



SHOW-ME newsletter

2024 ISSUE 3



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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

This November will mark the twentieth anniversary of the founding of the Show-Me Institute. A lot has changed in Missouri since 2004, and the Institute has played a key role in advancing some of the important positive changes.

First, the income tax has been reduced. Income taxes are destructive to economic growth, and we've seen other states that have no income tax flourish. That's why reducing Missouri's income tax to zero has been one of the primary goals of the Institute since its inception. While we haven't achieved that goal yet, we have made notable progress. Back in 2014, the state legislature passed a bill that reduced the individual income tax for the first time since 1921. With that, along with legislation in subsequent years, Missouri has gone from a top individual income tax rate of 6 percent down to 4.7 percent, with triggers that can take the rate as low as 4.5. These are significant tax cuts and also important steps in creating momentum for more cuts down the road.

We've also seen strides on school choice policy. Missouri has historically been laggard in enacting policies that allow families to pick the schools that best meet their children's needs. But in 2021, the legislature enacted Missouri's first education scholarship account (ESA) program, which provided funding to certain students in Missouri's largest communities to spend on a variety of education expenses such as tuition, private tutoring, and virtual education. This year that program was expanded to eliminate geographic restrictions and broaden eligibility such that most families in the state would qualify for participation. In addition, charter schools may now open in Boone County (where Columbia is located) without requiring the approval of the local school district. Charter schools have been allowed throughout Missouri since 2012, but unless a

district was unaccredited, the public school district had to sponsor the charter. So as a practical matter, charter schools have been almost entirely restricted to Kansas City and the City of St. Louis. That is about to change.

In 2020, Missouri joined the ranks of states with licensing reciprocity. Licensing reciprocity means that Missouri recognizes professional licenses from other states, making it much easier for people to move to Missouri and get to work without battling tedious red tape. This reform benefits not only workers but also consumers, as having more providers of services increases competition and drives down prices.

Our work has also led to much more transparent government in Missouri. The Show-Me Institute started the Missouri Checkbook Project as a way to demonstrate the need for financial transparency from all levels of government in our state. In 2018, the Missouri Treasurer followed our example and introduced the Show-Me Checkbook project, which catalogued state spending in a comprehensive way.

Of course, there is still much more to be done. While the income tax reforms are significant, we still have a long way to go before we eliminate the income tax entirely. We still don't have universal school choice in Missouri. Our state budget has ballooned as lawmakers continue to spend, spend, and spend some more. We'll continue to fight the good fight, using facts and fair arguments to try and make Missouri a better place to live and work.

But in the meantime, we want to celebrate what we've accomplished up to this point. We are hosting a 20th anniversary celebration on November 14, 2024, at the St. Louis Club. You can find more details about the event on our website at showmeinstitute.org/events. We would love for you to join us as we toast the history of the Institute and look forward to the future. Here's to the last twenty years, and twenty more.

SHOW-ME INSTITUTE: TOMORROW'S NEWS TODAY!

Patrick Tuohy

One of my most memorable experiences with the Show-Me Institute was on the set of *Ruckus*, a KCPBS program modeled after the famed McLaughlin Group out of Washington, D.C. In this episode, one of the panelists said in response to my point that the research tells us economic development subsidies don't work: "I don't care what the research tells you." It's a shocking thing to have someone say about public policy—but it was at least honest.

This comes to mind because of some instances in which my colleagues and I at the Institute have effectively predicted the outcomes of city and state policies. Not because we can see into the future, but because we simply cared about the research.

David Stokes, who has been writing about property assessments for over a decade, predicted in the fall 2022 issue of this very newsletter that:

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 . . . 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.

That is certainly what has happened here in Jackson County.

Elias Tsapelas made similarly accurate predictions about how much more expensive Medicaid expansion would be than promised and that the state's low-income housing tax credit (LIHTC) program would not have a substantial impact were it to be revived. He was right each time.

In January 2014, I wrote, "Streetcars will not improve the economy of Kansas City. The economic development handouts, amounting to corporate welfare, will be the engine that drives any development, and even nine times

out of 10, that is 'simply a waste.'" Just over ten years later, I was able to write in a column for *The Kansas City Star*:

According to Jackson County, the aggregate market value of the original streetcar transportation development district has grown at the same rate as the entire county for each of the past 10 years. In other words, the economic development benefit of the streetcar, measured by property values, is zero.

Effective public policy requires more than just good intentions—it requires a commitment to following the evidence and adjusting policy accordingly. Whether it's property tax assessments, publicly funded welfare programs, or subsidizing development projects, ignoring research leads to wasted money and public frustration. We at the Show-Me Institute will continue sounding the alarm. Our track record demonstrates that public officials might want to start giving us the benefit of the doubt.



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MISSOURI'S SYSTEM FOR FUNDING PUBLIC EDUCATION IS BROKEN

Susan Pendergrass

From their inception, state public education funding formulas have focused on directing resources to districts or buildings based on the types of students they serve and how much funding a district can raise locally, and Missouri's is no exception. The foundation formula Missouri uses to distribute state funds is supposed to equalize resources between property-rich and property-poor districts. The thinking, seemingly, is that sending more money to poor districts will, for a variety of reasons, improve student outcomes.

Twenty years after the Missouri foundation formula was first put into place, trends in achievement gaps suggest it isn't working. According to the National Assessment of Educational Progress (NAEP), also known as the Nations' Report Card, the gap in the rate of reading proficiency between low-income and non-low-income Missouri 8th graders has widened from 21 points in 2003 to 23 points in 2022. Results were similar in math. Why isn't the formula working as intended?

Perhaps it is because now almost 200 (out of 520) school districts are "off formula," meaning the formula is no longer even used to determine their state funding. This is because districts can always default to their 2005 funding if it was higher, and that is exactly what these districts do. The formula calculations are often an exercise with no impact.

Or maybe it's because the formula uses the same number for the amount that districts must raise locally, also known as local effort, every single year. And that number is each district's 2005 property values multiplied by a tax rate of \$3.43 per \$100 of value. That's right—every district's required contribution is the same this year as it was nearly twenty years ago.

It could be because the formula allows districts to use student counts that could be from last year, the year before, or even the year before that, whichever one is higher. For the 2023–24 school year, all but about 50 districts (of those that were on formula) used student



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counts from before the pandemic (there was a special provision, expiring this year, that allowed schools to go back four years because of COVID). We know those are way off.

Finally, it could be because the formula uses a base amount of funding per student (also known as the Student Adequacy Target (SAT)) of approximately \$6,400. This number had been virtually unchanged for the past decade even as total spending on education has doubled or tripled. But last year the legislature approved an increase in the SAT of roughly \$800 in just one year, so it's now \$7,185. The math and the logic of SAT calculations are not readily available to the public, but it seems clear that it is not directly connected to student need.

There are other shortcomings with the foundation formula. The formula is so outdated and has so many problems that reform is now urgently needed. We need a formula that is transparent, accountable, and better targeted for the next generation of our students.

LET'S RIDE THE NUCLEAR WAVE

Avery Frank



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Every time I go to the beach, I love to bodysurf. The feeling of riding the wave and letting it take you to the shore is exhilarating and so much fun. While time is running out to shred the waves this summer, Missouri has ample opportunity to ride the nuclear energy wave this upcoming legislative session. We cannot afford to miss the wave for the revival of nuclear power.

The United States' energy needs are growing, as the U.S. Energy Information Administration (EIA) currently forecasts that U.S. energy consumption may increase by up to 15% by 2050. Most of this potential growth is being attributed to electricity-guzzling data centers and a growing electric vehicle fleet. In fact, Goldman Sachs is forecasting a big change in the energy sector, as it projects that data centers will rise from 2.5% to 8% of all United States electricity usage by 2030. That is a lot of growth.

Ameren Missouri is also planning to shut down all coal plants by 2045. Coal currently comprises 66% of Ameren's energy generation portfolio. This is a monumental amount of energy Missouri will need to replace. What are our options? Regardless of your stance on coal or renewables, we know that nuclear energy is powerful, reliable, constant, and clean—everything Missouri needs.

For a long time, nuclear energy has been constrained by an almost insurmountable regulatory system.

However, that is beginning to change, and new nuclear construction could be a feasible solution for Missouri's energy needs.

On July 9, the ADVANCE Act became law. This law will help streamline the regulatory burdens nuclear developers face. It will make nuclear construction cheaper, award innovators in the industry, streamline the process to construct new nuclear plants at current or former nuclear sites and former coal plants, and improve the efficiency of the Nuclear Regulatory Commission.

How can Missouri capitalize on this? First, we need to update our regulations. In the 1970s, the anti-nuclear lobby in Missouri helped pass the construction works in progress law (CWIP), which prohibits utilities from being able to raise electricity rates to pay for in-progress construction. This law is particularly harmful to the nuclear industry due to its high need for capital and the unique risk of substantial regulatory delay.

Removing the CWIP law would create a realistic opportunity to reopen the door for nuclear energy in Missouri. There also seems to be broad support for more nuclear energy investment. The ADVANCE Act passed 88–2 in the Senate. In a recent national survey, Bisconti Research Inc. found that public support for nuclear energy is at its highest point in 40 years—77 percent.

We cannot afford to miss the nuclear wave that is building. Missouri must effectively prepare for its future energy needs.

ONE STEP FORWARD, TWO STEPS BACKWARD ON PROPERTY TAXES

David Stokes

On August 6, Missouri voters were presented with the question of whether to amend the state constitution to exempt all childcare facilities (other than home-based ones) from property taxes.

One thing that almost all economists agree on is that taxes should be broadly based. As the Tax Policy Center sums it up, “In the longer run, a tax system with low rates and a broad base is more likely to promote prosperity than one with high rates and a narrow base.” The proposal to exempt childcare facilities violated that general principle, which is why Show-Me Institute analysts took the lead in explaining around the state why such an idea was poor public policy.

I was delighted to learn on election night that the proposal had failed. For-profit childcare companies (non-profit ones are probably already tax exempt for other reasons) don’t deserve special tax breaks any more than hundreds of other industries. Those other industries (as well as home-based childcare companies) would have faced slightly higher property tax rates to make up for the reduced property tax base if the proposal had passed.

Any way you looked at it, it was bad economics. That was the step forward. Now onto the step backwards.

In 2023, the Missouri Legislature passed a law allowing counties to freeze property taxes for senior citizens. Right away, counties around the state began passing these tax freezes, which will certainly benefit senior citizens around Missouri. However, these tax freezes will benefit them by inevitably leading to higher property taxes for everyone else. In two places—St. Louis County and the City of St. Louis—local officials placed reasonable limits on the tax freezes to restrict them to lower- and middle-valued homes, among other beneficial adjustments. The changes adopted by both governments made a bad program slightly less bad.

However, in 2024, the state legislature passed a new law that prevents local governments from making any changes to the senior tax freeze. A county has to adopt it entirely or not at all. I hoped for “not at all,” but right after the governor signed the bill St. Louis County government jettisoned the modest restrictions it had enacted and swallowed the entire senior property tax freeze pill.

The City of St. Louis harmed more by the senior tax freeze than other governments because reducing the property tax base in the city makes the city more dependent on the earnings tax. Reducing the tax base for the less-harmful property tax and making city government rely more on a very harmful local income tax is exactly the wrong direction the city should be going.

As we go to publication, the city board of aldermen is moving more slowly on whether to adopt the changes the new state law requires. We shall see if it adopts them all or if the board has the foresight to reject the program entirely. (There is a third option the board appears to be considering, which is to adopt some, but not all, of the new state requirements for the senior property tax freeze. This option will likely lead to a court battle.)

Missouri voters understood that restricting the tax base for childcare facilities was bad tax policy. But politicians also seem to realize that upsetting senior citizens activists is bad politics. One step forward, two steps back, has been said many times by many people. However, it was famously written by Lenin himself about the pre-Russian revolution communist party in 1904.

Let’s just hope it works out better for Missouri.

IT'S TIME FOR TABOR

Elias Tsapelas

Is Missouri ready to lead? The Show-Me State is being left in the dust in the national race to attract new residents, create jobs, and generate economic growth by states that have embraced free-market policies. It's no coincidence that states like Florida, Texas, and Tennessee, which outpace Missouri on almost every economic metric, are also states that have no individual income tax. But before Missouri can join the ranks of its most successful peers, there needs to be a fundamental shift in the Jefferson City status quo.

Today, Missouri's budget is a mess, having doubled in the past five years. To jumpstart the effort to turn things around, the Show-Me Institute recently released a model policy for a Missouri Taxpayer Bill of Rights (MO-TABOR). If enacted, this policy would amend Missouri's constitution to achieve several much-needed policy goals. Perhaps most importantly, it would also create the strongest state-level constraint on government growth in the nation, and in the process place Missouri on the path toward abolishing the individual income tax once and for all.

But how did we get into this budget mess to begin with? More than four decades ago, Missouri voters thought they had approved a constitutional amendment that applied strong limits against government excess. Often referred to as the Hancock Amendment, the policy promised to constrain tax revenue growth so that if government revenue grew faster than Missourians' pocketbooks, the excess money would be returned to taxpayers through refunds. Unfortunately, the amendment has proved incapable in recent years of reining in government growth, after billions in temporary federal funding was used to permanently expand the size and scope of Missouri's government. At the same time, despite years of extraordinary surplus state tax revenues, the amendment failed to trigger a refund. In fact, Missouri taxpayers haven't received a refund in more than two decades. A new approach is desperately needed.

The MO-TABOR would tackle government growth by limiting both sides of the budget ledger—taxes and spending—to the sum of population growth and inflation. If government officials wanted to tax or spend beyond the caps, they would need to seek voter approval first. The logic behind setting the speed limit to the sum of population growth and inflation is straightforward: as prices and population increase, the cost of providing the same set of government services rises. However, spending beyond this amount represents an expansion of government that should require public approval.

If tax collections exceed the MO-TABOR cap, those funds must be used to lower the state's individual income tax rate until it eventually reaches 0%. By requiring an immediate reining in of spending and enforcing the revenue limit through tax cuts, MO-TABOR would drastically improve the state's fiscal outlook practically overnight.

There is much more that the MO-TABOR policy would accomplish in terms of improving the transparency and accountability of Missouri's government. The amendment would deliver a reminder to Missouri's elected officials that voters weren't kidding when they said they wanted a smaller, more efficient government that doesn't take their tax dollars for granted. Adopting a Taxpayer Bill of Rights is a crucial first step toward signifying that Missouri is serious about turning things around.



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

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UPCOMING CELEBRATION



— SHOW-ME INSTITUTE —
20TH ANNIVERSARY
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Please join us for a special evening



KEYNOTE SPEAKER
**DR. ARTHUR B.
LAFFER**
ECONOMIST AND PRESIDENTIAL MEDAL
OF FREEDOM RECIPIENT



EMCEE
MARC COX
HOST OF THE MARC COX MORNING SHOW
ON 97.1 FM TALK

THURSDAY, NOVEMBER 14

SAINT LOUIS CLUB
7676 FORSYTH BLVD.
CLAYTON, MO, 63105

COCKTAIL RECEPTION
*featuring Dr. Laffer
and a Champagne Toast*
4:30 P.M.

SPECIAL DINNER &
ENTERTAINMENT
6:30 P.M.

Details at showmeinstitute.org/events