for markets in Missouri.

Well, the legislation I testified in support of did not pass then, nor since, but efforts to bring changes to the surtax at the local level have paid off this year in Clay County, one of the two "northland" counties in Kansas City. Last year, elected officials in Clay County noticed that their county had one of the highest surtax rates in the state. They started doing research and found that the primary work on the topic had been done by the Show-Me Institute. The Clay County leaders were particularly concerned that their surtax rate ($1.59 per $100 of assessed valuation) was so much higher than their neighbor and competitor, Platte County (just $0.36), as well as Jackson County ($1.44), the largest county in the Kansas City area. After more work on the topic, the Clay County presiding commissioner put a surtax reduction before the commission.

In the end, a modest surtax reduction from $1.59 to $1.44 (equal to Jackson County) generated enough support on the commission to be placed on the ballot in November for voters to decide. As part of the debate, Patrick Ishmael, the Institute's director of government accountability, testified before the Clay County Commission multiple times. Patrick and I also wrote a commentary on the proposal for the local paper and did many media interviews on the topic. On November 8, Proposition A (as it was called) passed in Clay County with 55 percent support. Clay County became the first county in Missouri to lower its commercial surtax rate. (In Laclede County, where there was a larger surtax cut on the ballot, the proposition failed.)

I believe that this commercial property tax cut—modest though it may be—will have real benefits for Clay County. But beyond the effects in Clay County, it serves as a lesson to every city and county in Missouri that is it possible to cut taxes for everyone instead of giving away special tax subsidies or tax abatements to a select few. Instead of a tax-increment financing package here, a 15-year tax abatement there, and a new special taxing district over yonder, each benefitting just a few companies or people, Clay County has chosen to cut taxes for all businesses. (Yes, businesses that own their land and buildings may benefit more, but those that rent will see benefits as well from the downward pressure on rents.)

As we promised in 2010, we will "be involved in this issue for as long as it takes." I wasn't thinking it would take twelve years, but public policy change can come slowly. Hopefully, the surtax reduction in Clay County will inspire counties around the state with similarly high surtaxes to propose lowering them for all instead of continuing to focus on special tax subsidies for the few.

FOR STIMULUS TRACKING, TRANSPARENCY REMAINS A CHALLENGE IN MISSOURI

Patrick Ishmael

When the Coronavirus Aid, Relief, and Economic Security Act, better known as the "CARES Act," became law in March 2020, there was ample reason to be concerned about the larger implications of the bill. A jaw-dropping $2.2 trillion economic package passed amidst an even more jaw-dropping pandemic and response. The CARES Act touched both private- and public- sector institutions in the hopes of helping families and businesses survive the economic damage caused by COVID-19. Although well intentioned, the bill set the stage for a host of problems, including waste, fraud, and abuse of a magnitude perhaps unseen in recent memory, to say nothing of its inflationary impact. A story by *Bloomberg News* sets the figure in the hundreds of billions of dollars, with "most of the misbegotten funds likely gone for good."

As others have said and as I've often reiterated, sunlight is the best disinfectant for good and accountable government. Active transparency in government spending and performance gives notice to government officials that their activities will be known soon, hopefully heading off any predisposition a bureaucrat might have to play fast and loose with government power and taxpayer money. Government transparency can come either through government mandate or through a combination of voluntary or taxpayer-initiated inquiries, like through the Sunshine Law, or some combination of the two. In the case of the CARES Act, county recipients of the law's stimulus cash were subject to some mandatory reporting requirements set out by the federal government. That's a reasonable and necessary thing.

But how easy would it be for the average taxpayer to gain access to such documents from Missouri's counties, which spent millions of this stimulus money? Show-Me Institute analysts sought to find this out, with my former colleagues Corianna Baier and Jakob Puckett helming the initiative.

As often happens, our research produced a good news/bad news conclusion about CARES Act transparency among Missouri counties. Most counties were able to immediately produce (with moderate prodding) documentation detailing how they allocated the CARES Act funding. The Institute has made all the documents we received available on our website. (You should check it out to see if your county is listed, and be sure to read the attendant report on the undertaking.) That's the good news.

The bad news, however, is a story you've heard before with our Show-Me Checkbook and Show-Me Curricula projects: not every county responded with documents that should be easily accessible public records to begin with. This isn't being persnickety, either. When a government can tax you, there is a clear and unambiguous attendant obligation that it will be open and honest about how that money is being spent. The "why" for counties not responding to inquiries matters to an extent, but whether the public is denied access to spending records because of incompetence, oversight, wrongdoing, or some other reason, the result is the same: transparency has been delayed and, ultimately, denied.

Whether the tax dollars in question are flowing directly through the federal government in response to a historic pandemic or originate at the state level and are spent during normal times, the public is owed access to those documents. That access not only promotes trust in our public officials, but it also helps avert the waste, fraud, and abuse that often come with government programs. Indeed, the CARES Act was no exception, and given its magnitude, transparency in its administration was and is all the more important.

WHITHER FEDERALISM?

Elias Tsapelas

Missouri's budget is growing unsustainably, and the federal government is a big part of the reason why. This year, our state legislature approved its tenth consecutive record-breaking spending plan. It's also not a coincidence that the plan is more reliant on federal funding than ever before. In fact, more than 40 cents of every dollar spent by Missouri's government today comes from federal coffers. While increased federal investment may sound like a good deal for the Show-Me State, these funds are not "free," and come at a real cost to state taxpayers.

Perhaps the biggest concern with Missouri's growing reliance on federal funds is that more and more state spending decisions are shaped by federal policies. From maintaining roads to educating children and caring for the less fortunate, what were once seen as state prerogatives are now areas where the federal government holds enormous power.

For most of American history, the federal government sent little in the way of aid to state or local governments. But over the past several decades, the use of what are called federal grants-in-aid has skyrocketed, totaling more than $1.2 trillion in spending across 1,200 programs in 2021. These grants provide the federal government with tremendous power because they are transfers of significant sums of money to state and local governments, which are not loans and do not have to be repaid, for the purpose of funding specific projects or programs. And upon acceptance of the funds, state or local governments agree to spend the funds according to guidelines established by the federal government.

As my colleagues and I have covered extensively since the federal public health emergency for COVID-19 began, the strings that come attached to many federal funds can be quite problematic. For example, since March 2020, the federal government has conditioned hundreds of millions of Medicaid dollars on the requirement that states do not check whether any current enrollees remain eligible for the program. Estimates suggest this "string" alone has led to more than 300,000 people receiving services for which they are not eligible in Missouri. A more egregious example is Missouri's Supplemental Nursing Program. According to state officials, if Missouri cuts funding to this largely inconsequential $25-million-per-year program, the federal government will pull its more than $7 billion annual investment in the state's Medicaid program. Of course, it's unclear whether the federal government would follow through on this threat, but this is still an example of just how coercive the relationship between the federal government and states has become.

More broadly, the research on this topic is clear—as the federal government grows in size and scope, cost pressures on state governments and their tax bases will increase as well. Reversing this troubling trend will not be easy because it will likely require a change in the mindset of our elected officials. To start, policymakers should reject the promise of a "free lunch," or the idea that growing the government with temporary federal money today will somehow lead to mythical state savings in the future. There's a reason the age-old saying that "there's nothing as permanent as a temporary government program" rings true.

Going forward, there's a tremendous opportunity for Missouri to turn things around as federal COVID-19 relief funds begin winding down. And while the best course of action would be for the federal government to dramatically scale back its influence on state issues, it's increasingly clear that Missouri can no longer afford to wait for Washington, D.C., to act. With Missouri's 2023 legislative session on the horizon, let's hope our elected officials seize the opportunity to right Missouri's fiscal ship.

MISSOURI STUDENTS ARE FALLING BEHIND

Susan Pendergrass

The U.S. Department of Education released the official 2022 results of the National Assessment of Educational Progress (NAEP) recently, and the results are tragic. Missouri students have fallen even further behind. Our scores in 4th- and 8th-grade reading and math dropped by more than the national averages dropped. At the 4th-grade level, our scores in math and reading are now higher than those of just five other states. In 8th-grade reading, we did better than seven other states; in math, we bettered only eight.

What's worse is that four out of ten 4th-grade students in Missouri scored *below* the Basic line in reading. In this context, Basic means a partial mastery of the material. Forty percent of our 4th-graders don't even have a *partial* mastery of reading. How can they possibly be expected to be able to read a science or math textbook? The same is true of 8th-grade math scores. In 2022, four out of ten Missouri 8th-graders could not make it over the Basic line of partial mastery. How can we possibly expect these students to be successful in high school, let alone college or career ready?

In the press release from the Missouri Department of Elementary and Secondary Education (DESE), the commissioner states that the results "serve as another indicator that high-quality instruction matters." In what way? Further, DESE plans to use the results to "continue accelerating post-pandemic learning." Exactly where is the post-pandemic learning accelerating?

The sad fact is that DESE and the state board of education have been in denial about the condition of public education in Missouri for some time now. Our so-called state accountability system for districts and schools gives full accreditation to all but a handful of districts. A system in which 99 percent of districts get the DESE stamp of approval is no system at all. The ship is sinking. Turning off the blinking red emergency lights and turning on the party lights isn't going to change that.

Money isn't the issue. Total public education revenue per pupil increases every year. This year, COVID stimulus funds have led to a blockbuster education budget. Spending per student is likely to be well over $15,000.

Not having enough teachers and staff shouldn't be the issue either. Since 2007, Missouri public school enrollment has declined by 45,000 students and yet we've added 2,600 teachers. And for the record, public education enrollment is expected to continue to decline for the foreseeable future. By 2030, enrollment is likely to be at least 10 percent lower than it is today.

Of course, the pandemic caused a horrible disruption in education that was exacerbated by keeping schools closed for too long. But Missouri's NAEP scores started flatlining and declining a decade earlier. All scores (reading and math for 4th and 8th grade) were lower in 2019 than they were in 2009. We haven't even been able to get our 8th-grade passing rates (Proficient or higher) on either math or reading above 36 percent.

Missouri has a crisis of leadership at the top. Neither DESE nor the state board of education is willing to speak the hard truths. It's up to policymakers in our state to take real action instead of mouthing the same old empty platitudes. Until things change, Missouri children are going to continue to be left behind.

SILVER BELLS AND SILVER LININGS

Avery Frank

Like many children during this time of the year, Missouri school districts around the state were asked to make their Christmas wish list. Unsurprisingly, their lists are all filled with wishes for money, money, and more money.

And it appears they may get their wish, as the Missouri Department of Elementary and Secondary Education (DESE) created a blue-ribbon commission to find possible solutions to Missouri's "teacher shortage." The commission's recommendation for solving the problem? Hand out money like Santa Claus.

The commission recommended increasing the minimum starting salary for teachers to $38,000, increasing funding for the Career Ladder Program (which rewards teachers for extra work that contributes to students' academic outcomes), establishing a fund to help local school districts pay for the recommended salary increase, adding more paid wellness days (which means hiring more substitute teachers), funding a tuition assistance program for teachers, and providing salary supplements for teachers with National Board Certification.

Raising the salaries of teachers below the new minimum, funding for the Career Ladder, and tuition assistance alone would cost an additional $91.5 million. This is a hefty request, and while some of these proposals could be beneficial, we must be deliberate about spending taxpayers' dollars.

In the season of silver bells, there was a silver lining to this recommended cash giveaway: a proposal to create an additional salary supplement for teachers in "high-need areas." High-need areas are subjects—right now including special education, math, and English language learning—where it is particularly difficult to find qualified teachers. Allowing teachers in high demand to be paid their equivalent market wage could be a key step toward solving teacher shortage problems.

It is encouraging to see free-market solutions in public policy discussions, especially the education sector, which is often defined by bureaucratic inefficiency and wasteful resource deployment. Hopefully, the legislature considers the pay differentiation suggestion while declining to indiscriminately shovel more money to districts and teachers, as the commission recommends.

Many of the commission's recommendations make even less sense when you consider some facts about teacher numbers in Missouri. The total number of public school teachers in Missouri (71,055) in the 2020–2021 school year was the highest it had been in the past five years, and yet public-school enrollment in Missouri has been steadily decreasing. Missouri had over 915,000 students in 2016; that number fell to fewer than 860,000 in 2021. Additionally, enrollment is projected to dip below 800,000 by 2030—a 10 percent drop in less than 15 years.

With an increasing number of teachers for a quickly decreasing number of students, there must be very specific education market deficiencies if 25 percent of Missouri school districts are resorting to four-day school weeks due to staffing problems. This suggests that a targeted, market-oriented approach—pay differentiation—is a much better solution than just mass spending increases. Teachers may resist. However, our schools cannot continue to operate with four-day school weeks. It should not be about what our teachers want, but what our students need.

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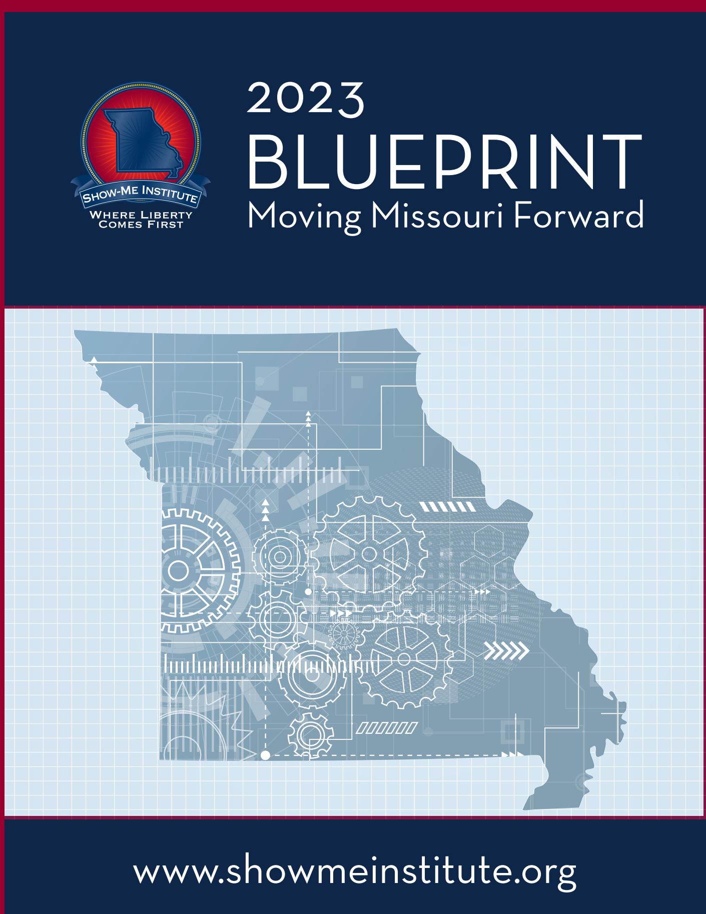

The Show-Me Institute's *2023 Blueprint: Moving Missouri Forward* is now available!

The *2023 Blueprint: Moving Missouri Forward* presents 16 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 occupational licensing 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 in the *Blueprint*. We believe that with the right policies Missouri could lead the nation in wealth, quality education, and a vibrant and flourishing civil society. You can find the *Blueprint* on our website, showmeinstitute.org.

DOWNLOAD THE FULL 2022 BLUEPRINT AT SHOWMEINSTITUTE.ORG