MISSISSIPPI CENTER FOR
PUBLIC POLICY

THE HIGH ROAD TO FREEDOM

Mississippi Policy Solutions

MISSISSIPPI CENTER FOR
PUBLIC POLICY

Mississippi Center for Public Policy is a non-partisan, free market think thank. We advance the constitutional ideals of liberty and justice for all Mississippians by employing an evidenced-based approach to public policy whereby we advocate for and advance real conservative ideas with policy makers, members of the media, business leaders, the academic community, and private citizens.

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(continued)

What is the high road and why do we need to take it towards freedom? The high road is the one that elevates our view and raises our eyes to the possibilities of what we can achieve. Freedom, both economic and personal, is the policy choice that leads to human flourishing. Whenever human advancement occurs, you can be certain it is accompanied by freedom and liberty.

At the Mississippi Center for Public Policy, our duty is to pave the way so citizens are free to choose their own version of flourishing — unencumbered by government's barriers and burdens. We believe the best way to get every Mississippian on the high road to freedom is to first hold government to its constitutionally limited role so that free market ideas and mechanisms are robust and so that private institutions (businesses, nonprofits, churches, families) can blossom.

We don't believe sustainable economic growth can be achieved through a command and control economy driven largely by government. We have too much data to the contrary. Growing states rely more on individual taxpayers, job creators, and disruptive innovators than on government. In states where citizens are prospering, you'll find lower taxes, a lighter regulatory burden, and more choice. In states where citizens are confident about their future, you'll find a high degree of government transparency and accountability. These are limited government policy solutions that lead to prosperity and the kind of ideas that Mississippi must adopt in order for the Magnolia State to be a place where individual liberty, opportunity, and responsibility reign.

On the pages that follow, we provide the rationale, data, ideas, principles, and solutions that can fundamentally improve this great state. We invite you to read and study this guide and join us on the high road to freedom — encouraging leaders across the state to adopt and support these polices. We don't offer these ideas because we love policy, but rather because we love people. When we love people, we want them to have every opportunity to raise their eyes to the wonders of what is possible and to be willing to endeavor to live the life they have imagined for themselves and for their loved ones.

This guide is not about politics or parties. It is about ideas. And it is about ideas that can be put into action. Nothing in the pages that follow is inherently complex or difficult. Rather, we have tried to provide common sense policy prescriptions — the kind that require more spine power than brainpower to embrace. There is nothing in our past that prevents our future success. There is nothing about our geography or history that prohibits us from enjoying a bountiful future. By adopting policies based on personal and economic liberty, no Mississippian should be left behind. Liberty is blind to color, gender, and class. Therefore, we invite every citizen to join us on the high road to freedom. When we raise our eyes to what is possible, the freedom is intoxicating. Let’s get going.

Jon L. Pritchett
President & CEO

Regulation, Law, Local Governance

Introduction: Regulatory Burden

Regulations are based on laws and those laws are based on the limited powers we have consented to grant to government through our constitution. However, after years of lawmaker deference and political obfuscation, it appears government is less limited than ever. Whether at the federal or state level, regulatory compliance is costing us all and our economy is suffering as a result.

The Competitive Enterprise Institute estimated the annual federal regulatory burden in 2018 was approximately $1.9 trillion. While this burden is significant for all businesses, it is the smaller companies — without the lobbying or compliance resources — who are most adversely affected.

Another big loser in the growth of the regulatory state are consumers in markets who can't get the products they want at prices they are willing to pay. When administrative codes are full of restrictive and protective language, industry competition and consumer choice are scarce.

Regulatory reform is a smart way for Mississippi to make itself more competitive. With the reforms we recommend, the Magnolia State could raise the income levels for all citizens and boost economic productivity from the private sector, which is one of the most important drivers of healthy states.

For example, if we lifted the occupational licensing restrictions on many low and middle-income occupations, we would see benefits in jobs, the creation of new businesses, and a reduction in the costs to many low-income consumers. There are new studies showing a link between stringent business regulation and income inequality.

On a broader scale, there are many ways Mississippi has restricted the freedoms of entrepreneurs and consumers alike. We have some of the most restrictive laws in the nation with regard to alcohol, for example. We discourage craft beer production, overregulate alcohol distribution, and crack down on the ability of citizens to produce their own products. We also limit the ability for small-time cottage food producers to sell their local products and prohibit consumers of the option to accept the risk of buying products not approved by the state. We don't allow citizens to place sports bets online, which severely restricts the amount of revenue the state can generate from an otherwise legal act. We also like to prohibit citizens from producing income from their own personal property — like spare bedrooms. The sharing economy, made up of people willing to rent out a room or use their cars to shuttle people, has exploded all over the nation. Yet, we're still trying to place restrictions on the voluntary exchange between consumers and service providers in Mississippi. All of these examples are unnecessary restrictions that limit our economic growth and unfairly restrict our personal liberties.

In terms of restricting personal liberties, perhaps nothing is more egregious than the way our state is violating the constitutional rights of citizens through the use of civil asset forfeiture. This is the controversial process that allows the government to take and keep property allegedly connected to a crime — without ever convicting the owner of a crime. State and local law enforcement agencies, working in concert with prosecutors, can seize money, vehicles, and other property, sell that property, and use the proceeds to fund agency budgets. We're in favor of real criminals forfeiting ill-gotten proceeds to the state, we just believe the burden of proof should be on the accuser, not the accused. It's both a civil liberty and a personal property issue.

In the sections that follow, we make very specific recommendations for how to expand the personal and economic liberties of our fellow citizens — returning us to a more limited government. In so doing, we will free our economy to expand and allow for the kind of dynamic growth experienced by states where freedom is embraced.

Alcohol Regulations

Introduction

When it comes to alcohol regulation policy, Mississippi is stuck in the past. While the internet, technological developments, and more have made the purchase and production of alcohol freer and easier in other states, Mississippi has denied its citizens personal liberty on this issue.

The state has discouraged craft beer production, overregulated alcohol distribution, and cracked down on the ability for citizens to privately produce alcohol. Permits are difficult to secure, and thus many businesses have been left in the dark, unable to expand or operate.

Mississippi could make considerable strides by entrusting in its citizens a greater personal responsibility and freedom when it comes to alcohol sale and production.

Key Facts

- Mississippi outlawed alcohol statewide in 1908, a decade before nationwide prohibition began with the passage of the 18th amendment. While the 21st amendment ended this prohibition in 1933, Mississippi continued to enforce statewide prohibition until 1966.
- All hard alcohol and wine sold in the state of Mississippi currently passes through one large warehouse in Madison. This warehouse consistently operates at capacity.
- Before 2012, Mississippi brewers were not allowed to brew beers above five percent alcohol by weight, which are the primary staple of craft brewers. The limit was increased to eight percent and opened the state to the majority of craft brews sold in the U.S.
- Mississippi has annually been ranked last in terms of craft beer production. While this industry operates with $650 of economic production per capita in Vermont, in Mississippi it only produces $150 per capita.
- Until 2017, breweries were unable to sell their product directly to customers. Still, today there are restrictions on the number of cases that can be sold per day to customers.

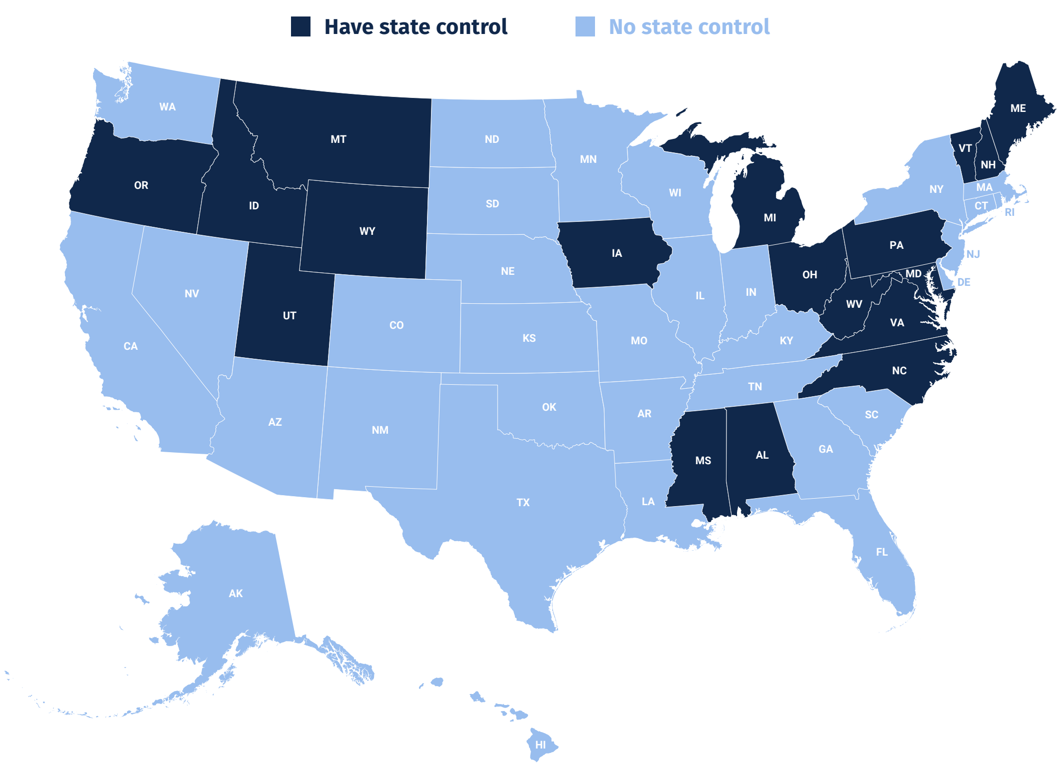
- Mississippi has the largest shadow economy in the nation (referring to the exchange of products that are not taxed or recorded) at 9.54 percent of GDP. Moonshine is either produced or is available in every single county, which many link to the strict regulation of the alcohol industry.
- Currently permitted sellers can only sell alcoholic beverages (besides beer) between 10 a.m. and 10 p.m., while beer can be sold all day unless otherwise instructed by local ordinance.
- A private citizen can only make homemade wine or beer for household use. An individual is only allowed to make 100 gallons of beer per year, per number of household residents aged 21 and above.
- No citizen can order wine over the internet, as the state has banned all in-state and out-of-state distributors from shipping.
- Food delivery apps such as UberEats, DoorDash, and Grubhub are prohibited from delivering alcohol with food orders.
- Producers are unable to distribute or directly sell their own product, forcing small breweries to seek support from distributors, stifling their sales ability.

Recommendations

+ Taxpayers shouldn't foot the $35 million bill on expanding the giant warehouse for the government to control alcohol distribution in the state. Rather, Mississippi should seek to privatize the system and transfer control of distribution.
+ If the state is committed to ABC retaining control, then it should build regional warehouses in different counties, allowing for greater access to alcohol for local sellers and thus easing the backpressure on the current distribution process.
+ Reduce regulations on craft breweries, including the length of the permitting and licensing process, and restrictions on the number of cases that can be sold directly to consumers.
+ Allow individual consumers and businesses to bring alcohol into the state without having to secure a permit from the Department of Revenue.
+ Grant municipalities and counties the ability to also grant permits for the distribution of beer, wine, and alcohol in order to facilitate the currently backlogged process.

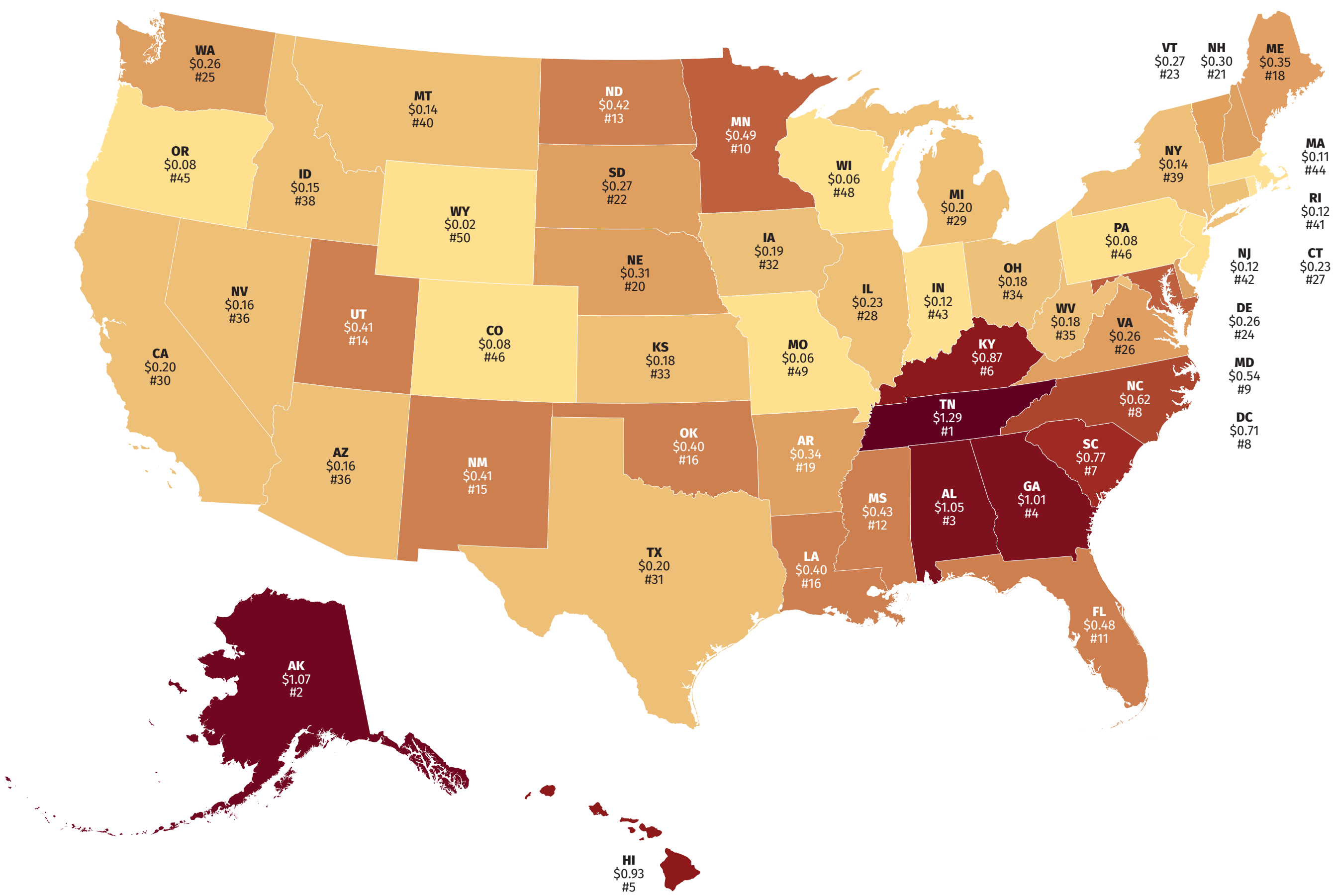
- Ease existing overregulation on alcohol sales for off-premises consumption by allowing alcoholic beverages to be sold all day like beer currently is.
- Remove the limitations on private beer production and allow citizens to make homemade wine and beer for people beyond the domestic household. Ease the existing complete ban on the unpermitted distillation of other beverages including whiskey, gin, rum, vodka, and similar drinks.
- Remove the ban on in-state and out-of-state wineries from shipping and selling wine directly to consumers.
- Allow producers to distribute and sell their own product without restriction, thus promoting market competition and removing the existing monopolies maintained by the largest national producers.
- Remove restrictions on alcohol and liquor sales in grocery or convenience stores.

State Control of the Sale of Distilled Spirits



Sources: National Alcohol Beverage Control Association

State Beer Excise Tax Rates (Dollars per Gallon)



Note: Rates are those applicable to off-premise sales of 4.7% a.b.v beer in 12-ounce containers. At the federal level, beer is subject to differing tax rates. Small domestic brewers are taxed between $0.11/gallon and $0.516/gallon. All other brewers are taxed at rates between $0.516/gallon and $0.58/gallon. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Different rates are also applicable in FL, GA, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Rates include the statewide local rates in AL ($0.52) and GA ($0.53) and sales taxes specific to alcoholic beverages in AR, MD, MN, and D.C. Rates in AR and RI include case fees and/or bottle fees which may vary with the size of the container. Rates include the wholesale rate in Kentucky (10%) and Tennessee (17%), converted into a gallonage excise tax rate.

Source: Distilled Spirits Council of the United States, Tax Foundation

Civil Asset Forfeiture

Introduction

Civil asset forfeiture is a controversial practice that allows the government to take and keep property allegedly connected to crime — without ever convicting the owner of a crime. State and local law enforcement agencies can seize money, vehicles, and other property, sell that property, and use the proceeds to fund agency budgets.

The forfeited property does not even have to belong to the person suspected of criminal activity. While innocent owners may contest the forfeiture of their property, they must affirmatively prove that they did not have knowledge or give consent for their property to be used for illegal purposes. Proving a negative in a court of law can be quite difficult, and expensive.

Forfeiture cases are civil proceedings that lack many of the meaningful due process safeguards provided in criminal cases. There is a lower burden of proof, no presumption of innocence, no right to an attorney, and no preliminary hearing to ensure wrongfully seized property will be returned quickly.

Eighteen states require a criminal conviction to forfeit most or all types of property. Three states — North Carolina, New Mexico, and Nebraska — have abolished civil asset forfeiture entirely. We should also enact reforms to safeguard the property and due process rights of Mississippians.

Key Facts

- Most forfeiture cases in Mississippi do not involve large quantities of drugs and cash from cartel affiliates. The vast majority of seizures recorded in the first 18 months of the state's civil asset forfeiture database were for $5,000 or less and fully one-third were for less than $1,000. In two instances, law enforcement seized just $50 in cash.

- Many owners have economic incentives to not contest forfeiture of their property, since attorney's fees and court costs can easily outweigh property involved in a low value forfeiture.

- There have been documented reports of Mississippi law enforcement officers "bartering" with owners by offering to refrain from arresting or charging them with a crime if they will sign away valuable property.

- A 2019 nationwide study by Institute for Justice reviewing decades of forfeiture data reveals that civil asset forfeiture fails to fight crime. However, increases in forfeiture proceeds were strongly related to economic hardship. When local unemployment rose by one percentage point, forfeiture increased by nine percentage points.

- The Department of Justice equitable sharing program allows local law enforcement agencies to partner with federal agencies on forfeiture operations and receive up to 80 percent of the proceeds, even if state law prohibits or limits the use of civil asset forfeiture.

Recommendations

+ Restore legislative control of forfeiture proceeds by redirecting them to the General Fund.

+ Provide supplemental state funding to local police departments, on a needs-based, forfeiture-neutral appropriations process.

+ Require a criminal conviction of the property owner before seized property can be forfeited.

+ Require the government to prove that property was connected to crime by clear and convincing evidence in criminal court.

+ Provide court appointed attorneys for indigent property owners and recoupment of attorney's fees for victorious property owners who retained counsel at their own expense.

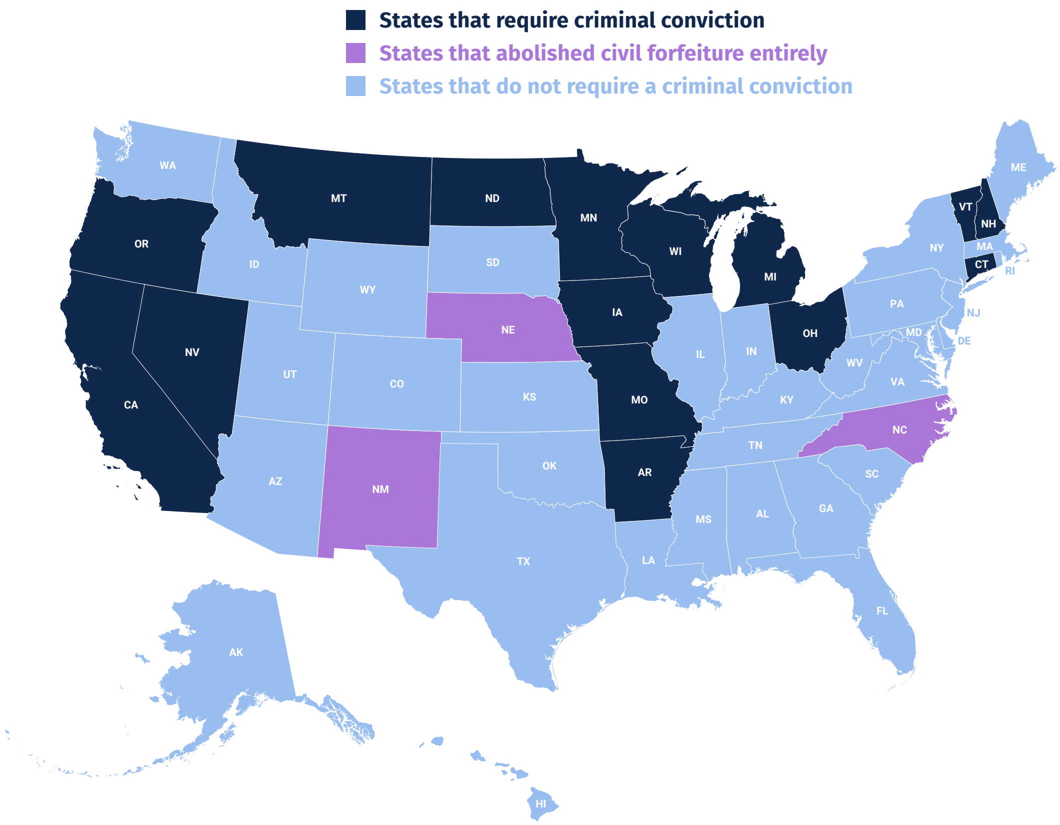
+ Eliminate equitable sharing by prohibiting state and local law enforcement agencies from bypassing state law by partnering with federal agencies.

+ Enhance transparency through increased reporting requirements, including details such as the amount and type of drugs seized (if any), whether anyone was arrested or charged with a crime, and a description of the criminal case's resolution.

+ Ban "bartering" — the practice of law enforcement agencies offering to let property owners go if they sign away their property rights on the spot.

+ Provide for review of forfeiture settlements by a judge in cases in which the property owner is not represented by counsel.

States That Require a Conviction in Criminal Court For Most or All Asset Forfeiture



Sources: Institute for Justice

Cottage Food Operators

Introduction

More Americans and more Mississippians want to eat fresh food and they want to eat locally. And thanks to new technology it is easier than ever for entrepreneurs to market their home-based businesses and sell the goodies they bake in their own kitchen.

Several years ago, Mississippi brought home bakers into the light with the passage of the state's cottage food law. This allows individuals to sell certain allowable products that they make at home. They can sell the products in various settings, such as farmers' markets, without a government inspection or a professional kitchen. And there is no license required or government fees to pay to begin.

The current law, however, comes with limitations. It restricts the internet sales of these products. This has caused widespread confusion over what exactly that means and has resulted in the Department of Health sending cease and desist letters to home bakers who posted their products on Facebook and Instagram. They have since said that is no longer their practice, but the vague law remains.

It also has a $20,000 cap on gross annual sales. That is the third lowest cap among states with a cap nationally. All this cap does is restrict an entrepreneur's ability to earn an income, which then contributes to the tax base.

Opponents of cottage food operators, largely the established restaurant or bakery industries, will point to the fact that these operators aren't regulated by the state. But there has not been evidence to suggest that the lack of comprehensive regulations pose a threat to public health as some indicate. Consumers know what they are purchasing, where they are purchasing it from, and that it does not come from a government-inspected kitchen. They willingly accept the so-called risk.

Today's technology makes it easy to find high-quality food, read reviews from happy (or unhappy) customers, and make knowledgeable decisions. Online reviews and apps are doing the job of a government inspector.

In reality, the current limitations just serve to limit competition for established businesses. By eliminating restrictions in Mississippi, we can give consumers new options, grow the economy, and encourage entrepreneurship.

Key Facts

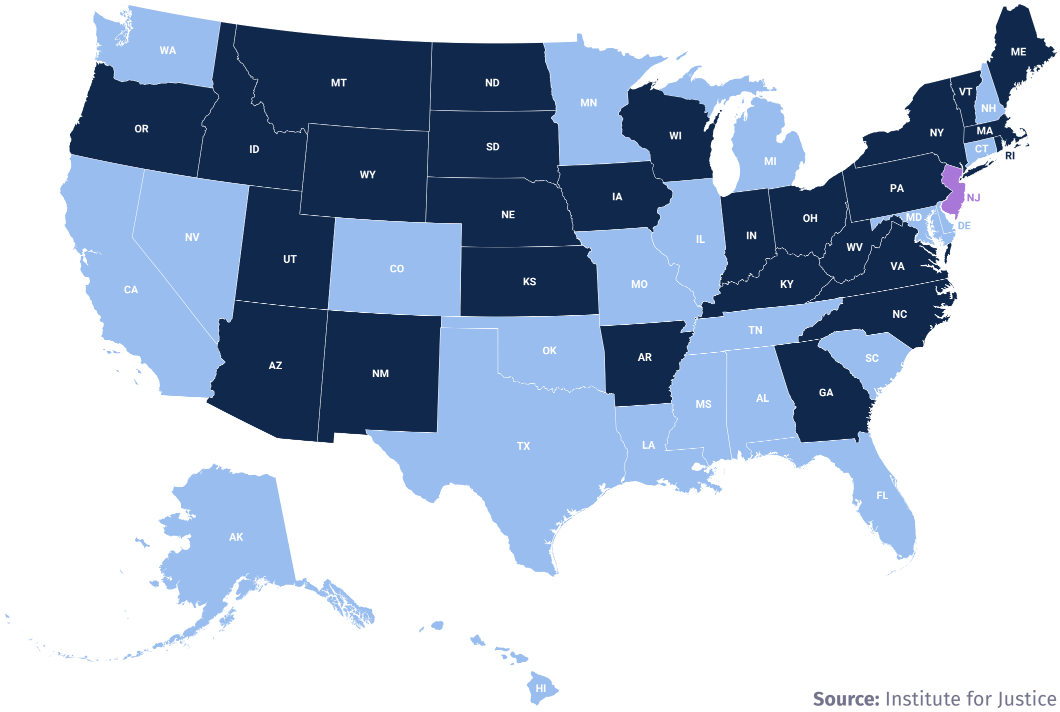
- Mississippi's cottage food law has an annual sales cap of $20,000, while 27 states have no limitation on what you can earn.
- Sales are allowed in house, at special events, farmers' markets, and roadside stands.
- Sales are prohibited online and to restaurants and retail stores.
- 83 percent of cottage food operators are female, according to a report from Institute for Justice.
- Cottage food operators tend to be more likely to live in rural communities and have lower incomes than the national average, according to the IJ report.

Recommendations

+ Eliminate the sales cap on cottage food operators.
+ Remove the prohibitions on selling online, to restaurants, and to retail stores.

States Without a Sales Cap on Cottage Food Operators

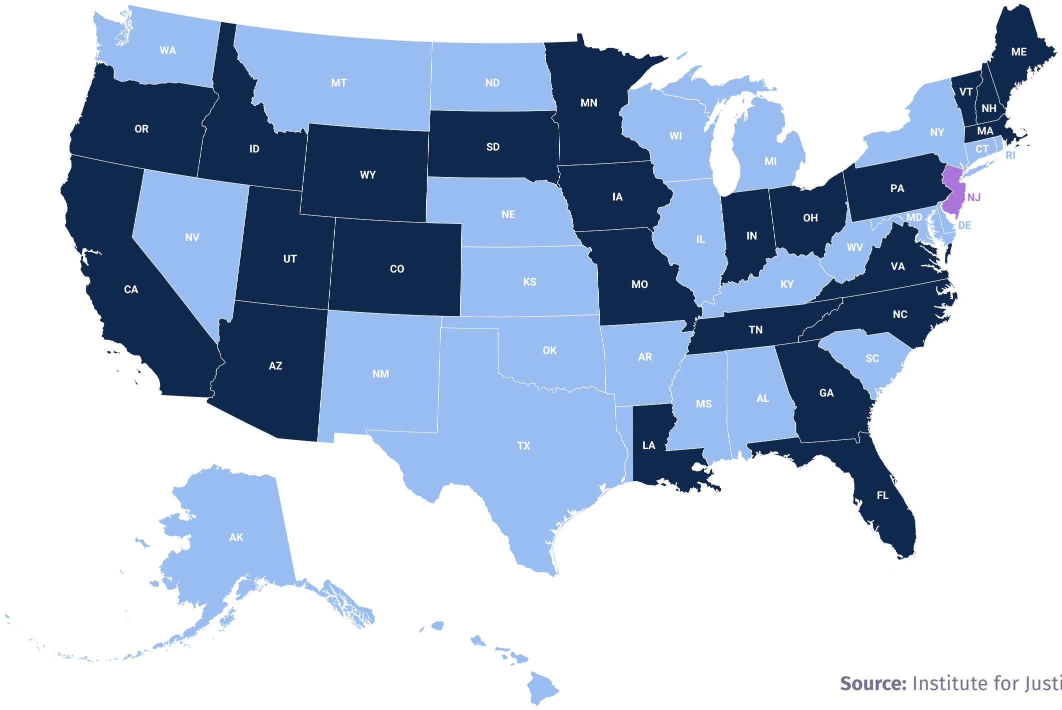
No sales cap   Sales cap   Cottage food sales illegal



Source: Institute for Justice

States That Allow Online Sales of Cottage Foods

Allow online sales   No online sales   Cottage food sales illegal



Source: Institute for Justice

Criminal Justice Reform

Introduction

The administration of criminal justice is a core function of government. The federal government investigates and prosecutes crime and also maintains a prison system. However, this function has been largely relegated to the state and local governments. When someone commits a criminal offense, their apprehension, adjudication, and punishment are largely handled at the state and local level. This is reflected in the volume of cases handled as well as the prison population.

In 2015 alone, Mississippi adjudicated over 450,000 criminal proceedings in the state, which includes prosecuting offenses as minor as a speeding ticket to as serious as capital murder. Meanwhile, the federal government reported just over 80,000 criminal filings in the federal court system in 2015. This distribution of responsibilities is also reflected in incarceration numbers. Mississippi currently holds over 19,000 people in state prison facilities. When adjusted for population, Mississippi's incarcerates nearly 50 percent more people than the average of other states and over 10 times as many people as other founding NATO countries like the United Kingdom, Canada, France, and Italy.

By nearly any measure, the administration of criminal justice is largely a state issue. While the federal government undoubtedly influences the way states deal with crime and incarceration, our federalist system affords states great latitude in determining how to deter crime, how to punish wrongdoers, and even how to define what should be considered a crime. This presents states like Mississippi with a great opportunity to implement customized policy solutions that can help reduce crime and provide better outcomes for Mississippians.

From a budgetary perspective, maintaining the state's prison system accounts for a large portion of Mississippi's budget — one of the largest discretionary spending items. In 2019, the state sent over $340 million to the Mississippi Department of Corrections. This does not even account for the additional state, local, and county tax dollars spent on police and jails.

Maintaining one of the world's largest prison systems for a population our size consumes a large portion of the state's budget. This should lead conservatives to ask, "Are we getting what we pay for?" According to the most recent numbers published by the Mississippi Department of Corrections in 2015, over a third of the people released from state prison end up re-incarcerated within three years. This does not even account for people who might be re-arrested. The U.S. Department of

Justice estimates that another third of those released will end up being arrested again within three years.

It also appears that our notoriously high incarceration rate has not provided a commensurate decrease in crime. While crime rates in Mississippi are considerably lower than their peak two decades ago, Mississippians are still more likely to be the victim of property crimes than those in other areas of the country. And the economic impact of the state's reliance on incarceration is not limited to tax expenditures. Mississippi has the fourth lowest workforce participation rates in the country. This means fewer people are working or looking for work than in most other states. Research shows that one of the main drivers of this lower economic participation is previous involvement with the criminal justice system.

In 2014, Mississippi policymakers began to study these issues and explore policy options that would help decrease both crime and incarceration while providing better outcomes for people who encounter the criminal justice system. The passage of House Bill 585 in 2014 began this process by establishing certainty in sentencing and prioritizing prison bed space for people facing serious offenses. This helped reduce the state's prison population by 10 percent and generated nearly $40 million in taxpayer savings. Policymakers have also passed several pieces of legislation since then aimed at removing barriers to re-entry for those leaving the prison system.

While the state has been lauded for these reforms, the prison population remains stubbornly high, as Mississippi continues to incarcerate more people per capita than all but two other states. The latest numbers show that the state is falling further behind economically, as our workforce participation is growing at a slower pace than most other states. While other states are moving to reform their criminal justice systems to reduce reliance on prison, Mississippi cannot rest on its laurels.

Many conservative states are moving to enact policies that decrease their prison populations and focus more resources on alternative interventions like drug and mental health treatment that provide better outcomes for people facing issues like addiction. By advancing innovative policy solutions, Mississippi can begin to close the gap by reducing our state's prison population, ending the cycle of crime, and better spending taxpayer dollars to protect public safety.

Key Facts

- Mississippi has the third highest incarceration rate in the world, more than all but two other states and every other industrialized country.
- Taxpayers spend over $340 million per year to maintain one of the largest prison systems in the world, per capita.
- 27 percent of Mississippi's prime-age working population are not working.
- Other states have shown that we can decrease both crime and incarceration, save taxpayer dollars, and improve economic prospects.

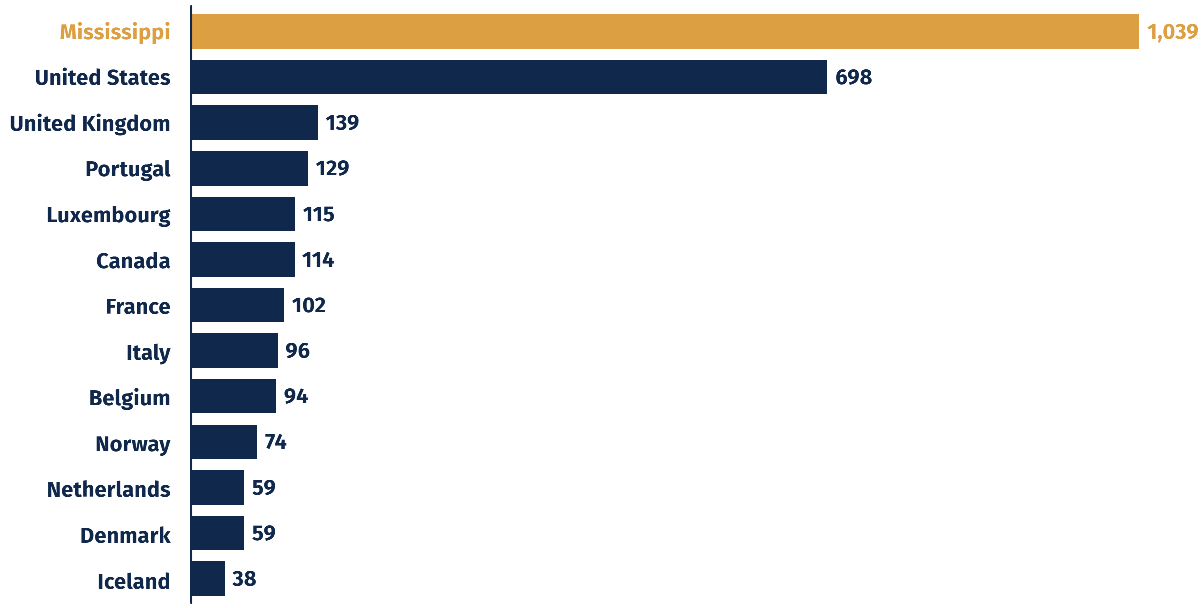
Recommendations

+ Significantly reduce Mississippi's incarcerated population.
+ Prioritize alternatives like drug treatment for crimes driven by addiction.
+ Treat drug possession offenses at the local level as a misdemeanor.
+ Eliminate the state's mandatory minimum habitual sentencing structure that imposes long prison sentences on petty offenses.
+ End the practice of automatically sending people back to prison for minor violations while on probation or parole.
+ Curtail the practice of pretrial detention for people who are unable to pay cash bail and are not a risk to public safety.
+ Implement a "mens rea" provision for drug enhancement zones to ensure that they only apply when someone knowingly violated the law and by requiring the Mississippi Department of Corrections to remove prohibitions that prevent people charged with certain offenses from earning time off their sentence, up to the 25 percent and 50 percent caps set by the legislature for non-violent and violent offenses, respectively.
+ Remove categorical restrictions on people with prior criminal convictions when hiring for state positions.

- Shorten the waiting period for individuals to apply for expungements and contract with private partners to provide reentry services that the state agencies are unable to provide, like driver's licenses, housing, and expungements.
- Hold criminal justice officials accountable for spending and results by incentivizing local prosecutors and judges to consider the true cost of incarceration and alternative sentencing options.
- Prioritize correctional spending on programs that are proven to reduce recidivism.
- Fund alternatives to incarceration like intervention courts, community diversions, and community drug treatment that produce system-wide cost savings and provide the overall cost of each prison sentence to judges before they impose sentences, like in the federal system.

Incarceration Rates of Mississippi and Founding NATO Countries

Incarceration rates per 100,000 population



Source: Prison Policy Initiative

Government Accountability

Introduction

It is necessary and proper to ensure that all government leaders are held accountable to the citizenry, and furthermore, that they are acting in an appropriate and transparent manner which can be deemed worthy of the individual office or position he or she holds.

The state of Mississippi has the appropriate institutions in place, including an ethics commission, a website dedicated to financial transparency, and more, but it is critical that the state properly fund, staff, and keep up to date these oversight tools which allow for citizens to keep their state officials accountable.

Key Facts

- Citizens are not legally granted the right to access a variety of documents including the full slate of ethics committee evaluations, judicial administrative records, and more.
- Ethics commissions rulings are often “toothless,” meaning there is little blowback for the government agency that violated the law.
- The Center for Public Integrity gives Mississippi a D- in its “State Integrity Investigation.”

Recommendations

+ Update the website dedicated to transparency in Mississippi in order to make it more easily navigable.
+ Provide a comprehensive list of all governmental and quasi-governmental entities in a central public registry which can be easily viewed and analyzed by private citizens.
+ Ensure complete transparency in regards to the recipients of all state funds, including subsidies. Add data from localities, school districts, and municipalities to the extent they are available. Provide

public access to the contracts and invoices produced by the government with private entities each year.

- Establish on-site forms for citizens to make easily accessible public records requests with on-site submission capability.
- Streamline the Freedom of Information Act request process and mandate a timely response process from agencies. Mandate that no cost be added to these requests, and the inclusion of detailed reasoning if any information requests cannot be fully fulfilled.
- Ban taxpayer-funded lobbying efforts.
- Make judicial records, including administrative records publicly accessible online.
- Regularly audit and provide to the public information regarding state officials' asset disclosure forms.
- Tighten restrictions on personal use and access to campaign funds.
- Allow citizens to access all ethics committee evaluations in a timely manner, online, with no cost.

Occupational Licensing

Introduction

Occupational licensing is usually sold as a necessity to protect the health and welfare of our citizens. It is a sign of quality that can only be achieved through an official license from the government.

In the 1950s, just five percent of workers in America needed a license to work. And these are in occupations most commonly associated with licensing — medical professionals, teachers, or lawyers. But since that time, the number of occupations that require a license has exploded.

Today, about 19 percent of Mississippians are in an occupation that requires a license. And this is particularly troubling in low and middle-income occupations. Mississippi currently licenses 66 of 102 lower-income occupations, as identified by Institute for Justice.

On average, licensing for low and middle-income occupations in Mississippi requires an individual to complete 160 days of training, to pass two exams, and to pay $330 in fees. Those numbers will vary depending on the industry. For example, a shampooer must receive 1,500 clock hours of education. A fire alarm installer must pay over $1,000 in fees.

The net result is a decrease in the number of people who can work. A study from the National Bureau of Economic Research found that occupational licensing reduces labor supply by 17 to 27 percent. In Mississippi, the Institute for Justice estimates that licensing has cost the state 13,000 jobs. That represents two Nissan plants that could be created by reducing our licensing burden, and it wouldn't require a dime in taxpayer incentives.

The limited consumer choice then leads to higher prices for that consumer, resulting in a hidden tax every Mississippians pays.

Occupational licensing leads to a decrease in the number of people working and an increase in costs to everyone. But is it a public good?

The empirical evidence that exists shows that is not the case. As the Obama administration said in a 2015 report, "Most research does not find that licensing improves quality or public health and safety." The consumer is paying more without getting better results.

Instead of government licensing, there are voluntary or non-regulatory options that help entrepreneurs start and run businesses while providing the maximum options for consumers.

Licensing Alternatives

Market competition is the least restrictive option. Without government-imposed restrictions, consumers have the widest assortment of choices, thereby giving businesses the strongest incentives to maintain a reputation for high-quality services. When service providers are free to compete, consumers can decide who provides the best services, thereby weeding out those that do not.

Quality service self-disclosure is another term for customer satisfaction. There are numerous common sites people can leave reviews such as Yelp, Google, Facebook, specific industry sites, etc. Finding out which location is providing a good customer experience is easier than ever, providing users with more complete options.

Voluntary, third-party certification allows the provider to voluntarily receive and maintain certification from a non-government organization. One of the most common examples is the National Institute for Automotive Service Excellence (ASE) designation for auto mechanics. No mechanic is required to receive this certification, but it sends a signal to the consumer that the location with that designation is committed to quality service. And the consumer can decide whether that is important.

Voluntary bonding and insurance is the final voluntary option. By being bonded and insured, providers are showing their concern for quality to customers at the risk to their own bottom line — whether that's through the potential for increased premiums or loss of collateral.

These are less restrictive options that do not involve the government. But there are still government-controlled options that are less intrusive than licensure.

Two legal options are private causes of action, which give consumers the right to bring lawsuits against service providers who are at fault, and deceptive trade practice acts, which allow consumers to sue businesses for practices that are deceptive or unfair.

The government can also mandate inspections as they do in a number of fields, most notably the food-service industry. It could be applied in occupations that also require licensing, such as the construction field and barbers and cosmetologists. This allows those who are trained in a field to spot potential hazards, while being less burdensome than licensure.

The state may choose to require registration, as they do with hair braiders. Hair braiders previously needed to take hundreds of hours of irrelevant cosmetology classes. Now they register with the state and pay a small fee. This discourages “fly-by-night” providers, while still only creating a small barrier for providers.

All of these options have one theme in common: They are better than government mandated licensure and prevent entrepreneurs from having to take state mandated classes, pay hundreds (or thousands) of dollars in classes, and take time out of their life to receive permission from the state to earn a living.

Instead, the state can protect consumers, while relying on a small government approach that promotes competition and consumer choice. This is what will encourage economic growth.

Key Facts

- 19 percent of workers in Mississippi need a license to work.
- Mississippi requires individuals in low and middle-income occupations to complete 160 days of training, to pass two exams, and to pay $330 in fees, on average.
- Mississippi has lost 13,000 jobs because of occupational licensing and the state has suffered an economic value loss of $37 million, according to a report from Institute for Justice.
- Mississippians pay a hidden tax of $800 every year because of licensing, according to a report from Heritage Foundation.
- In 2004, Mississippi freed hair braiders of irrelevant licensing requirements. Today, there are 2,600 hair braiders earning a living in the state.
- In 2019, Mississippi adopted the Fresh Start Act, which will help ex-offenders earn a living by prohibiting occupational licensing boards from using rules and policies to create blanket bans on ex-offenders.

Recommendations

+ Implement sunset provisions on all licenses and review all licenses to determine their need, benefit, how it impacts the economy, and if less restrictive alternatives are available.
+ Expand the power of the Occupational Licensing Review Commission to actively supervise licensing boards, which are often dominated by industry incumbents.
+ Provide reciprocity for out-of-state licenses.

States Ranked by Number and Average Burden of Licensing

Rank	State	Number of 102 Lower-Income Occupations Licensed	Average Fees	Average Estimated Calendar Days Lost	Average Exams
1	California	76	$486	827	2
2	Nevada	75	$704	861	2
3	Arkansas	72	$246	642	1
4	Arizona	68	$612	765	2
5	Hawaii	63	$438	988	2
6	Louisiana	77	$360	202	2
7	Virginia	68	$291	620	1
8	Oregon	69	$335	537	1
9	Washington	77	$209	163	1
10	Rhode Island	72	$223	326	1
11	New Mexico	66	$266	520	2
12	Iowa	71	$178	288	1
13	Tennessee	71	$327	226	1
14	West Virginia	70	$172	210	2
15	Utah	64	$367	504	2
16	Idaho	67	$164	332	1
17	North Carolina	67	$199	234	1
18	Connecticut	64	$264	361	1
19	Mississippi	66	$330	160	2
20	Maryland	59	$288	529	1
21	Florida	56	$318	693	1
22	South Carolina	60	$220	440	2
23	North Dakota	65	$156	122	1
24	Alaska	63	$298	211	1
25	Alabama	63	$329	142	1

Rank	State	Number of 102 Lower-Income Occupations Licensed	Average Fees	Average Estimated Calendar Days Lost	Average Exams
26	District of Columbia	60	$400	261	1
27	Nebraska	63	$76	118	1
28	New Jersey	54	$224	422	1
29	Massachusetts	50	$309	513	1
30	Michigan	49	$242	255	2
31	Pennsylvania	51	$138	117	1
32	Delaware	44	$199	475	1
33	Maine	45	$188	298	1
34	Georgia	41	$185	464	2
35	Oklahoma	41	$234	399	2
36	Wisconsin	42	$259	214	1
37	New York	41	$279	275	2
38	Ohio	40	$188	350	1
39	Illinois	40	$244	249	1
40	Kentucky	37	$240	466	2
41	New Hampshire	38	$183	273	2
42	Texas	37	$253	341	2
43	Missouri	37	$179	348	1
44	Indiana	37	$163	323	1
45	Kansas	35	$133	200	2
46	Minnesota	34	$238	300	2
47	Colorado	34	$344	260	2
48	South Dakota	32	$198	355	2
49	Montana	32	$261	312	2
50	Vermont	31	$193	287	2
51	Wyoming	26	$345	280	2

Source: Institute for Justice

Regulatory Reform

Introduction

The problem of federal red tape is well known and the source of much pain for businesses of all types and sizes, but it is particularly challenging for small businesses and entrepreneurs. The findings from a wide number of economic studies on this issue are consistent — regulatory compliance and red tape costs American consumers and puts a drag on economic growth. In our state, we are rightly focused on growing our employment and encouraging risk-takers and job-creators. Accomplishing this would require, among other things, an economy that is more lightly regulated so that businesses and consumers are freer. Yet, in Mississippi, we are adding to this administrative burden.

According to a recent study from the Mercatus Center at George Mason University, the Mississippi Administrative Code has over 117,000 restrictions, requiring 9.3 million words. It would take an individual about 518 hours — or almost 13 weeks — to read the entire thing. Of course that assumes the reader can spend 40 hours per week reading at a rate of 300 words per minute! Keep in mind, these are in addition to the laws in our statutory code, which are deliberated and passed by our elected representatives in the legislature.

While federal regulations are the ones we talk about most in media and political circles, we should not fail to recognize the millions of additional restrictions and regulations written by states. Just like the federal regulations, the state regulations carry the force of law to restrict individuals and businesses. Yet, these regulations are not made by our lawmakers; they are made by unelected agencies, departments, and boards.

In 2018, the largest regulator in the state was the Mississippi Department of Health. According to the Mercatus Center, the department used 20,248 restrictive terms. Restrictive words and phrases include shall, must, may not, prohibited, required, etc. The Department of Human Services was the next biggest regulator with 12,530 restrictive words. Coming in third was State Boards, Commissions, and Examiners, followed closely by the Department of Environmental Quality and the Department of Mental Health.

The cost of compliance to state regulations is particularly acute among small businesses. Therefore, it stands to reason that the more we regulate our economy, the greater advantage we provide to the larger companies. Such incumbent businesses can afford the lawyers, lobbyists, and administrators required to navigate such an environment.

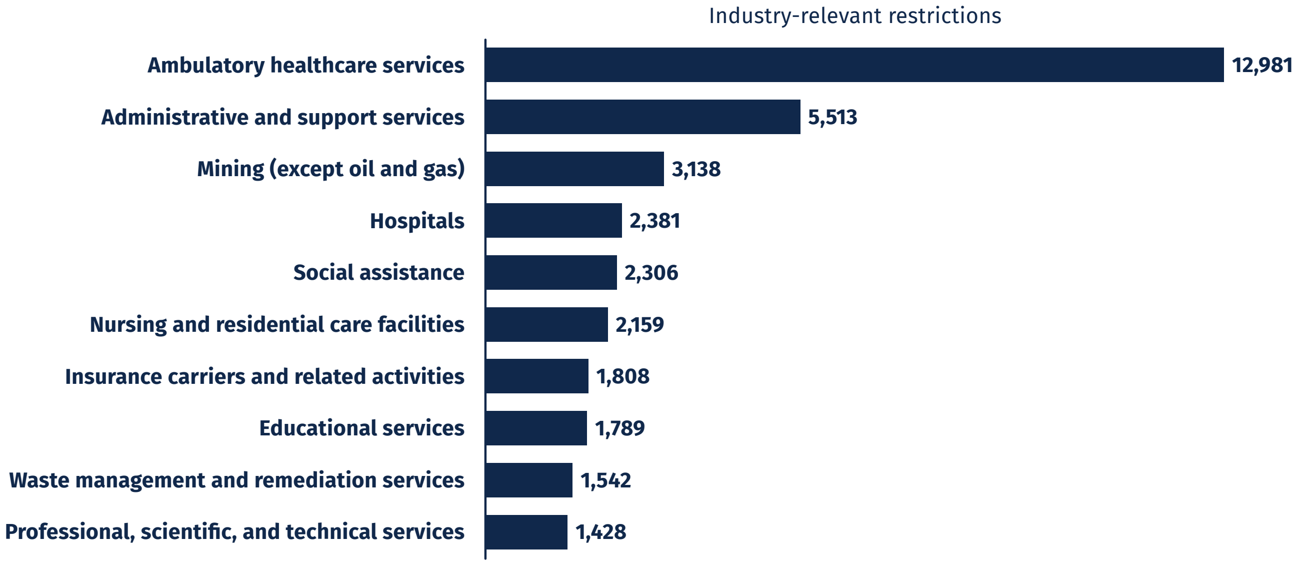
Key Facts

- NFIB Research Center found in its 2016 Small Business Problems and Priorities survey that small-business owners view unreasonable government regulations as a top priority, second only to the cost of health insurance.
- The Competitive Enterprise Institute puts the annual costs of regulatory compliance at $1.9 trillion, which is more than the taxes collected by the federal government and roughly 10 percent of total U.S. GDP.
- The National Association of Manufacturers estimated the total annual regulatory costs in the economy is more than $2 trillion.
- The Mercatus Center estimates, using a microeconomic model, that had regulatory burdens remained constant since 1980, the U.S. economy would be 25 percent larger today.
- According to the Small Business Index Report from Pacific Research Institute, Mississippi is ranked:
  - 48th for its Tort Liability Environment, which is a significant inhibitor to small business growth.
  - 50th for Alcohol Beverage Control laws, which inhibits the economic opportunities for small business to participate in the burgeoning growth of this consumer industry.

Recommendations

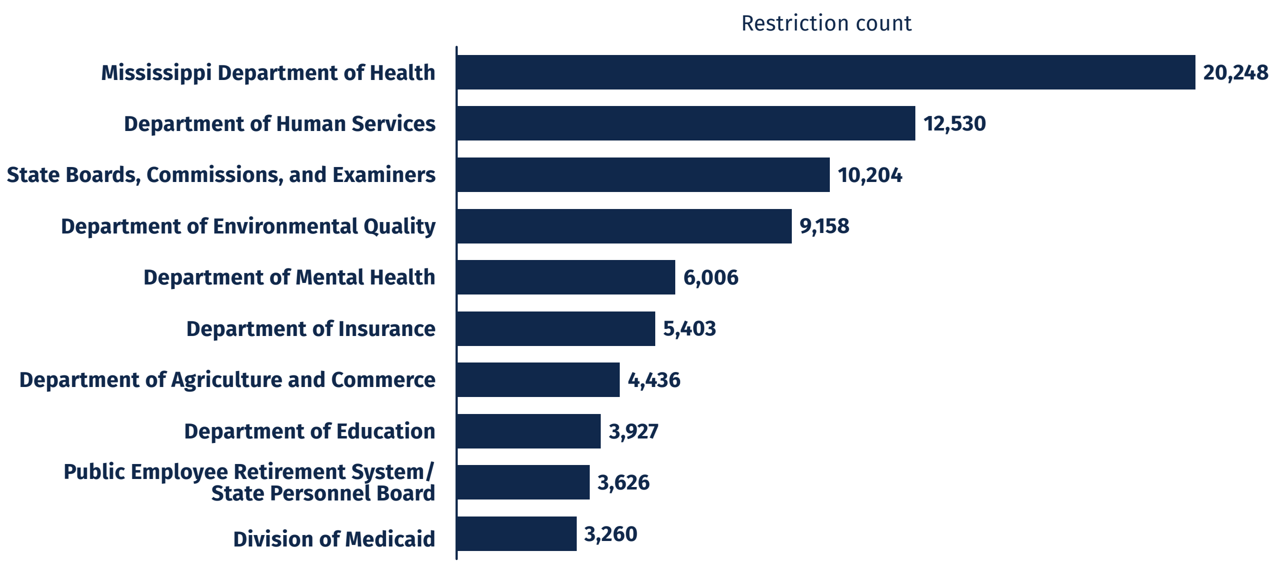
+ Prevent growth in the Mississippi Administrative Code by requiring two regulations be removed for every new regulation proposed.
+ Require a review of all regulations once they have been on the books for a certain number of years and a process for the agencies to justify the necessity of each regulation. If the regulation does not pass the review process, it is automatically retired from the code.
+ Participate in a regulatory reform process by having the legislature and state agencies collaborate to throttle back certain rules that have a significant cost on the state's private sector. This would allow the lawmaking body, accountable to the people, to ratify the rules before they become part of the administrative code.

Top 10 Industries Targeted by Mississippi State Regulation



Source: Mercatus Center at George Mason University

Top 10 Regulators in Mississippi



Source: Mercatus Center at George Mason University

Sharing Economy

Introduction

Several years ago, the ridesharing economy entered the mainstream making its way to many Mississippi municipalities. Entrepreneurs now had the ability to make money from something they owned, a car. Consumers now had new options in finding a ride. Unfortunately, the reaction from many of those localities was to enact strict regulations that would drive Uber or Lyft out of town, usually with the backing of taxi companies, who now faced competition after years of building a moat around their industry.

One of the most egregious examples was in Oxford, a college town who has a greater need for this service than most. They coordinated with the local taxi companies on regulations that effectively banned ridesharing options. Law enforcement even threatened to arrest Uber drivers for running an unlicensed taxi service.

This isn't an isolated example. Nor is it limited to ridesharing. We have seen similar reaction from local governments to Airbnb and other homesharing services and even food trucks and home bakers. Regardless of the industry, the initial reaction is usually the same from the established incumbents: We must protect what we have and we will use government if necessary. Those reactions simply limit commerce and consumer choice, when the goal should be to grow our economy.

The beauty of the new economy is that it allows individuals to generate income on something that they have, but aren't using, whether it's a spare bedroom or a car that is parked in a driveway. And it revolves around customer experiences. Whether it's a cottage food operator who designs an ugly cake or an Airbnb host who doesn't have a clean house, consumers will let others know either on Facebook, Instagram, or within an app. And if you aren't meeting the needs of customers, you will soon have a hard time finding customers. All of this is occurring naturally, without the help of government.

Key Facts

- The sharing, or peer-to-peer, economy is a broad term for an economic system in which assets or services are shared, sometimes free, but often for a fee, between two individuals. This is nothing new, but we now have apps or websites to make it easier and much more common. And they generally serves as a facilitator between the two parties.

- The most common examples of the sharing economy include ridesharing via transportation network companies like Uber and Lyft; carsharing, where you can rent a car, via Zipcar, Turo, and Getaround; homesharing via Airbnb and HomeAway; and dockless bike and electric scooter rentals.
- Mississippi passed statewide ridesharing regulations in 2016 to preempt local restrictions. Since that time, Uber has now expanded to every county in the state after launching in just a few, select markets.
- Airbnb hosts in Mississippi earned $10.6 million in supplemental income in 2018 from nearly 90,000 guest arrivals.
- Other examples of the sharing economy may include freelancing services, peer-to-peer lending, services that allow individuals to borrow and return clothes, and neighborhood sharing resources.

Recommendations

+ Pass statewide regulations that protect property rights and the right to earn a living by preempting local governments from enacting policy to limit homesharing and food trucks.
+ Look for areas to deregulate the industries that are most impacted by the new peer-to-peer economy.

Sports Betting

Introduction

In 2018, the U.S. Supreme Court overturned the Professional and Amateur Sports Protection Act of 1992, the federal law that banned sports betting in every state outside of Nevada. Previously, Nevada was the only state in the country where sports betting was legal.

Of course, sports betting was occurring in all 50 states. It was just done illegally and under-the-table through bookies or offshore websites.

The ruling was a positive step for freedom, and Mississippi was at the leading edge of allowing residents to place bets on sports. Mississippi had already passed pre-emptive legislation that would legalize sports betting should this ruling occur. As a result, in 2018, Mississippi was the only state in the Southeastern Conference footprint where legal sports betting was available.

And Mississippi is counting on the projected revenue. Revenue from sports gambling is a major part of the $1 billion transportation package lawmakers adopted in the 2018 special session.

But much like casinos, competition has emerged that will continue to limit revenue in Mississippi. Within a year of the ruling, both Arkansas and Tennessee legalized sports betting.

Additionally, Mississippi's requirement that you must be in a casino to place bets greatly limits the pool of those who will legally bet. It may be a boom during peak times, such as the Super Bowl or March Madness, but generally speaking a person in Jackson isn't going to drive to Vicksburg to place a bet on a random baseball game in July. They will continue to bet illegally because bookies are not going to disappear overnight.

While Mississippi made a positive first step in being ahead of the curve, all of the data shows that states need to create an avenue for individuals to bet online to generate the most revenue.

Key Facts

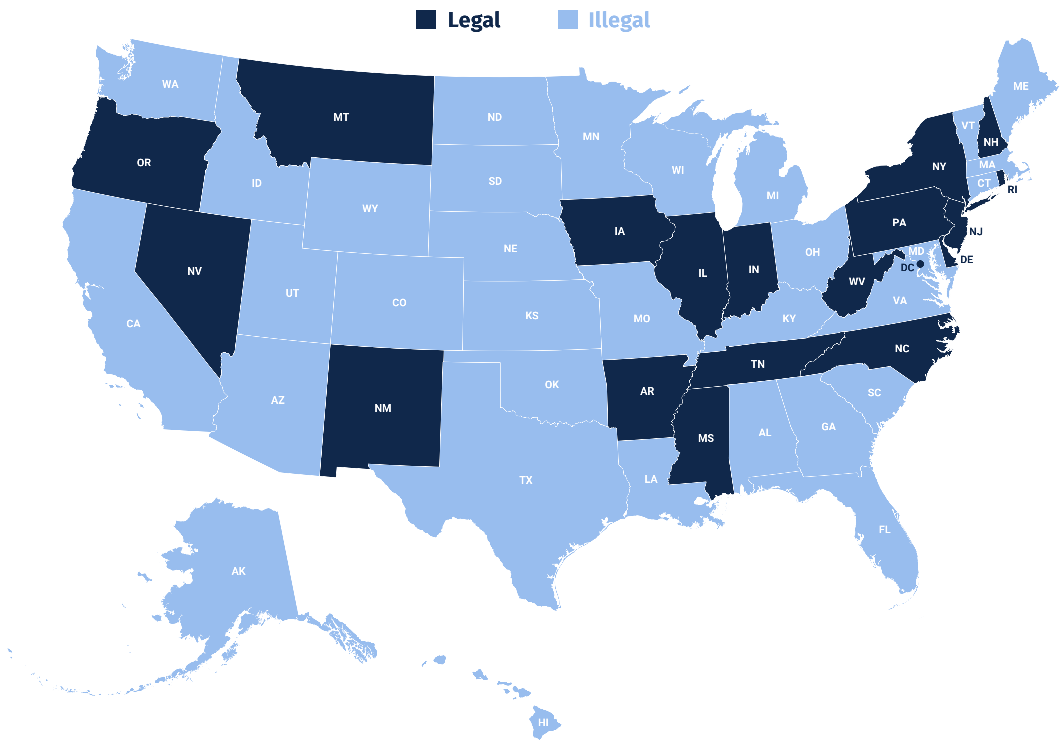
- On August 1, 2018, Mississippi was the fourth state in the country to roll out sports betting.

- As of September, 2019, sports betting is legal in 18 states and the District of Columbia, though not necessarily operational. It is estimated that 40 states will have legal sports betting by 2024.
- During the first year of legal sports betting in Mississippi, people wagered $303 million at casinos in the state.
- Sports betting is a $150 billion industry in the United States.
- During the first eight months of 2019, New Jersey received five times the revenue from online sports betting as they did from retail betting venues.

Recommendations

+ Permit sports betting online or via an app if you are in the state rather than requiring an individual be in a casino to bet.
+ Permit sports betting at college sports stadiums.

Sports Betting Across America



Source: USA Today

Utility Regulations

Introduction

As a bit of background, the regulated monopoly model made sense when a U.S. Supreme Court decision in the *Binghamton Bridge* case of 1865 created the blueprint for the Mississippi Public Service Commission and other similar regulatory bodies nationwide.

Under the regulated monopoly model, a utility is given exclusive rights over a market area to sell electricity, with the PSC or similar body acting in place of the market to determine prices, authorize investments, and determine a rate of return.

This made perfect sense in an era when the nation's electrical infrastructure was being constructed to electrify rural America and competition could lead to needless and wasteful allocation of scarce resources.

Under the model, a utility receives a rate of return for its capital investments such as transmission lines and power plants, subject to approval by regulators. With this guaranteed rate of return, public utilities became a popular and safe place for investors to park their money.

Regulators were supposed to balance the company's need for return to satisfy investors with the needs of rate-paying consumers.

There was one crucial weakness to this scheme. What if the regulators became thralls for the utility? That phenomena, known as regulatory capture, happened in Mississippi in 2010 as repeated 2-1 votes from the Public Service Commission ensured that Mississippi Power's Kemper Project clean coal power plant would be constructed despite signs that the project might not live up to its billing.

The Southern Company's Magnolia State subsidiary, Mississippi Power, tried to build and operate what amounted to an experimental power plant that would gasify lignite coal mined on site, remove pollutants such as anhydrous ammonia, sulfuric acid, and carbon dioxide for off-site sale, and use the now-clean synthesis gas to fuel a pair of electricity-generating turbines.

The company repeatedly insisted that the plant would ultimately be cheaper to build and operate than a conventional natural gas plant — which ironically ratepayers will receive — after using natural gas price forecasts that showed a future filled with price increases that would make the lignite plant more financially palatable. The original price was $2.4 billion and it was supposed to be operational by May 2014.

Kemper never worked as intended, but if the company would've been able to get it operational in some form, ratepayers could've been stuck with a $7.5 billion price tag in the form of double-digit rate increases. Instead, customers will save billions over the next 40 years and pay instead for what amounts to an expensive natural gas plant.

Under the regulated monopoly model, Mississippi Power had a perverse incentive to construct the most costly plant design that it could sell to regulators. If nothing is changed with the model, it could easily happen again.

Adhering to a model that is obsolete in a decentralized economy is a recipe for higher prices and weaker economic growth. Not to mention the specter of the perverse incentive that still remains for utilities to build more expensive capital projects to maximize their rate of return.

Key Facts

- Since 2004, Mississippi's average residential electric rates have increased 23 percent.
- Texas went to a deregulated plan in 2002 where incumbent utilities still own the distribution networks, but 117 different residential electric providers compete for the business of 85 percent of the state's electricity consumers.
- Texas customers' bills have risen only 6 percent during the same span.
- Alabama's average utility rates have increased 57 percent since 2004 despite the Southern Company subsidiary not building any large, new power plants in recent decades.

Recommendations

+ Create an office of consumer advocate that argues on behalf of ratepayers during rate hearings and investigates issues relating to utility rates. With inexpensive, reliable energy being a crucial requirement for economic growth, states literally can't afford to suffer from regulatory capture. This gives ratepayers a seat at the table during discussions over utility rates.

- Junk the old model and allow the market and not a regulatory body to determine prices on electricity. In the present model in Mississippi, producers not only own the generation capacity, but the distribution network as well.

- Deregulate the market by having different residential electric providers competing for the business of the state's electricity consumers.

State	All sector rates, cents per Kilowatt hour (2019)	All sector rates, cents per Kilowatt hour (2010)	Change
Mississippi	9.34	8.65	7.39%
Alabama	9.91	8.99	9.28%
Kentucky	8.18	6.72	17.85%
Tennessee	9.59	8.62	10.11%
Arkansas	7.9	7.27	7.97%
Louisiana	7.54	7.87	-4.38%
Oklahoma	7.38	7.59	-2.85%
Texas	8.49	9.41	-10.84%
Florida	10.53	10.6	-0.66%
Georgia	9.26	8.98	3.02%
North Carolina	9.48	8.77	7.49%
South Carolina	9.48	8.47	10.65%
Virginia	8.56	8.76	-2.34%
West Virginia	8.6	7.38	14.19%
Illinois	9.78	9.2	5.93%
California	15.02	14.05	6.46%
New York	13.5	16.41	-21.56%
New Jersey	13.47	14.81	-9.95%

Economy, Budget, Taxes

Introduction: Economic Policy

We seek economic growth for Mississippi. Truthfully, we've had very little economic growth in the last decade even though we've allocated a lot of taxpayer capital towards that goal. Despite passionate attempts by lawmakers to disprove this, it remains a fact of economics that government is not a more effective allocator of resources than the free market. Expanding freedoms, reducing government barriers, and lowering taxes remain the keys to economic growth.

For those of us with a belief in the durable power of free markets, the choice is easy. We know, thanks to Adam Smith and almost 250 years of data, wealth is created by the free exchange between producers and consumers. If we leave markets free and allow the natural incentive of profit-seeking to work, without government trying to influence, direct, guide, orchestrate, manage, or nudge, the states maximize their economic growth.

Such growth is what drives long-term employment and increased prosperity. When we replace the decisions of entrepreneurs, investors, and consumers in the private market with decisions of politicians, government officials, and development boards, we significantly lower the odds of achieving economic growth.

Decades of economic research and free market evidence informs us that private citizens and firms are more effective at allocating resources to their highest uses than is government.

Mississippi's economy is largely driven by the public sector. At roughly 55 percent, that makes Mississippi's percentage the fourth highest among all the states. When it comes to spending on health and hospitals, we are the third most-liberal state and we spend well more than the national average as a share of the economy on education and public welfare.

According to a 2018 study by the Cato Institute, our economic and fiscal policies are worse than those of all our neighbors. And the Magnolia State has the greatest federal dependency of any state, receiving 43.3 percent of our general revenue from the feds. We also have the nation's highest percentage of state and local spending as a percentage of GDP. There are several policies we recommend to improve our fiscal situation and reduce the role government plays in our economy. The goal of these policy prescriptions is greater prosperity for every Mississippian.

Corporate Welfare

Introduction

The original idea of enticing manufacturing companies to move to Mississippi through economic incentives was not a bad one. In the town of Columbia, Mayor Hugh White used his own wealth, private investor capital, the voluntary contributions of other citizens and businesses, and the guarantee of a bank to land a major manufacturer. It was the early 1930s and it was clear that Mississippi needed to participate in the rapidly advancing industrial revolution. The success of this local example of voluntary industry recruitment, known as the Columbia Plan, became the basis of White's successful campaign for governor of Mississippi. Unfortunately, it did not remain a voluntary or privately guaranteed program once White became the governor.

In 1936, after finding a way to circumvent the constitutional prohibition on the state of Mississippi providing direct support to an industry, the Balance Agriculture with Industry Plan was approved by the state legislature. The plan was the first of its kind in the nation, whereby a state used taxpayer resources to direct economic activity. It set the precedent for other states to begin to use state resources, rather than private ones, to finance industrial development in an attempt to manage the state's economy. It was not a public policy innovation upon which we should reflect proudly.

It pioneered the spurious concept that government planners should use public assets (taxpayer-financed subsidies, grants, loans, tax relief) to allocate resources to specific industries. Such an activity displaces market activities and relies upon the assumption that politicians and public officials know better than the individuals and firms interacting in a free and open market. It is an act of hubris and the economic evidence (multiple, published, peer-reviewed studies on the economic effects of select incentives) is clear. Despite the best of intentions, these incentives are not contributing to prosperity.

It is easy to understand why well-intentioned politicians and public officials participate in this corporate welfare. The benefits of new business locations are visible and highly publicized (new venues, job numbers, infrastructure enhancement, etc.) and appear to be the tangible evidence that public officials are creating durable economic benefits for the citizens of the state. However, the actual costs of these subsidies are spread across millions of taxpayers. The dispersed costs make it easy for policymakers and officials to focus on the local and visible benefits without truly analyzing the total costs because no one taxpayer, other than maybe a directly competitive business owner of the subsidized business, is significantly harmed by the policy.

The biggest reason to end these economic development subsidies and to stop offering targeted incentives is an economic one. When all of the actual costs of the program are considered, including the opportunity costs (what the economic benefit of the dollars would have been had they remained in the hands of private individuals and commercial businesses), the subsidies do more economic harm than good.

The common counter to our argument from public officials is that "we only do this because our neighboring states do it." That's not a convincing argument, especially when you consider that such a competitive environment naturally drives up the costs to taxpayers as corporations cleverly play the states against one another in order to extract the maximum benefits. Such an environment only exacerbates an already bad deal for the citizens of all states, including Mississippi.

Key Facts

- Since 2000, the state and local governments in Mississippi have provided roughly $4 billion in taxpayer-funded grants, loans, abatements, and incentives to hundreds of businesses. Despite nearly two decades of action, Mississippi continues to rank near the bottom of virtually all rankings for its environment for business. Case in point, the Legatum Institute's 2019 Prosperity Index ranked Mississippi 48th in Business Environment and 50th for Economic Quality.

- Unsubsidized businesses are required to make up for the losses in tax revenue forgone by the targeted tax breaks for subsidized businesses.

- Merely counting "jobs created" is a poor measure of the value of subsidies because it fails to consider the employment displacement effect or the high cost of each subsidized job.

- While recipients of corporate incentives are gaining a real benefit, the economy at large is actually thwarted by the adoption of actions coming not from the market but from government.

Recommendations

+ Abolish the economic development, incentive-granting division of the Mississippi Development Authority, which not only ends the use of targeted incentives but also eliminates annual costs of salaries, benefits, travel expenses, and other costs associated with taxpayer-funded incentives to specific industries.

- Focus MDA efforts on local community assistance, tourism growth, and entrepreneurial development, in addition to the recruitment of companies.
- Counter the previous targeted incentive game with lowered taxes on all business and citizens.
- Reduce and control government spending such that the costs of government are less per resident.
- Reduce the regulatory burden on all industries, thereby encouraging more business owners, of all sizes, to expand.
- If such incentives must continue, we propose the "new jobs" only be counted when they are filled by migrants from other states or by residents who were previously unemployed. Otherwise, we are simply redistributing wealth on a geographic basis.
- Sign on to the compact of states that are voluntarily agreeing to stop the "race to the bottom" through company-specific, taxpayer-provided, incentives and benefits.

"Given the weak effects of incentives on the location choices of businesses at the interstate level, state governments and their local governments in the aggregate probably lose far more revenue, by cutting taxes to firms that would have located in that state anyway than they gain from the few firms induced to change location."

Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association, 2004

"Using detailed statistical models to control for a wide variety of factors, the study found that companies that received incentives expanded more slowly than others, and worse yet that overall effect of incentives was a reduction of 10.5 jobs per establishment. Incentives had their biggest effect by far not on actual jobs, but on 'announced growth,' finding that the average business receiving incentives overestimated its future

employment by 28.5 jobs."

Richard Florida, "The Uselessness of Economic Development Incentives," CityLab, December 7, 2012

"Our analysis suggests that incentives do not substantially increase, and may even decrease slightly, the amount of employment change in the two years after an establishment launched an expansion."

Todd Gabe and David Kraybill, "The Effect of State Economic Development Incentives on Employment Growth of Establishments," Journal of Regional Science, 2002

"Far too often, economic development incentives are irrelevant to decision-making, fail to meet promised results, take away from existing or potential public services, lead to zero-sum competition among governments, and lack appropriate oversight."

Andrew Schwartz. "Realities of Economic Development Subsidies," Center for American Progress, November 1, 2018

"Even if a jurisdiction says, 'Well we have to do it because the other folks are doing it,' no, actually, you don't. Go ahead and let them take the poison. It doesn't increase job growth... We invested in the Interstate Highway System. We spent money on stuff that actually does create jobs: Investment in infrastructure and investment in education. You need to have tools, excellent port facilities, excellent highways, and you need a highly skilled workforce. We have taken that money and shifted it away from the real generators of economic wealth and we've given it to people to line their pockets. If a state said, 'No, instead of $3 billion for Boeing, we're going to invest it in schools, and we're going to invest it in highways,' they would win."

Mark Funkhouser, former mayor of Kansas City, "Should we ban states and cities from offering big tax breaks for jobs?" The Washington Post, September 15, 2014

Federal Dependency

Introduction

Many Mississippians, including far too many elected officials, believe federal funds are a necessary and ultimately beneficial source of revenue for our state. Federal grants do not represent "free money" and we should not act as though they do. In 2019, the federal government issued 1,400 grants to the states, totaling $750 billion. And $450 billion of it was for healthcare. The Magnolia State was the most dependent of all the states — receiving 43.3 percent of our general revenue from the feds.

Every dollar Washington, D.C. sends to Mississippi is a dollar taken from taxpayers in all of the states, including Mississippi. There is a mathematic question to ask about the sustainability of such a practice, but also a moral one about us taking more and more money from our fellow Americans when our nation already has a national debt nearing $23 trillion.

Economists from universities and think tanks across the country have studied the effects of federal subsidies on the states. Federal aid and related regulations are not effective at solving state and local problems. They tend to be bureaucratic, inefficient, and often beset by waste. Such subsidies ultimately lead to higher state taxes and spending because the "seed money" provided by the feds creates a demand for more government. On average, a dollar of federal funding in a state equates to an additional 40 to 50 cents in new spending by the state.

Given this analysis, we must examine carefully how much additional government we want in Mississippi in the form of additional costs for personnel, infrastructure, and programming. Before agreeing to sign up for a federal grant, we need to thoroughly evaluate the real costs and benefits associated with this "free money."

We face four fundamental dependency risks each time we take federal funds:

1. Does the state surrender its sovereign authority to set policies to the federal authorities who typically seek regulatory authority in exchange for the grants? What would this mean for policies around the funding of social programs; sports participation based on gender flexibility; same-sex bathrooms; health insurance mandates; school curricula; gun laws; free speech rights on campus; and other issues typically left up to the citizens of individual states to determine?

2. Does the need really exists for the grant or are state agencies simply focused on the money? When we focus on the money instead of the need, we risk not sufficiently measuring the outcomes. We move away from a thoughtful and disciplined approach to budgeting if and when we substitute federal money for the normal state appropriations process and we are less robust in our efforts to prevent waste.

3. When we accept federal monies, we leave our state vulnerable to the federal government defunding or even eliminating funding based on a variety of decisions made in Washington, D.C. For example, what happens if there is a sequestration? What if we need to shut the federal government down because members of Congress can't reach consensus on a budget? What if a political power shift in Washington creates a willingness to reduce federal spending?

4. What about our other spending priorities? For example, the rapid growth in state Medicaid spending — induced by generous federal payments — tends to squeeze out other activities in state budgets that citizens may prefer. Federal rail subsidies is another example of questionable state spending simply because there is federal money available.

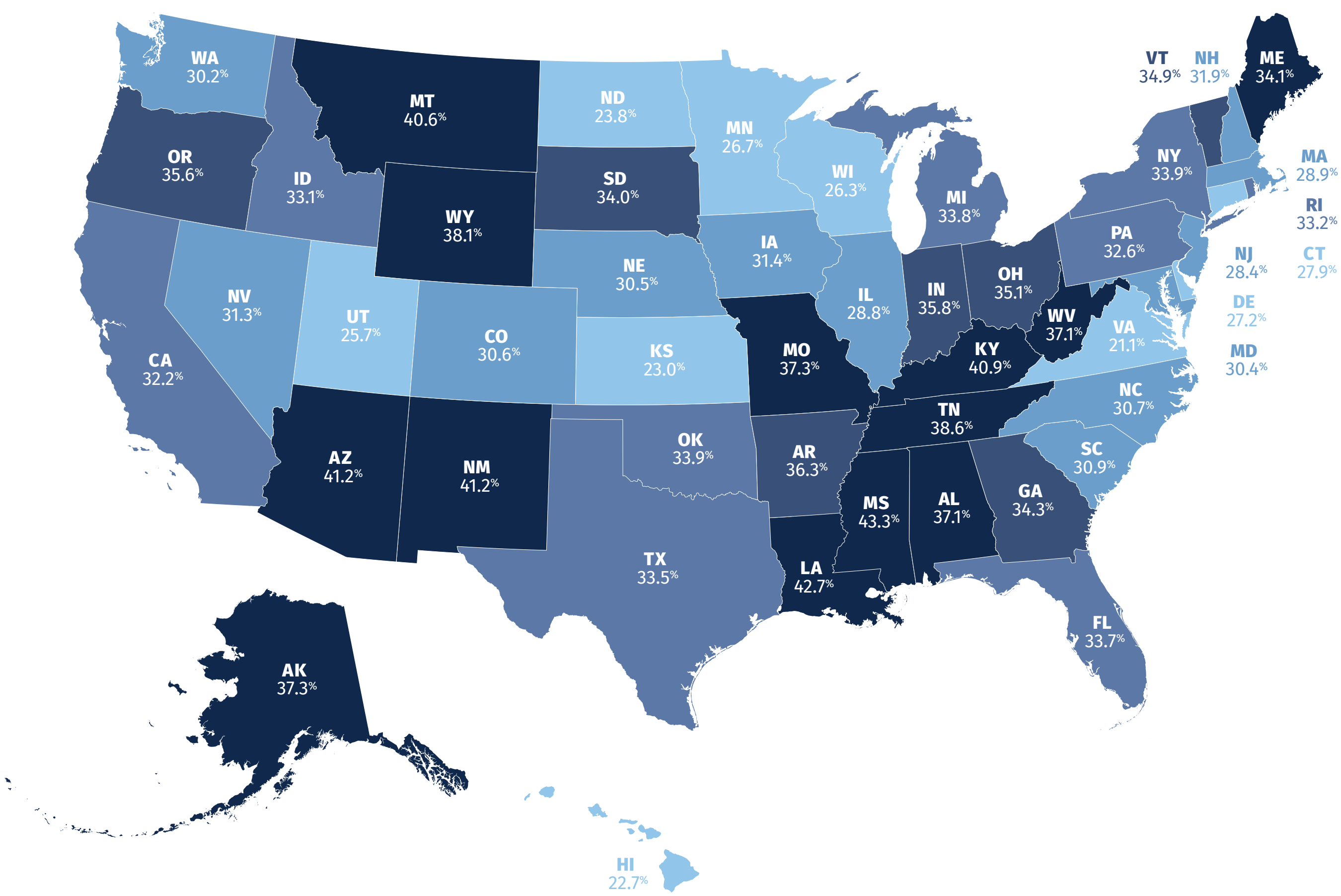
Key Facts

- Mississippi received $9.11 billion from federal grants in 2018.
- 50 percent of the federal funds went to Medicaid in 2018.
- 43.3 percent of Mississippi's general revenue was derived from federal grants, the highest percentage in the nation.
- Only two states receive more federal contracts than Mississippi (Virginia and New Mexico) and only three states receive more federal grants (Alaska, West Virginia, and New Mexico).
- The federal grants-in-aid to states have been expanding rapidly since the New Deal, with the only successful reduction coming during President Ronald Reagan's first term when he was able to cut them by a quarter.
- A third of all press releases issued by U.S. senators is to claim credit for the federal spending in the state.

Recommendations

- Institute a review and examination procedure to ensure federal grants are being used in efficient and productive ways and for programs that are truly priorities for Mississippians.
- Due to ever increasing federal spending on Social Security, Medicare, and entitlement programs, budget planners at the state and local levels should be preparing for reductions in federal spending.
- Break the cycle of federal dependency by cutting the amount of federal aid and related federal regulations we accept by returning the power to the local government and to the people so that competitive federalism is restored.

Percentage of State Revenue From Federal Funds



Source: Pew Research Center

Film Incentives

Introduction

The rationale behind the desire many have for motion pictures to be filmed in Mississippi is obvious: The ability to showcase the state, the belief that it will attract tourism, and a sense of pride. And, while doing so, it will create jobs and generate new tax dollars for the state.

And there are many reasons Mississippi is attractive for filming. It is the quintessential Southern state with historic squares along with beautiful antebellum mansions. There are classic Southern downtowns. Then there is the vast farmland of the Delta, the beaches of the Coast, and the numerous forests throughout the state. Mississippi has the lowest cost of living in the country and it is a right to work state with very competitive wages.

Those reasons, along with the state's economic policies, should attract films, not taxpayer dollars.

Key Facts

- Mississippi created the Mississippi Motion Picture Incentive Program in 2004.
- There are three incentives: The Mississippi Investment Rebate, which offers a 25 percent rebate on purchases from state vendors and companies; the Resident Payroll Rebate, which offers a 30 percent cash rebate on payroll paid to resident cast and crew members; and the Non-Resident Payroll Rebate, which offers a 25 percent cash rebate on payroll paid to non-Mississippian cast and crew members.
- In 2017, the Mississippi legislature chose not to extend the non-resident payroll portion of the incentives program. But two years later, they renewed the program.
- A 2015 evaluation from PEER found that Mississippi taxpayers recovered only 49 cents for every dollar that was invested by the state in film incentives.
- While Mississippi recently expanded their program, there is a growing trend in legislatures across the country to end such programs. In 2009, all but six states had film incentives. Today, 19 states do not offer incentives.

- Film incentive programs are a race to the bottom. Film producers will regularly hold a state hostage and threaten to move if they are not awarded incentives.

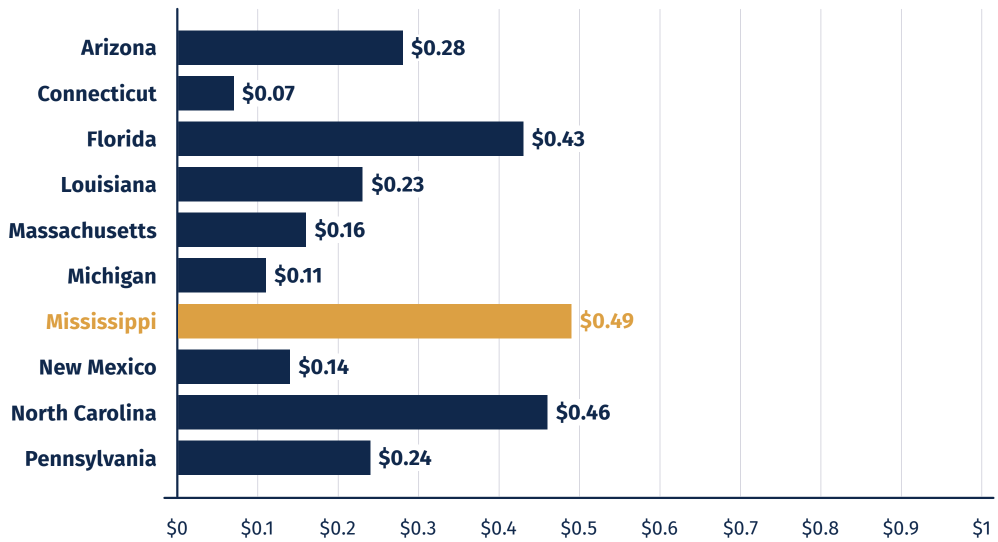
- When you encourage Hollywood to film in your state via your tax dollars, Hollywood begins to believe they can set policy for your state. For example, many in Hollywood have called for a boycott of the state of Georgia, which has a very generous tax incentive program, because their state legislature adopted a ‘Heartbeat’ bill, which bans abortion at the moment a heartbeat is detected.

Recommendations

+ End all motion picture grants.

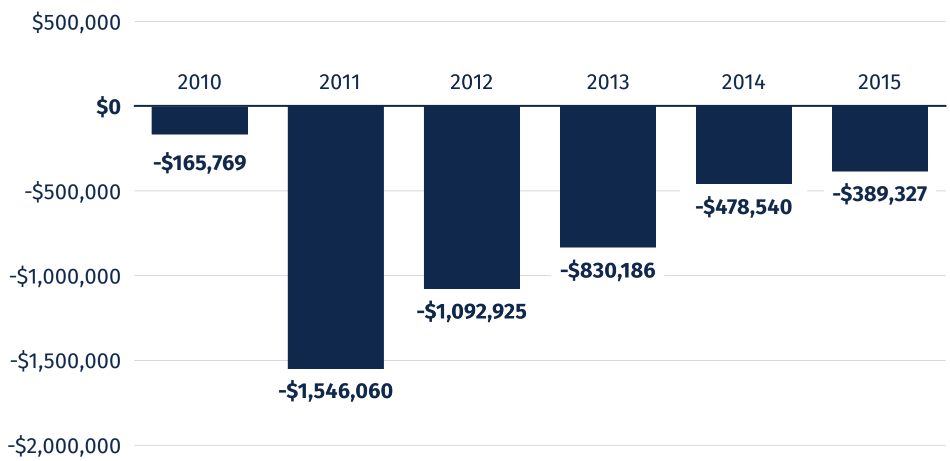
+ Adopt and promote long-term, pro-growth reforms that will attract outside businesses of every sector, including the film industry.

Return on Every Dollar Invested in Film Incentives, by State



Source: PEER

Net Returns to the State From Film Incentives



Source: PEER

Infrastructure

Introduction

In many polls, infrastructure is one of the key concerns of Mississippi citizens.

The Mississippi Department of Transportation maintains 5,848 bridges and 29,265 lane miles on the state's highway system, which includes the interstate routes. MDOT officials have repeatedly said that taxpayers aren't spending enough to maintain the highways

Much of MDOT's lane mileage is in good condition. In Reason Foundation's 2018 Annual Highway Report, Mississippi was rated 11th best overall. The condition of the state's rural interstate pavement was ranked 37th but the state only ranked 19th in deficient bridges.

Annual petroleum tax revenues have averaged about $417 million in the last decade, with annual average increases of 1.15 percent.

Fiscal Year	Petroleum Tax	% of Change From Previous Year
2019	$432,229,080.56	2.03%
2018	$423,642,449.02	-2.41%
2017	$434,094,225.63	0.26%
2016	$432,951,435.67	2.79%
2015	$421,217,531.10	4.65%
2014	$402,492,205.12	-1.34%
2013	$407,978,901.76	-1.17%
2012	$412,790,483.57	0.02%
2011	$412,721,632.72	5.50%
2010	$391,211,054.84	
	$417,132,900.00	1.15%

MDOT spends, on average, about 18.3 percent of its annual budget on maintenance and about 65.37 percent on construction, which can include reconstructing some badly deteriorated stretches of road.

The Alabama Department of Transportation, in comparison, spent 54 percent of its funds on preservation and maintenance.

MDOT Maintenance and Construction

Year	Maintenance	Construction	Total budget	% of Maintenance	% of Construction
2020	$200,000,000	$716,273,557	$1,105,236,550	18.10%	64.81%
2019	$210,000,000	$709,074,114	$1,100,000,000	19.09%	64.46%
2018	$216,000,000	$793,738,052	$1,200,000,000	18.00%	66.14%
2017	$216,000,000	$792,752,370	$1,200,000,000	18.00%	66.06%
Average	**$210,500,000**	**$752,959,523**	**$1,151,309,138**	**18.30%**	**65.37%**

The remainder of the roads in the state are in the purview of the cities and counties, which are the majority of roads and bridges in the state. The Office of State Aid Roads assists financially with some of these roads and bridges.

Counties with Closed Bridges

County	Total Spending	Public Safety	% of Total	Public Works	% of Total
Amite	$7,238,710	$555,256	7.67	$3,529,789	48.76
Carroll	$7,674,728	$1,117,847	14.57	$3,171,541	41.32
Clarke	$12,572,810	$3,573,571	28.42	$4,506,417	35.84
Greene	$9,163,358	$790,773	8.63	$3,689,552	40.26
Hinds	$113,008,977	$26,010,953	23.02	$6,044,526	5.35
Humphreys	$9,124,706	$1,443,654	15.82	$2,808,555	30.78
Itawamba	$8,978,515	$1,859,108	20.71	$2,625,491	29.24
Jasper	$19,211,308	$2,961,895	15.42	$7,920,090	41.23
Jones	$38,486,583	$9,986,127	25.95	$9,349,331	24.29
Lauderdale	$36,331,011	$10,148,168	27.93	$10,531,755	28.99
Leake	$12,156,349	$2,269,212	18.67	$4,326,179	35.59
Lincoln	$19,074,693	$3,935,247	20.63	$6,794,309	35.62
Newton	$9,927,574	$2,208,695	22.25	$3,298,360	33.22
Pike	$23,710,567	$5,126,317	21.62	$4,945,378	20.86
Smith	$10,308,830	$2,214,433	21.48	$3,949,219	38.31
Wayne	$14,014,215	$2,900,404	20.70	$5,447,800	38.87
Average	**21,936,433**	**$4,818,854**	**19.59**	**$5,183,643**	**33.03**

The problem with local roads and bridges is that some counties spend far less than others on maintaining their infrastructure.

One example is Hinds County which has spent an average of only 6.48 percent of its annual expenditures in the last three years on roads and bridges. It has 44 out of its 401 bridges closed, according to the Office of State Aid Roads.

Most Populous Counties

County	Total Spending	Public Safety	% of Total	Public Works	% of Total
DeSoto	$113,210,867	$27,588,607	24.37	$43,730,692	38.63
Harrison	$108,038,291	$33,462,014	30.97	$21,322,612	19.74
Madison	$65,713,381	$14,680,663	22.34	$14,284,421	21.74
Rankin	$64,057,007	$19,659,010	30.69	$21,821,751	34.07
Jackson	$107,494,816	$19,610,962	18.24	$30,212,546	28.11
Average	**$91,702,872**	**$23,000,251**	**25.32**	**$26,274,404**	**28.45**

In comparison, the state's other most populous counties spend about 28.45 percent of their budgets, on average, on public works. The counties with closed bridges according to State Aid Roads spent an average of 33 percent of their budgets on public works.

Key Facts

- Taxpayers will spend $1,105,236,550 on MDOT in 2020, with $559 million coming from federal funds and the rest from the state's petroleum tax.
- The Office of State Aid Roads will have an appropriation of $225,410,848 from special and federal funds, which will help maintain 25,857.04 miles of county roads that are considered "feeder" routes between the state highways. This money also goes to maintaining 5,368 bridges on these routes.
- The federal gas tax has been 18.4 cents per gallon since 1993.
- Drivers pay 37.19 cents in state and federal taxes on every gallon of gasoline, about 11 cents a gallon less than the national average. The state's gas tax was last increased in 1987.
- For every one cent increase in the state's gasoline tax, the state's gasoline tax revenue ($423,642,449 in 2018) would increase by about $23 million.
- Mississippi spends about $81,000 per lane-mile annually, which is 27th most, but spends only about $7,000 annually per lane-mile on maintenance, the third least nationally.

Recommendations

- Use the audit of MDOT to find efficiencies and maximize the amount of money spent by the agencies going to roads and bridges.
- Ensure that MDOT's bidding processes on building materials are as competitive as possible (reverse auction) to maximize taxpayer investments.
- Use predictive models for population growth to ensure that wasteful and needless new construction doesn't waste taxpayer funds and divert money from vital projects.
- Put conditions on any additional state revenue provided to cities and counties for infrastructure that requires it to be spent on pressing bridge and road needs.
- Mandate any county or city with a certain number of closed bridges increase its general fund (ad valorem or sales tax) spending on infrastructure to cover the shortfall.
- Slowly phase out the state's gasoline tax and replace it with a vehicle miles traveled tax that acts as a more accurate fee for road usage while guarding motorists' right to privacy.
- Tolls on roads under construction could be another funding mechanism.

Mississippi Prepaid Affordable College Tuition Program

Introduction

The Mississippi Prepaid Affordable College Tuition Program is in trouble and will likely need a sizeable taxpayer bailout.

The way the program works is parents contribute to the plan for their child's future college tuition, receiving tax benefits as part of the deal. When their child is old enough to enroll in college, the plan pays the tuition and fees.

With college costs increasing 69.93 percent since 1998 — two years after MPACT was started by the legislature — the fund has been bleeding revenue since the state promised far more than it could deliver. Right now, it's only 69.67 percent fully funded.

In 2012, the fund ceased taking on new enrollees and an audit, the first in the fund's history, was conducted. As a result, the plan was split into two groups: Legacy contracts from those before 2012 and the restructured Horizon contracts that were issued starting in 2014.

The Horizon contracts cost 60 to 90 percent more than the old Legacy contracts and have altered some of the benefits to reduce costs to the plan. Those plans have $35 million in assets and $29.4 million due for tuition and fees. The Horizon contract funds won't be used to fill the giant doughnut hole in the Legacy plans.

Legacy contracts are where the problem lies. As of June, 2018, the Legacy plan has $278 million in assets, but has $405 million due in the form of tuition and expenses to be paid to plan participants.

According to 2018 projections, the Legacy plan will have a $224 million deficit by 2032 and a $358 million hole by 2038.

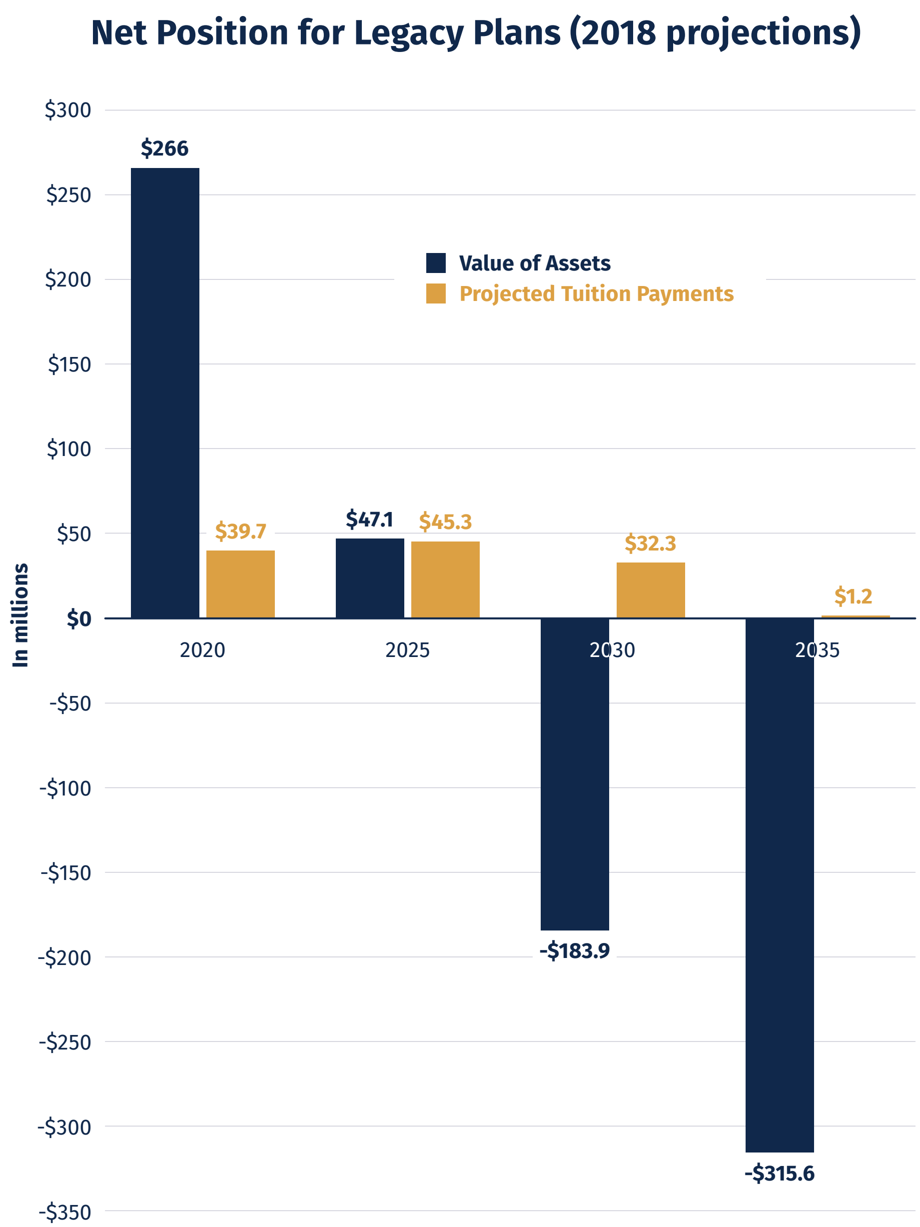
Years of bull markets haven't smoothed over these costs with greater investment income, especially now that there is no longer new enrollees to pay into the Legacy program. The deficit means the plan will likely be insolvent by 2028.

Key Facts

- For 17 years and four state treasurers, MPACT has run a deficit that has grown every year.
- The MPACT deficit is $127 million and the deficit is growing at a rate of 6.3 percent annually.
- Right now, it's only 69.67 percent fully funded.

Recommendations

+ The only way to fix the Legacy contracts is a bailout to cover the present shortfall, now $127 million and growing at the rate of 6.3 percent per year.
+ The Horizon contracts need to be closely monitored with audits to ensure that the same pitfalls that hit the Legacy plan don't seize them as well.


Net Position for Legacy Plans (2018 projections)
$300
$250
$200
$150
$100
$50
$0
-$50
-$100
-$150
-$200
-$250
-$300
-$350
In millions
$266
$39.7
$47.1
$45.3
$32.3
$1.2
-$183.9
-$315.6
2020
2025
2030
2035
Value of Assets
Projected Tuition Payments

Public Employees' Retirement System

Introduction

Mississippi's defined benefit pension fund, the Public Employees' Retirement System of Mississippi, is in fiscal trouble despite several years of above average investment returns.

PERS covers most state, county, and municipal employees and is only 62.5 percent fully funded. The plan's funding ratio — which is defined as the share of future obligations covered by current assets and provides a useful snapshot for gauging the health of a pension fund — was 88 percent funded as recently as 2001.

Despite the second year of big returns on its investments ($2.4 billion in 2018 or 9.85 percent), the plan's unfunded liability remained the same at $16.6 billion. The plan's expected rate of return is 7.75 percent.

To fill this gap would require 2.76 years of all general fund tax revenue.

Key Facts

- The number of PERS retirees increased in 2017 to more than 104,973, up 66.6 percent from 2005, when the system supported just 63,000 retirees. Conversely, the number of contributing employees has decreased to 150,687, down 1,695 employees from the prior year.

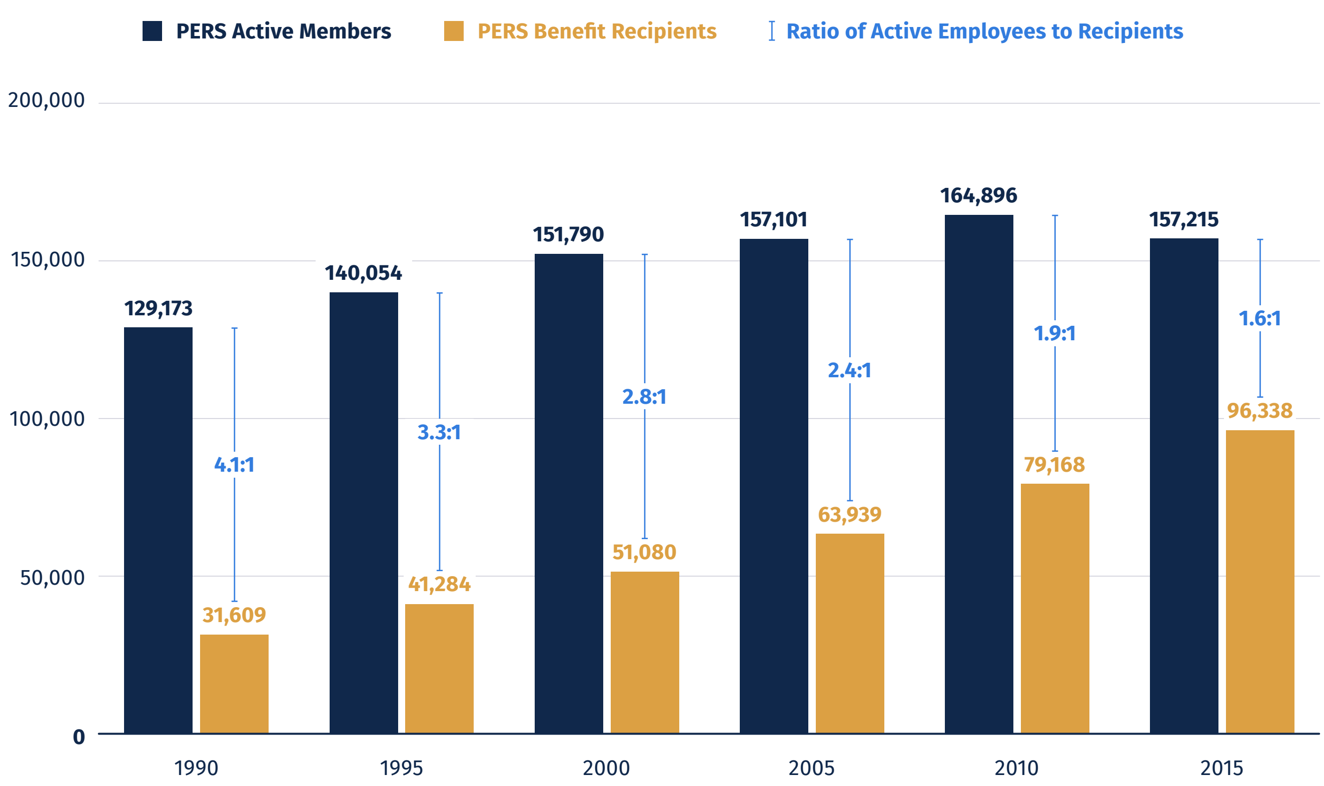
- This problem will only get worse in the next few decades, as a massive demographic tsunami of large-scale retirements is in the offing. The average age of the plan's members is 44.7 and members with at least 15 years of service represent 27.9 percent of employees in the PERS system. The average age of retirement in PERS is 57.2 for those who retire based on years of service and those who retire based on age do so at 61.9.

- The plan has an overly generous cost of living allowance that is literally eating its seed corn that could be used to generate investment income. Since 1999, the PERS COLA amounts to three percent of the annual retirement allowance for each full fiscal year of retirement until the retired member reaches age 60. From that point, the three percent rate is compounded for each fiscal year. Since many retirees and beneficiaries choose to receive it as a lump sum at the end of the year, the benefit is known as the 13th check. The amount of COLA payments has increased 529.9 percent since 1999, going from $103,263,000 to $650,465,578 in 2018.

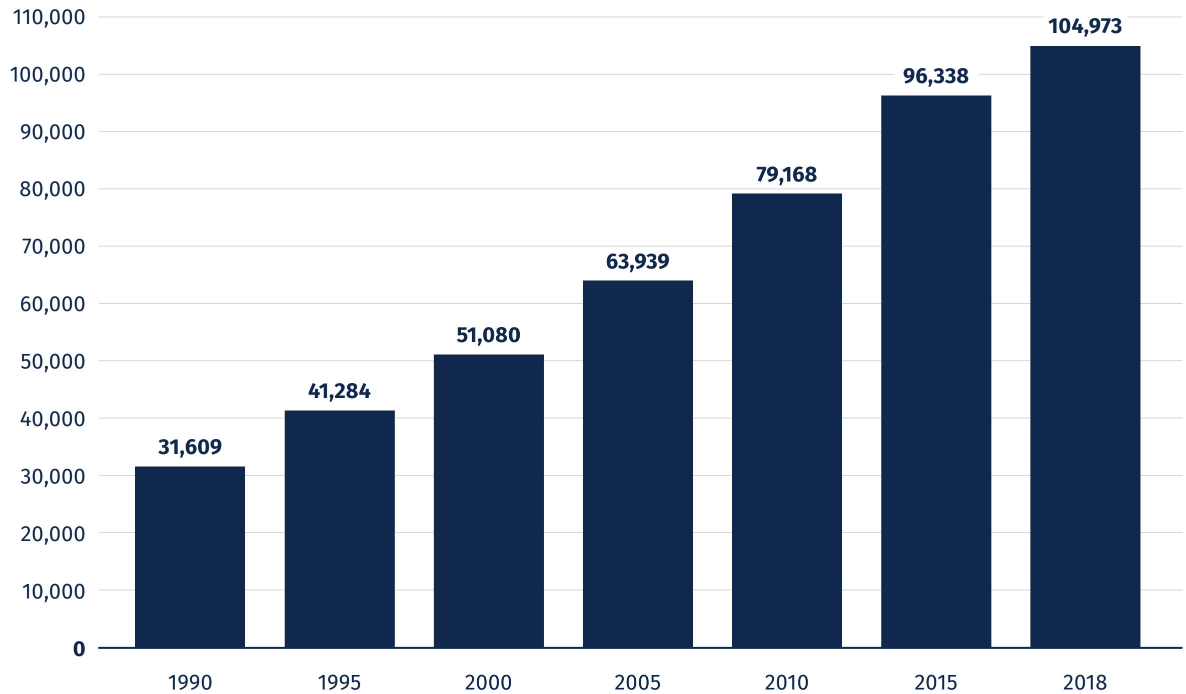
Recommendations

+ Freeze the program's overly generous COLA for three years or more. Then either tie it to the Consumer Price Index, which has recorded a rate of inflation of 2.18 percent since 1999 or go back to the old way of computing the COLA as 2.5 percent of the original benefit. One alternate solution is mimic South Dakota's approach to its COLA. This state indexes its COLA to the CPI and to the plan's funding ratio — which is defined as the share of future obligations covered by current assets. South Dakota has a minimum COLA rate of 2.1, when plan funding level is below 80 percent and a maximum of 3.1 percent when the plan is funded above 100 percent.
+ Have non-member taxpayers represented directly on PERS' governing board.
+ Transfer new hires to a 401k plan that would increase employee contribution rates and allow them to have more control and portability over their money.
+ Reduce the expected rate of return to a more reasonable figure to assure that future planning isn't being overly optimistic and paints a false picture of the plan's financial position.
+ Increase the employee contribution rate (which now is 9 percent). This would better balance contributions by taxpayers, which have increased eight times since 1990 versus only twice for employees. Only the legislature can authorize an employee contribution increase for PERS and haven't done so since 2009.

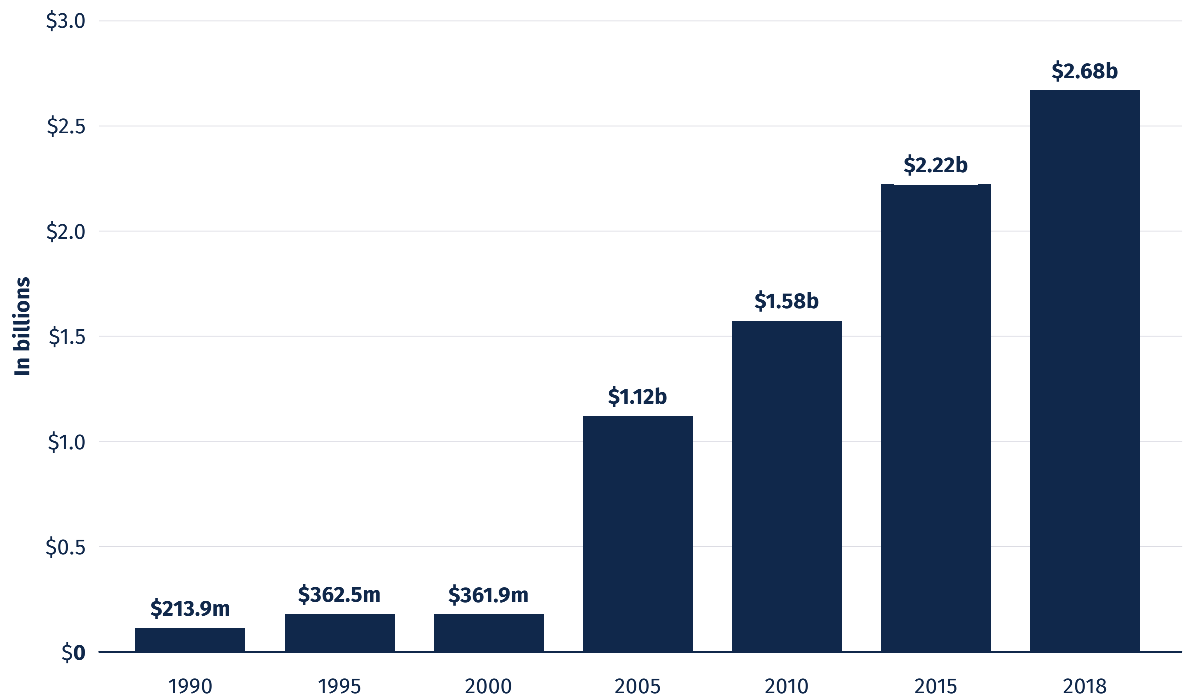
PERS Active Members and Recipients



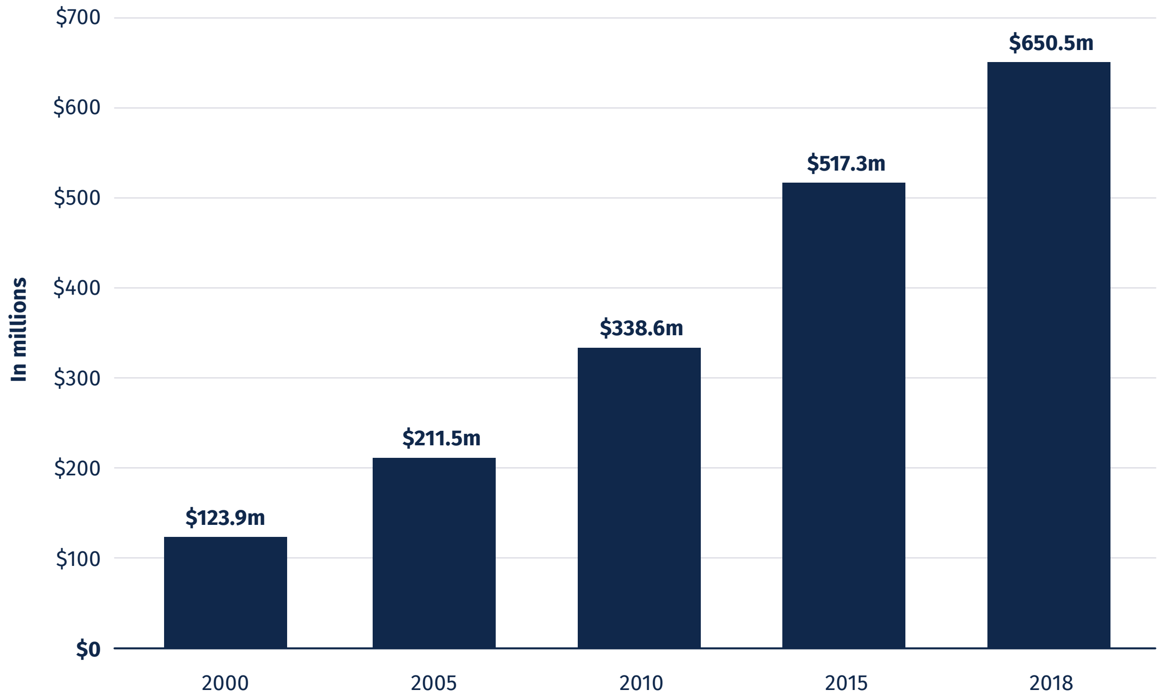
PERS Benefit Recipients



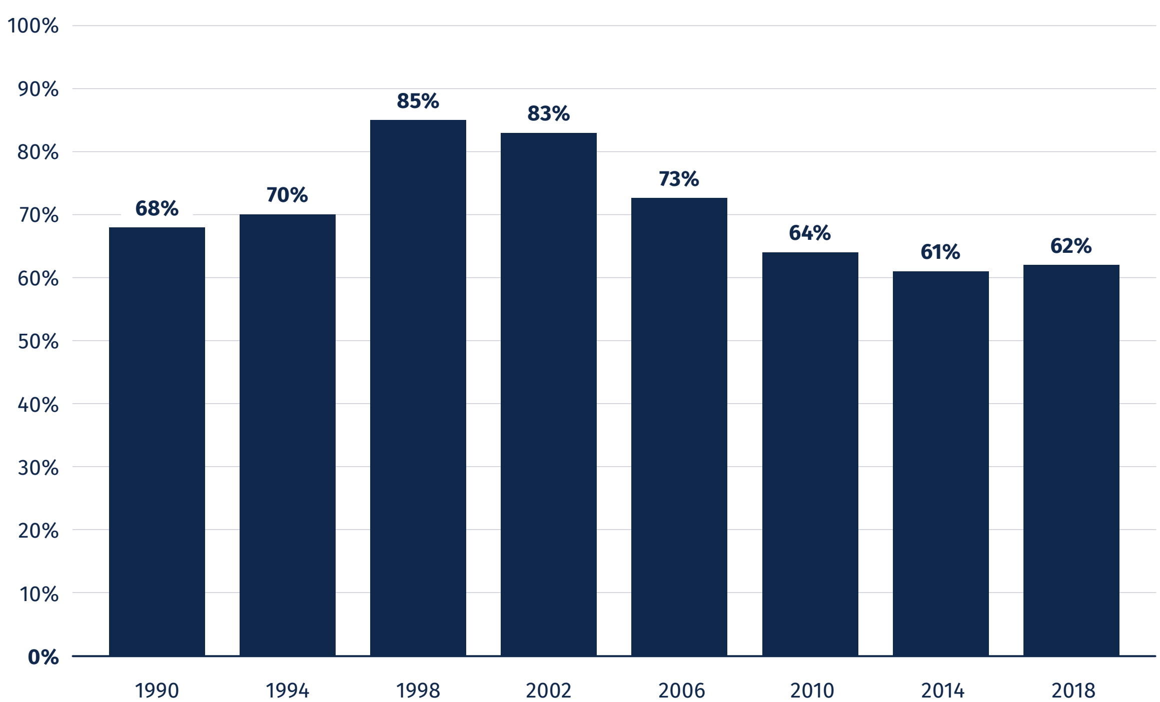
Total PERS Benefits Paid



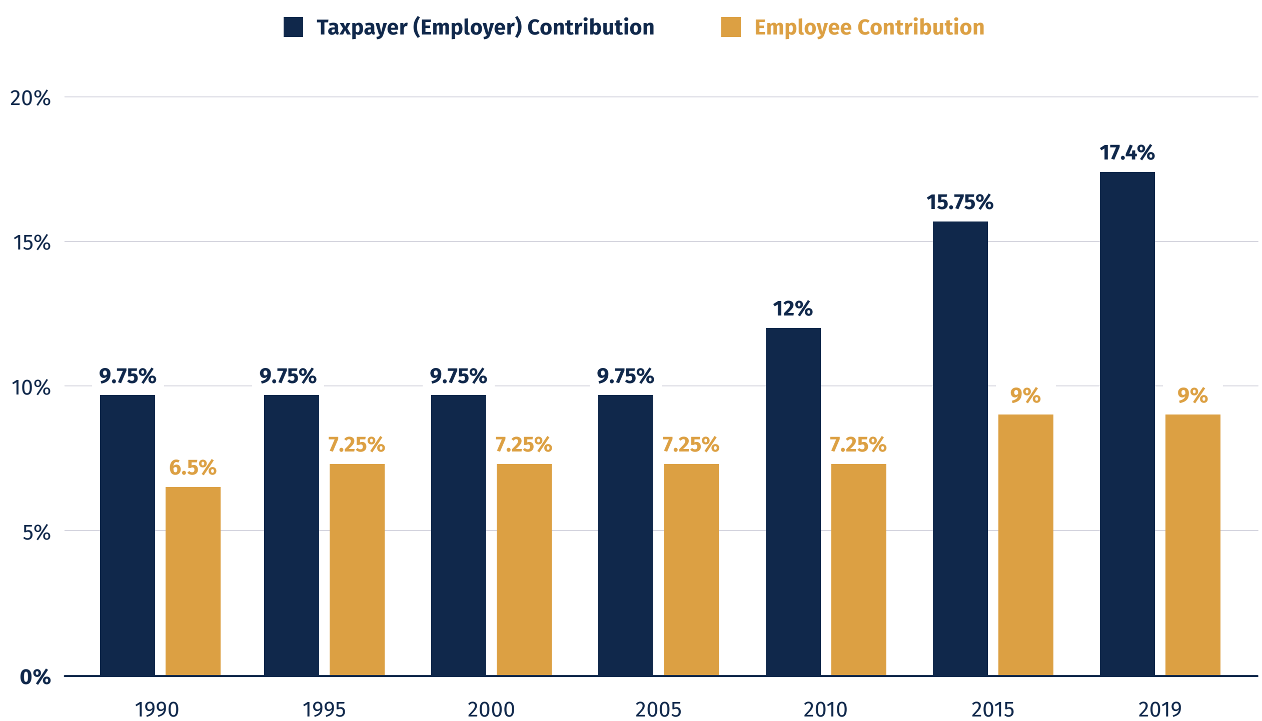
Total COLA Benefits Paid



PERS Funding Ratio



PERS Taxpayer and Employee Contribution Rates



State Budget

Introduction

Mississippi's state budget has been on a steady upward trend since 2000, with annual increases averaging 2.44 percent for general fund expenditures.

Under Democratic control of the legislature and removing three budget years with precipitous revenue drops following the 9/11 attacks and the 2009 financial crisis, general fund spending increased 4.35 percent annually.

Republican control of the legislature hasn't led to a large cut in general fund appropriations. Spending under the GOP-controlled legislature increased at an annual rate of 3.4 percent. The key U.S. measure for inflation, the Consumer Price Index, increased at a 2.1 percent annual rate during that time period.

The biggest drivers behind those increases were public education (35.6 percent increase between 2000 and 2018) and social welfare, which includes Medicaid, which increased 64.77 percent during that same timeframe.

The more than $4.2 billion in debt service doesn't include $300 million being added from 2018's infrastructure package or $371 million for the seemingly annual "Christmas Tree" bond bill for various projects and $45 million for improvements to the Huntington Ingalls Shipyard in Pascagoula during the 2019 session.

Key Facts

- Mississippi is consistently ranked one of the states most dependent on federal funds, with those funds making up 43.3 percent of the budget.
- Since 2000, the general fund has made up about 27.14 percent of all spending, which includes special funds generated by agency-specific fees and other taxes plus federal funds.
- The state's general obligation bond indebtedness has increased by 71.77 percent since 1996, when taxpayers owed $1,205,498,000.

• As of the state's comprehensive annual financial report from 2018, that amount is up to $4,269,670,000.

Recommendations

+ Combine several of the state's public universities and/or community colleges to cut administrative expenses.

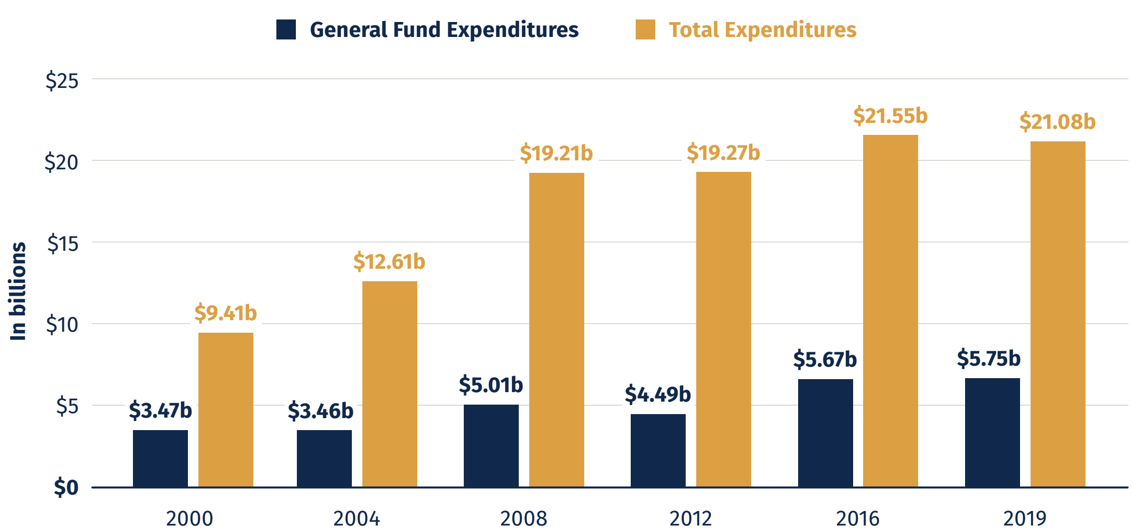
+ Combine agencies that have overlapping missions, such as the separate state parks run by the Mississippi Department of Wildlife, Fisheries, and Parks and the Pat Harrison Waterway District.

+ Eliminate needless agencies and commissions whenever possible.

+ Continue to find efficiencies in Medicaid and other social welfare spending programs to ensure that every taxpayer dollar is spent wisely.

+ End the practice of borrowing on the taxpayer credit card for corporate giveaways to Huntington Ingalls and others.

+ The legislature needs to separate wants from needs when it comes to the annual bond bill and ensure that borrowed funds are spent on important capital projects and not pork barrel ones designed to benefit a particular legislator's re-election chances.



Tax Reform

Introduction

Many lawmakers and members of media organizations think we have a relatively low tax burden in Mississippi because they measure the burden based on tax rates or cost per person. However, the most accurate measurement of our tax burden is tax revenue as a percent of state income.

If we look at taxes as a share of personal income, which eliminates the differences in poor and wealthy states, Mississippi has a higher tax burden than all of our surrounding states. Our tax burden (percent of personal income) for local and states taxes is 10.57 percent. All of our neighbors and every state in the Southeast is lower than 10 percent, other than West Virginia. In addition, corporate income taxes are higher in Mississippi than the national average.

We also know, thanks to decades of economic research, that the more government expands, the more it increases the tax burden on citizens. This has an adverse effect on economic growth. Over the past three decades, the percentage of state and local spending in Mississippi has increased. Today, it is more than 21 percent of our GDP.

According to economic analysis, that's roughly twice the optimal rate of government spending in order for a state to maximize economic growth. As of 2019, Mississippi had the nation's highest percentage of state and local spending as a percentage of GDP, followed by West Virginia and Oregon.

Another proven way to reduce economic growth is to place a higher tax burden on private sector businesses. In Mississippi, we have a higher tax burden on companies than any of our neighbors — about 40 percent greater (6.5 percent effective business tax rate versus 4.3 percent).

For local business taxes, our companies are contributing about 75 percent of the local tax revenue — higher than all of our surrounding states and roughly 50 percent more than the national average. This discourages small business development, expansions, and start-ups. It's what economist refer to as the "unseen" costs of high tax burdens, jobs not created, businesses not started, and capital not risked.

There are multiple drivers of our high tax burden on business. In addition to the basic corporate tax rate, we levy significant sales and property taxes. In addition to taxing Mississippi businesses for their revenues, we also tax them for land, buildings, equipment, and inventory.

Taxes on property is 37 percent, which represents the largest portion of our corporate tax burden, and is higher than any of our neighboring states. We are one of only 10 states that taxes business inventories. Tennessee and Alabama do not have a tax on inventory. We are also one of only nine states that tax intangible property, like stocks, bonds, and trademarks. Finally, we tax manufacturing businesses at an effective rate of 17.8 percent, giving Mississippi the second-highest manufacturing tax rates in the nation. No wonder we have to provide tax incentives to attract manufacturing companies to the Magnolia State!

Key Facts

- Our tax burden (percent of personal income) for local and state taxes is 10.57 percent. All of our neighbors and every state in the Southeast is lower than 10 percent, other than West Virginia.
- As of 2019, Mississippi had the nation's highest percentage of state and local spending as a percentage of GDP.
- For local business taxes, our companies are contributing about 75 percent of the local tax revenue — higher than all of our surrounding states and roughly 50 percent more than the national average.
- We tax manufacturing businesses at an effective rate of 17.8 percent, giving Mississippi the second-highest manufacturing tax rates in the nation.

Recommendations

+ Reduce all taxes and simplify the existing tax system so that we can rely on a broad-based environment of low taxes to attract entrepreneurs, business owners, and corporations, rather than targeted, company-selective tax incentives.
+ Repeal corporate property taxes involving inventory, equipment, land, and intangible property for all manufacturing businesses.
+ Eliminate all business tax credits.
+ Eliminate taxes on investments and capital gains, which represents a double-taxation to citizens who have already paid taxes on the money they earned in the first place.

Healthcare

Introduction: Free Market Reforms

Conservative lawmakers face three challenges when it comes to healthcare: A lack of credibility, a lack of passion, and a lack of good ideas. In spite of pledging for years to do so, the Republican Congress failed to repeal Obamacare when they had the chance after the 2016 presidential election. This broken covenant is one reason Democrats made significant gains two years later, taking the U.S. House.

Along with dispossessing themselves of any moral courage, Republicans stumbled over two issues: Pre-existing condition insurance coverage and Medicaid expansion. Politicians will cite poll numbers indicating American voters like Obamacare's promise to cover pre-existing conditions. Instead of embracing this popularity and demonstrating how innovative reforms (like invisible high-risk pools and guaranteed coverage riders) can address the pre-existing coverage problem, Republicans ran away from it.

Likewise, many Republicans could not walk back from Medicaid expansion for able-bodied adults because the money is just too good — not good for taxpayers and patients — but for hospitals and insurance companies.

The second challenge conservatives face when it comes to healthcare policy is that they just don't want to do it. They haven't spent enough time digging in and learning about it. They don't (literally) show up, ceding the talking points, press coverage, and sound bites to the left. Worst of all, they don't seem to empathize with the plight of middle-class voters who have seen nearly all of their income gains go toward paying ever-escalating medical bills and insurance premium costs.

Third, conservatives don't have many good ideas when it comes to healthcare. The only "good" news here is that the left's ideas are far worse. These ideas are appealing, however, because the left is playing on a grand scale. They offer a sweeping vision for healthcare reform that at least acknowledges the real problems faced by American families. By contrast, even our best conservative champions seem enamored with incremental repairs that will hardly alter the direction of American healthcare.

As we predict herein, this direction is toward a split system that abandons most of America to a government subsidized leviathan, replete with rationing and poor outcomes; or, for those who can afford it, an alternative cash-payment model.

At the state level, Mississippi lawmakers would do well to focus on three priorities: Increasing pricing transparency, not expanding Medicaid, and cutting red tape. The pricing problem is just as much a tax problem. Following the Trump administration's lead, lawmakers should do all they can to encourage more people to buy direct: By purchasing healthcare and health insurance for themselves, instead of through third-party insurance or through an employer.

Second, Mississippi lawmakers must steel themselves against the siren call of Medicaid expansion. They must continually remind voters that Medicaid expansion is nothing more than welfare expansion to able-bodied, working-age adults and that it will cost far more than anyone predicts. It will cost so much that it will divert resources from other needs such as K-12 education, roads and bridges, and the state retirement system.

Finally, state lawmakers should cut red tape. Cutting red tape is good for every business; the healthcare business is no exception. Cutting red tape will encourage innovation, resulting in a greater supply of high-quality care at a lower price. It is the only way we are going to make healthcare affordable — not just for the moment, but for generations to come.

Certificate of Need

Introduction

A basic principle of economics is that price responds to supply. A smaller supply translates into a higher price. More supply translates into a lower price. As with any other service or commodity, healthcare is subject to these same rules. If we want to lower prices and increase healthcare access we should focus on expanding the supply of healthcare. As with any other product, this can be done by maintaining, if not increasing, quality. That certainly is the promise of modern technology, which has increased access even as it has elevated quality. The question policymakers need to consider is whether healthcare is really that much different from any other service or good — for instance, buying a computer.

One of the things that makes the healthcare market different is byzantine regulations used to protect providers from competition. One of the most significant of these is Certificate of Need (CON) laws, which are used to protect hospital monopolies. CON laws require would-be medical providers to prove — essentially to their competitors — that their community needs a new facility or service. The equivalent in the computer business would be a law prohibiting a startup (i.e., Apple) from entering the market without permission from IBM. Such a law would have prevented Apple from ever getting off the ground, making the iPhone revolution very unlikely. Just as competition in the computer industry has helped billions of consumers worldwide, repealing CON laws will increase the quality of healthcare for millions of Mississippians.

CON laws are a relic of a short-lived federal mandate that was repealed in 1986. After an initial push in the states to roll back these laws, lawmakers have been reluctant to challenge hospital monopolies. Between 2000 and 2016 only two states eliminated their CON laws: Wisconsin and New Hampshire. Rising healthcare prices, as well as rapid advances in technology, are encouraging state lawmakers to realize that CONs are harmful. In 2019, Florida repealed its CON law for hospitals and tertiary services. Likewise, Georgia recently reformed its CON laws. Fifteen states currently have no CON laws. Both the Trump and Obama administrations have strongly urged states to repeal CON laws.

The Mississippi Department of Health is the central planner tasked with administering the state's CON program. The Department's CON Review program applies to "the establishment of new healthcare facilities, the offering of defined new institutional health services, and the acquisition of major medical equipment." Some of the covered services include: Open heart surgery, in-patient rehabilitation services, chemical dependency services, radiation therapy services, diagnostic imaging, nursing home care, home health services, ambulatory surgical services, and long-term care hospital services. In some cases, such as for skilled nursing facilities, no CONs are being issued at all due to prohibitions enacted in the early 1980s.

Recent studies by economist Thomas Stratmann demonstrate that non-CON states have more hospital beds per capita, more rural hospitals, and more access to MRI machines. Stratmann also found that healthcare providers in CON-law states “tend to provide lower-quality services” and that “deaths from treatable complications following surgery and mortality rates from heart failure, pneumonia, and heart attacks are all significantly higher among hospitals in CON states than in non-CON states.”

Far from improving healthcare outcomes for the poor, as some claim, CON laws actually have a disproportionate impact on low-income consumers. They also correlate with negative healthcare outcomes for minorities. Researchers have found no evidence that CON laws result in more uncompensated/charity care — a supposed benefit derived from protecting hospital monopolies in low-income and rural areas.

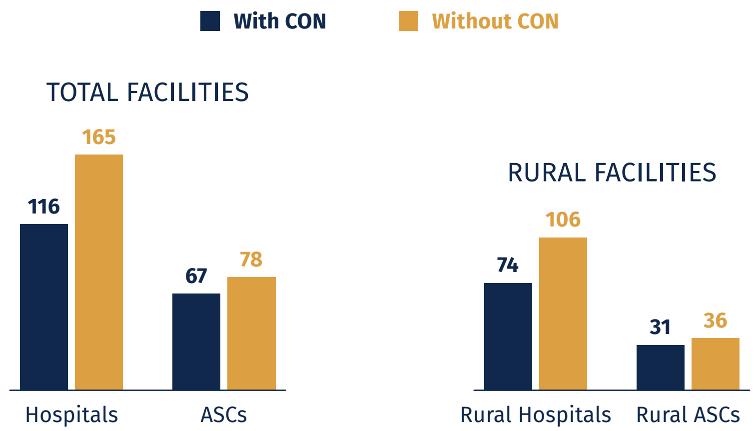
Key Facts

- CON laws were repealed at the federal level in 1986, yet CON laws remain on the books in all but 15 states today.
- In Mississippi, there are healthcare fields where no new CONs have been issued since the early 1980s due to state prohibitions.
- CON laws have a disproportionately negative impact on low-income and minority consumers.

Recommendations

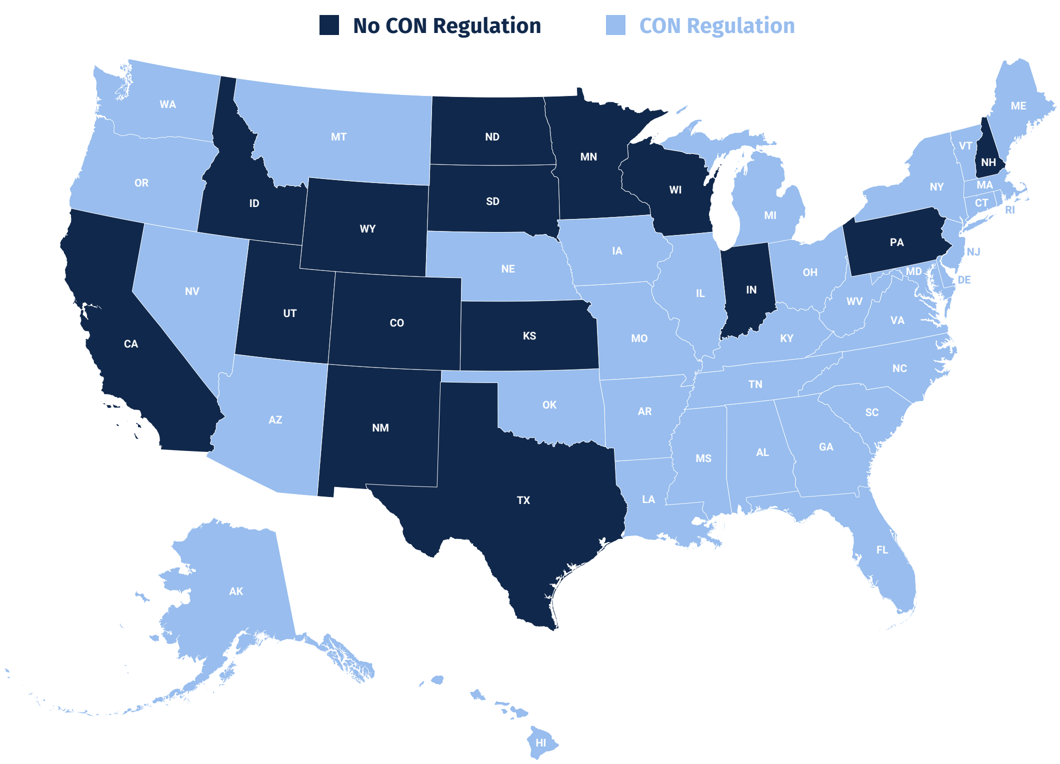
+ Make it harder to challenge a CON application by making would-be challengers of new CON applications pay any legal and administrative costs caused by frivolous delays.
+ Temporarily suspend CON requirements for five years in low-income and rural counties where healthcare access is a problem.
+ Start small by sunsetting CONs for one covered area, such as ambulatory surgical care.

Estimated Changes in Access to Healthcare Facilities in Mississippi Without CON



Sources: Mercatus Center at George Mason University

CON Regulation in the United States



Sources: American Health Planning Association

Healthcare Pricing

Introduction

Compared to other countries, American healthcare costs are very high. In part, this is because we have much better healthcare than most other countries; in part, this is also because price is only an indirect consideration for most consumers. Thus, consumers — and providers — tend to choose the most comprehensive care available, sometimes regardless of whether they need it or not. Multiple factors are fueling rising healthcare costs, but policymakers should primarily focus on third-party insurance — that is, traditional health insurance.

Insurance plans conceal the cost of healthcare by allowing consumers to purchase health insurance instead of purchasing healthcare directly. Because very few consumers actually purchase their own healthcare — the insurance company is the actual purchaser — pricing is not transparent. Indeed, it is only with great difficulty that cash-paying customers are able to discover the price for most medical services. This lack of transparency benefits providers as well as insurance companies, who earn more as premium prices increase.

As a result, rising healthcare costs are hurting the middle class. Along with hospital and health insurance company profits, healthcare prices have risen since the enactment of the Affordable Care Act (ACA) in 2010. Adjusted for inflation, healthcare spending on a per capita basis has increased 30 times over since 1970, according to data from the Kaiser Family Foundation. And health insurance premium costs have doubled between 2013 and 2017, with no signs of slowing down.

The ACA is accelerating the bifurcation of American healthcare into two very different camps. As in other countries that have adopted socialized medicine, two divergent ways of accessing healthcare are emerging in the United States. The first way will offer government subsidized insurance to the masses: A Medicaid-like program that uses rationing and waiting periods to tamp down skyrocketing costs and government spending. The second way is the direct cash payment model, which uses market mechanisms and pricing transparency to provide affordable care at a fair price.

As economic historian Dr. Christy Chapin puts it, “The problem with American healthcare is not the care. It’s the insurance.” Paying cash for healthcare is not a new idea; it’s a very old one. Modern health insurance began its evolution in the 1920s, taking its current form in the 1940s. Thanks to entities like Blue Cross/Blue Shield, the American Medical Association, and the federal government, this inefficient, expensive, employer-based and hospital-oriented system squeezed out other payment mechanisms.

As Chapin writes, "An alternative structure can be found in the early decades of the 20th century, when the medical marketplace offered a variety of models. Unions, businesses, consumer cooperatives, and ethnic and African-American mutual aid societies had diverse ways of organizing and paying for medical care. Physicians established a particularly elegant model: The prepaid doctor group."

Recovering these models is going to take work, but the states are the only ones that can lead the way by creating pilot programs customized for 21st century consumers.

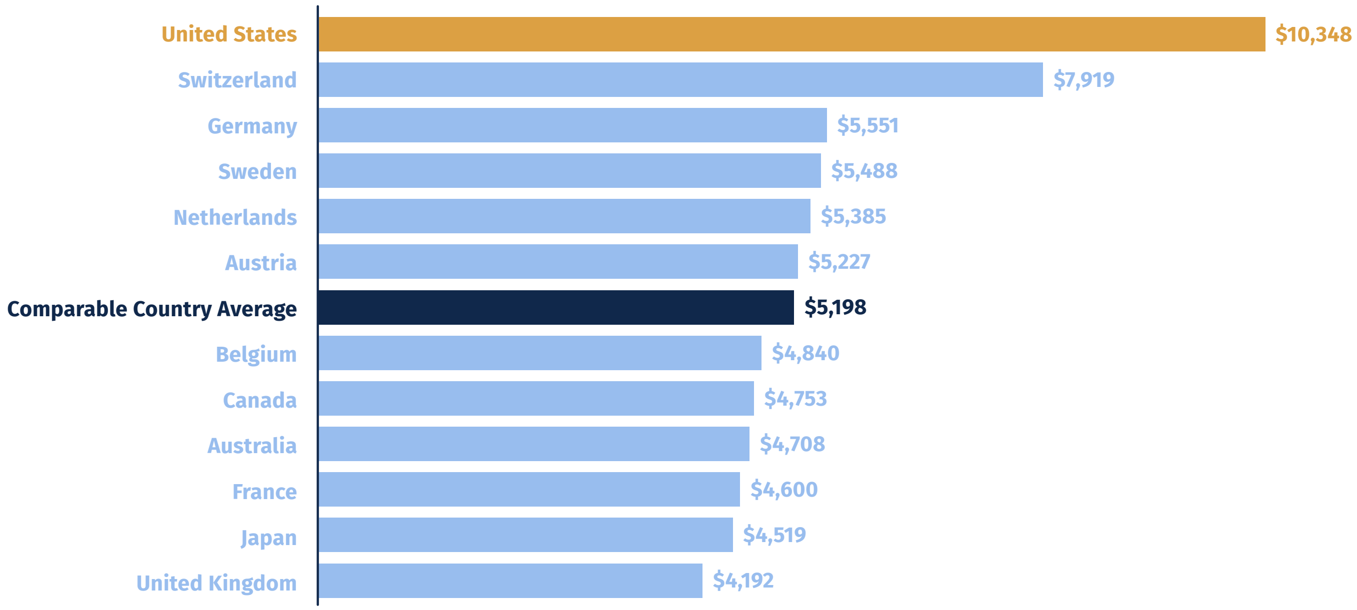
Key Facts

- Healthcare spending has increased 30 times over since 1970.
- Health insurance premiums doubled between 2013 and 2017.
- A direct cash payment model for health insurance will use market mechanisms and pricing transparency to provide affordable care at a fair price.

Recommendations

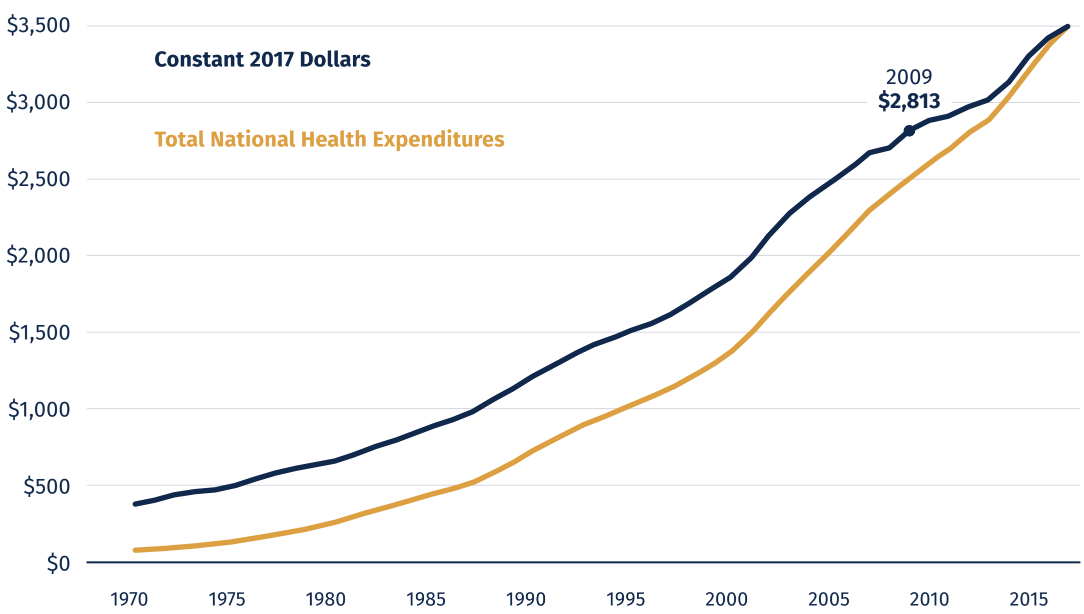
+ Incentivize transparent pricing while also providing consumers a financial incentive to want to know the price, along with the technology to easily compare prices. This can be accomplished by creating a savings reward program for the State and School Employees' Health Insurance Plan, where state employees receive a cash rebate whenever they save the state money by shopping for lower-cost medical services.
+ Encourage direct surgical care by allowing patients to pay a fixed monthly fee for surgical care and in-patient stays, similar to the direct primary care model.
+ Provide tax advantages for consumers who purchase healthcare directly. One example is a state tax credit for consumers who participate in a Healthcare Sharing Ministry, which allows people of faith to pool their resources to pay for each other's medical bills.

Total Health Expenditures Per Capita, 2016



Source: Organization for Economic Co-operation and Development, Centers for Medicare & Medicaid Services

Total National Health Expenditures, 1970-2017



Source: Kaiser Family Foundation

Medicaid

Introduction

Healthcare policy in Mississippi revolves around Medicaid, not only because it is the largest healthcare expenditure in the state budget, but because it is the largest expenditure, period, in the state budget. Medicaid is a public health insurance program for low-income families that costs Mississippi and federal taxpayers billions of dollars every year: An estimated $6.39 billion for 2019, of which $4.94 billion will be supplied by the federal government.

Almost one-quarter of Mississippi's population is on Medicaid. Yet, as many as half of Mississippi's primary care physicians are not accepting new Medicaid patients. Medicaid beneficiaries also have well documented difficulties seeing specialists and suffer from much higher surgical mortality rates. In fact, a significant new study demonstrates Medicaid beneficiaries are no healthier than the uninsured.

While Medicaid is theoretically a voluntary federal-state partnership, the federal government funds most of the program, and the state has almost no incentive, and little authority, to limit Medicaid enrollment and spending. Instead of expanding a broken Medicaid system, Mississippi policymakers should focus on healthcare quality and supply-side reforms, as detailed elsewhere in this section.

Unlike Medicaid, Medicare is a (mostly) single-payer, national insurance program that covers people aged 65 and older and some disabled populations. Medicare is fully funded and controlled by the federal government. Twenty percent of Mississippi's population is on Medicare, and 20 percent of Mississippi's population is on Medicaid (610,737 individuals as of March, 2019). Some people (known as dual eligibles) receive both Medicaid and Medicare. Mississippi's dual eligible population is very high, 30 percent as compared to a national average of 20 percent.

As an insurance product, Medicaid essentially provides financial protection from unplanned-for medical bills. In turn, the Mississippi Division of Medicaid is not a healthcare provider, but a purchaser of healthcare. A person might have Medicaid insurance, but still be unable to see a doctor. This is because many healthcare professionals do not accept Medicaid insurance owing to low provider reimbursement rates.

Medicaid is an open-ended entitlement, which means anyone eligible for the program has a legal right to enroll. States are prohibited from implementing enrollment caps, waiting lists, or individual spending caps. Thus, they do not have the same incentives or tools to control costs as they do with other welfare programs, such as TANF. The only real limit on Medicaid spending is demonstrated need. Moreover, in spite of support from the Trump administration to refocus Medicaid on improving healthcare outcomes — for instance, by encouraging very light work requirements as Mississippi has done — the courts have instead favored policies aimed at merely expanding coverage.

The Affordable Care Act highly encourages states to add a new eligibility category to their Medicaid rolls: Able-bodied, childless adults earning less than 138 percent of the federal poverty level. The U.S. Supreme Court made this mandated expansion optional, but it is still incentivized by a 90 percent federal funding match.

Medicaid expansion in every state has cost more than projected, forcing lawmakers to cut funding for education, roads, or other services to make up the difference. As of August, 2019, 14 states, including Mississippi, have declined to expand Medicaid. It is worth noting that this expansion of Medicaid to able-bodied adults is actually crowding out services and funding for vulnerable populations already covered by Medicaid, such as disabled children on the home and community based services (HCBS) waiting list.

Key Facts

- Medicaid is not Medicare.
- Medicaid is not healthcare; it is a government-subsidized insurance program.
- As underscored by the U.S. Supreme Court in *NFIB v. Sebelius* (2012), Medicaid is an optional federal program. That said, the financial incentives are so tempting that every state participates.
- Medicaid is an open-ended entitlement, with a prohibition on enrollment caps, waiting lists, or individual spending caps.
- The Affordable Care Act required states to add able-bodied, childless adults to Medicaid rolls.
- Mississippi is one of 14 states that have declined to expand Medicaid.

Recommendations

+ Refocus Medicaid to protect coverage for vulnerable populations. Expanding Medicaid to cover able-bodied working-age adults will threaten an already fragile safety net that is supposed to be serving our most vulnerable low-income populations.

- Require nonprofit and public hospitals to serve more low-income patients by changing state law to encourage these hospitals to serve more low-income patients if they wish to keep their nonprofit status.

- Encourage migration to private insurance plans by using the federal waiver process to encourage Medicaid patients to transfer to private insurance plans that offer better coverage.

- Cut red tape to encourage charity care. Dozens of private charity care clinics around the state are providing free and low-cost care to indigent persons. The Mississippi Medical Association, however, has repeatedly blocked efforts to expand the supply of charity care. Based on the experience of other states, policy reforms aimed at encouraging charity care could incentivize $27 million in free care in Mississippi. Another way to expand charity care is to expand the current individual tax credit for donations to charity care nonprofits, as well as create a business tax credit.

How States Are Funding Medicaid Expansion as Federal Funding Fades

State	Source of Funding	State	Source of Funding
Arizona	Hospital fee	**Louisiana**	Tax on HMOs
Arkansas	Work requirements, premiums	**Minnesota**	Provider fee
California	Cigarette taxes, hospital fee	**New Hampshire**	Liquor taxes, work requirements
Colorado	Hospital fee	**North Dakota**	Cut provider reimbursement rate
Indiana	Cigarette taxes, hospital fee, work requirements, premiums	**Oregon**	Tax on hospitals and health insurance plans
Kentucky	Work requirements, premiums	**Virginia**	Provider fee

Source: Governing

Projected and Actual Medical Expansion Costs in Millions, By State

State	Projected Cost	Actual Cost	Cost Overruns	Percent Over	Years of Data Available
Alaska	$320	$593	$273	85%	2 years
Arizona	$4,652	$5,350	$698	15%	2.5 years
Arkansas	$1,800	$3,225	$1,425	79%	2.5 years
California	$11,558	$43,679	$32,122	278%	2.5 years
Colorado	$2,233	$3,270	$1,036	46%	2.5 years
Hawaii	$236	$625	$389	165%	2 years
Illinois	$4,596	$9,230	$4,633	101%	3 years
Iowa	$1,378	$1,734	$356	26%	2.5 years
Kentucky	$3,068	$5,971	$2,903	95%	2.5 years
Louisiana	$1,164	$2,509	$1,344	115%	1 year
Maryland	$1,475	$4,707	$3,232	219%	2.5 years
Michigan	$5,458	$6,664	$1,206	22%	2.25 years
Montana	$473	$802	$329	70%	2 years
New Hampshire	$899	$1,066	$168	19%	2.75 years
New Mexico	$2,150	$2,877	$727	34%	2.5 years
North Dakota	$208	$547	$339	163%	2.5 years
Ohio	$7,383	$14,467	$7,084	96%	3.5 years
Oregon	$3,185	$6,126	$2,977	93%	2.5 years
Pennsylvania	$1,463	$2,813	$1,350	92%	1 year
Washington	$3,611	$6,456	$2,845	79%	2.5 years
West Virginia	$1,268	$1,835	$567	45%	2.5 years

Source: Foundation for Government Accountability

Scope-Of-Practice Reform

Introduction

Mississippi currently possesses a talented, but untapped, supply of high-quality healthcare providers. These providers are willing to work in rural and low-income areas. They are also willing to work for less than physicians and dentists. These providers are nurse practitioners and midlevel dental therapists.

But just as Certificate of Need laws are being used to protect hospital monopolies, professional licensing and scope-of-practice regulations are being used to protect individual provider monopolies. The worst of these are regulations that prevent nurses from practicing up to their full training, thus denying patients access to high-quality care at an affordable price. Similar protectionist policies are being used to limit patient access to affordable dental care.

As far as practice authority goes, there are basically two kinds of nurses: Licensed (LPNs)/registered nurses (RNs) and nurse practitioners (NPs), which are also called Advanced Practice Registered Nurses (APRNs). APRNs have at least a Master's degree and have obtained additional training so that they can work independently. By contrast, RNs work under the supervision of a physician. Mississippi is home to 62,945 licensed/registered nurses and 4,843 nurse practitioners, compared to 6,245 licensed physicians.

Mississippi limits the ability of APRNs to practice up to their full training — what is called "full practice authority." In particular, APRNs who wish to open their own practice, or a free-standing clinic, must enter into a collaborative agreement with a physician. This agreement requires the supervising physician to be within a 75-mile radius of the nurse's practice location. The supervising physician is then required to randomly review up to 20 of the APRN's patient charts and meet with the APRN once every quarter. The typical charge for this minimal (not real time) standard of review is $74 a day or $2,250 a month.

Numerous studies demonstrate that APRNs provide care that is at least as good as physicians, with some studies showing even better outcomes. In part, this may be because nurse practitioners are both less expensive and more accessible, especially for rural and low-income patients. Other evidence suggests that APRNs tend to follow recommended guidelines more frequently and, also, spend more time with patients — practices associated with better patient outcomes.

That is why 24 states and the District of Columbia extend full practice authority to nurse practitioners, which means APRNs can independently evaluate and treat patients. By contrast, only eight states allow midlevel dental therapists in some form or another.

A midlevel dental therapist provides preventative dental care and may provide restorative care, such as filling cavities. A midlevel provider is basically like a physician's assistant. They rarely, if ever, function apart from a dentist's supervision. In this respect, midlevel providers can help dentists serve more patients while providing the same level of care.

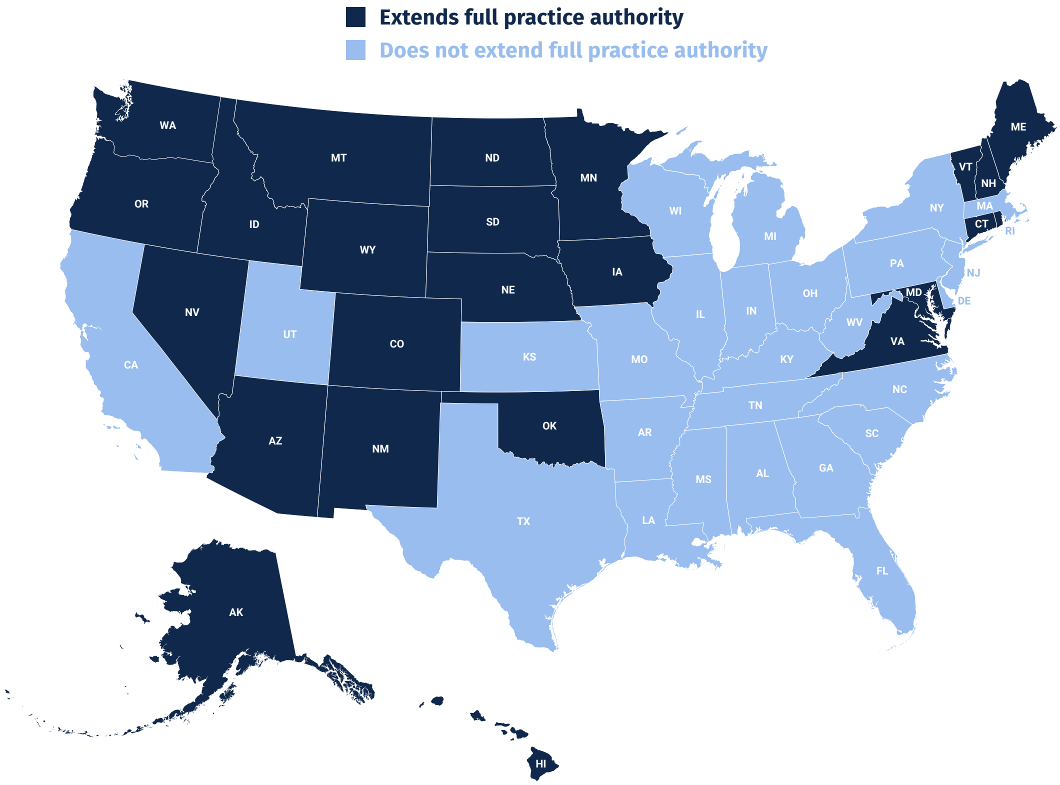
Key Facts

- Mississippi is home to 4,843 nurse practitioners.
- Mississippi limits the ability of nurse practitioners to open their own practice without a collaborative agreement with a physician.
- Twenty-four states and the District of Columbia extend full practice authority to nurse practitioners.
- Eight states allow midlevel dental therapists to provide preventative dental care and restorative care.

Recommendations

- Let nurses practice by eliminating the mileage requirement that handicaps nurse practitioners from serving patients in rural areas.
- Place a time limit on collaborative agreements so that nurses who have provided high-quality care for two years without incident may be released from the collaborative agreement requirements.
- Create a midlevel dental provider pilot program that allows dentists in rural and low-income areas to hire midlevel dental providers licensed in other states.
- Initiate a midlevel dental provider certification program at a Mississippi institution of higher learning.
- Expand the supply of alternative providers by looking at how licensing and certifying professionals in allied fields, such as naturopaths, could help improve health outcomes and lower costs for the people of Mississippi.

States That Extend Full Practice Authority to Nurse Practitioners



Sources: American Association of Nurse Practitioners

Employment Projections Data for Nurse Anesthetists, Nurse Midwives, and Nurse Practitioners, 2016-2026

Occupational Title	Employment, 2016	Projected Employment, 2026	Change, 2016-26	
			Percent	Numeric
Nurse anesthetists, nurse midwives, and nurse practitioners	203,800	268,000	31	64,200
Nurse anesthetists	41,800	48,600	16	6,800
Nurse midwives	6,500	7,800	21	1,300
Nurse practitioners	155,500	211,600	36	56,100

Source: U.S. Bureau of Labor Statistics

The Affordable Care Act

Introduction

The Affordable Care Act (ACA), otherwise known as Obamacare, is here to stay … for now. Really, the ACA is an unstable structure teetering toward the promised land of "Medicare for All." By doubling down on some of the worst aspects of the American healthcare system — for instance, the overreliance on third-party insurance — the ACA is accelerating the demise of the current system.

That said, the Trump administration has done its best to provide alternatives to Obamacare. The administration's hands are tied because the Republican Congress failed to repeal Obamacare, in spite of promising to do so for years. This means that President Donald Trump must use the existing rulemaking process to make reforms aimed at improving access.

The most important of these reforms are: Restoring access to short-term insurance plans, unleashing the tax advantages offered by healthcare reimbursement arrangements, and encouraging the adoption of association health plans. No doubt, these reforms can improve healthcare outcomes for millions of Americans, but they can't undo the damage that continues to be caused by Obamacare.

President Barack Obama promised that his signature health plan would "cover every American." In spite of a price tag running into the trillions, 30 million Americans are still uninsured. Moreover, many of those who have obtained insurance are actually on Medicaid. Still others, who are on the ACA health insurance exchange, are strapped with subsidized "private" health plans that are almost worthless owing to high deductibles. At the same time, nonsubsidized plans are too expensive for middle-income customers, who are increasingly choosing to forgo coverage.

The reason we have Obamacare is because too few conservative policymakers are interested in working on healthcare policy. Conservative policymakers need to focus their efforts on developing concrete solutions that can help their constituents without growing government. (Hint: The answer is to be found by increasing the supply side of healthcare.)

While not theoretically true, most Americans believe healthcare is a right, meaning they support the idea that government should somehow guarantee access to healthcare for the poor and those with pre-existing conditions. Instead of arguing this point, conservatives need to re-envision how the popularly perceived right to healthcare can be best translated into concrete reforms guided by free market ideals. At the state level, this conversation should begin by considering an appropriate balancing of rights and responsibilities for Medicaid beneficiaries, with an emphasis on ways to reconnect doctors and patients by incentivizing the provision and reception of quality care. One example of this is the Asheville Project (based in North Carolina), which uses intensive education, combined with financial incentives, to encourage patients to self-manage their diabetes.

Today, many on the left have made “Medicare for All” a campaign slogan by using the Medicare brand to offer voters a single-payer, government-run healthcare program. (In all fairness, Medicare is a single-payer system, but with very limited enrollment.) The devolution toward Medicare for All is likely to follow this path:

1. ACA subsidies expand to include the middle class.

2. Insurer profits increase dramatically.

3. The public decides insurance companies are the problem.

4. Private insurance is replaced with a government-pays system that allows insurance companies to continue to profit by selling supplemental coverage (think: Medicare Part D).

The real question is whether healthcare will devolve into a government monopoly similar to the public school system in which the government also controls the provision of — and not just the payment for — services.

Key Facts

- More than 30 million Americans are still without healthcare after spending trillions on the ACA.

- In 2020, ACA compliant plans will have a maximum out-of-pocket limit/deductible of $8,150 for an individual and $16,300 for a family.

- The perceived “right to healthcare” should be translated into concrete reforms guided by free market ideals.

- “Medicare for All” would lead to the eventual destruction of the private marketplace where most Americans receive their health insurance, replaced by a government monopoly.

Recommendations

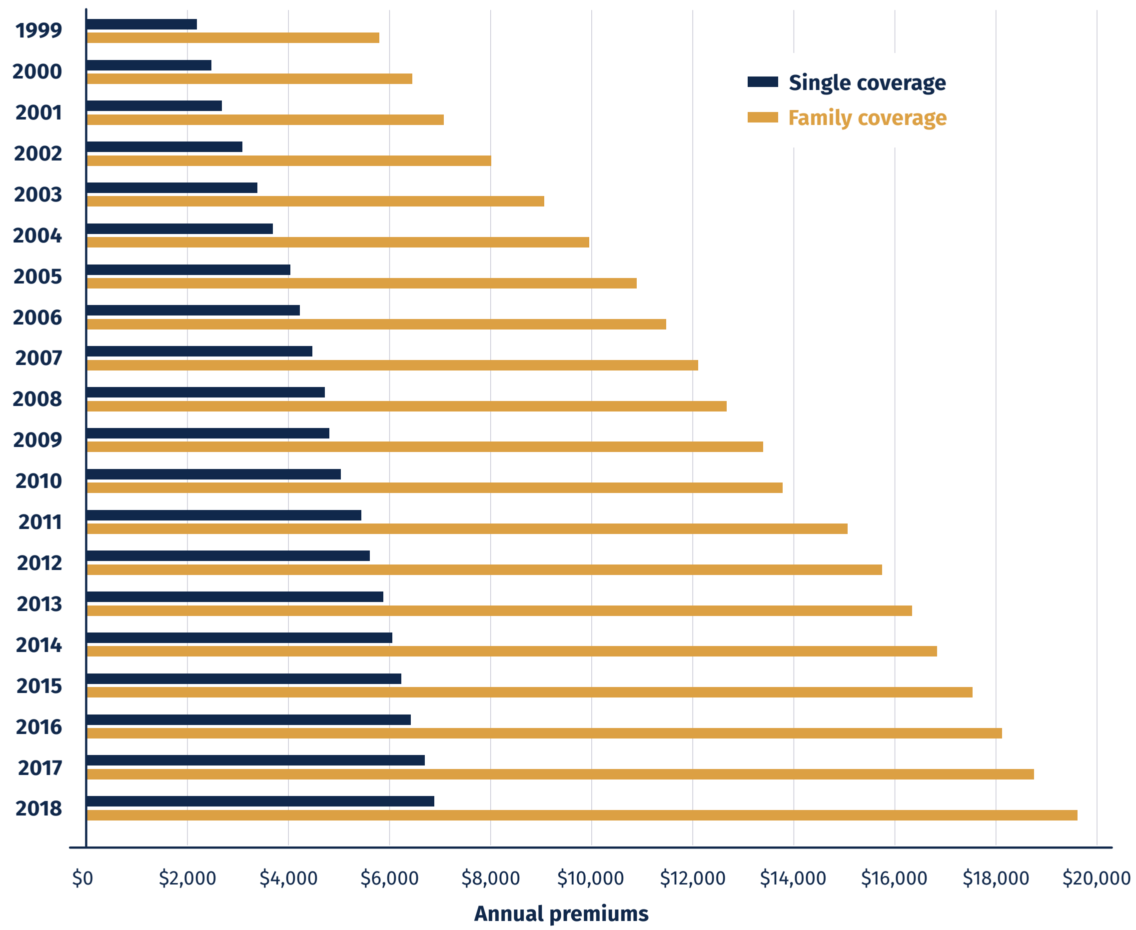
+ Encourage Healthcare Reimbursement Arrangements (HRAs), which are now much more affordable because of a federal rule creating a tax break for employers and employees. Mississippi lawmakers need to conform state law to federal law so as to allow employers and employees to take full advantage of HRAs.

- Unleash the power of association health plans which allow trade associations to purchase group plans. Guidance from the Mississippi Insurance Department indicates that Mississippi law prohibits self-insured AHPs. The legislature should overrule MID by passing a law that allows self-insured AHPs.

- Encourage short-term health insurance options.

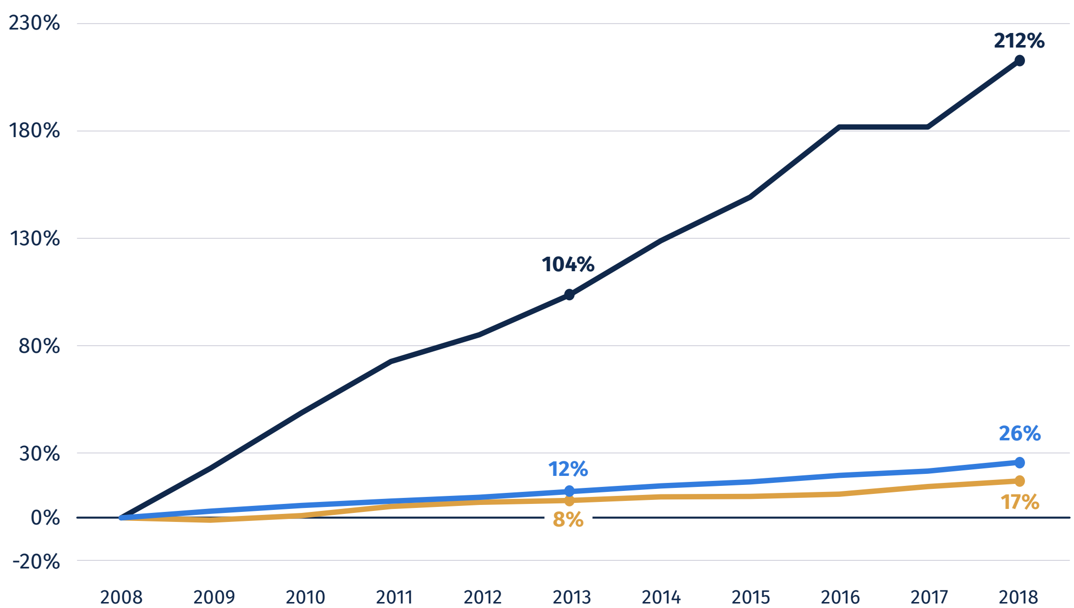
- The state should look for ways to reconnect doctors and patients by incentivizing the provision and reception of quality care.

Average Annual Premiums for Single and Family Coverage, 1999-2018



Source: Kaiser Family Foundation

Since 2008, General Annual Deductibles for Covered Workers Have Increased Eight Time as Fast as Wages



Note: Average general annual deductibles are among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.

Source: Kaiser Family Foundation

Education

Introduction: Putting Parents in Control

Over the past hundred or so years, virtually every aspect of our lives has changed, and for the better. And they changed because men and women with vision interrupted and disrupted that market. Indeed, things have progressed so rapidly that we often don't even think about it as it's happening.

But we can look back. And we'll see that very few things in our life today look similar to just a generation or two ago. Let alone a century. Except the delivery of education. While we may have white boards or PowerPoint instead of chalk boards, the delivery has remained the same.

A child is assigned a school based on their age and where he or she lives. And you are not able to go somewhere else, even though it might be called "public," unless you receive permission from both your home school district and the district you would like your child to attend. Some states have more generous student transfer laws, but not Mississippi.

The teacher still stands at the front of the classroom, while students are arranged in rows of desks. You attend classes that the school district or state decides you must take, and you are graded by a test.

So why haven't we seen significant progression? And does it matter?

There is little motive to change. Horse and buggy operators didn't invent the Model T. Henry Ford, an entrepreneur and innovator, did. If we were reliant on horse and buggy operators for change, we might now have a third row in our buggy or perhaps another color in addition to black.

But in the case of education, and the education most receive in this country, government has a stranglehold on the delivery. It is the assembly line delivery of education, with little ability to receive an individualized education where you can distinguish yourself or follow your passions.

This mold has started to break. We have seen education entrepreneurs flourish in Mississippi. The 3-D School began to provide Orton-Gillingham based comprehensive dyslexia services to young students long before public schools. Families would move to the Pine Belt just so their son or daughter could receive the services they offered. Today, the school has expanded from their original Petal location to a second school on the Gulf Coast because of demand.

In Greenwood, Delta Streets Academy is proving that at-risk boys in an impoverished area can succeed, can graduate, and can go to college. And the students can receive this education at little cost because of generous donors who have made the school possible.

And via new technology, it is easier than ever for children to learn more and follow their passions.

Consumers flourish when they have choices. We can see that from every other market. We need to move away from this belief that education is different than everyone else, and simply put parents in control. They are responsible for the upbringing of their children, and should choose the educational setting and delivery that they believe is best.

Charter Schools

Introduction

Charter schools are public schools that are free to attend, are operated by an independent board, receive more freedom than district-run public schools, but are required to meet certain state requirements to keep their charter.

They are also one of the most misunderstood educational institutions. They do not charge tuition, they are not private or religious, they are not for-profit, and they can't pick and choose students.

The nation's first charter school opened in Minnesota in 1992 to serve as a laboratory of innovation for the public sector. Soon, charter schools began to spring up around the country. There are more than 3.2 million students attending over 7,000 charter schools nationwide. But it wouldn't be until 2013 that Mississippi would become the 43rd state in the country to allow charters. As a result, charter enrollment represents just a sliver of student enrollment statewide.

Along with charters being relatively new to the state, they are also heavily regulated. Having an independent board outside of local school districts or the Department of Education, the Mississippi Charter School Authorizer Board, is a good thing, but that is the sole authorizer for the state. Many states with the fastest growing charter sectors have multiple authorizers.

Charters are also limited in where they can be located, where students can come from, and how many schools can open a year. (Though we haven't come close to reaching the maximum of 15 new schools per year.)

What makes charter schools unique in the public education sector is that they must compete for students. While students enroll in district schools based on where they live, charters must recruit — and win — students and families. If there is no interest in a charter school, it either will not open, or won't stay open long.

Arizona is an example of a state that has adopted the charter model of providing options, letting parents choose, and watching the best options rise. There are currently 600 schools serving around 200,000 students in the Grand Canyon state. That represents about 20 percent of public school enrollment in the state. Over the past several years, about 200 new charters have opened. At the same time, another 100 have closed. They didn't close because they were shut down by the state — Arizona has a generous 15 year charter agreement — but because parents left the schools. The schools that closed averaged just 62 students their final year.

According to the most recent National Assessment of Education Progress, or NAEP, scores, Arizona charter schools performed better than every other state in eighth grade math and second to only Massachusetts in eighth grade reading. So the model is working.

By making options available in large numbers, also known as supply, and giving power to choose to parents, also known as demand, we see a successful bottom-up accountability system.

In these early stages of development, Mississippi has the opportunity to learn from other states and decide if parent demand and satisfaction should play a greater role in the charter approval process. Because our current process has led to a less than dynamic and attractive environment for new operators to enter.

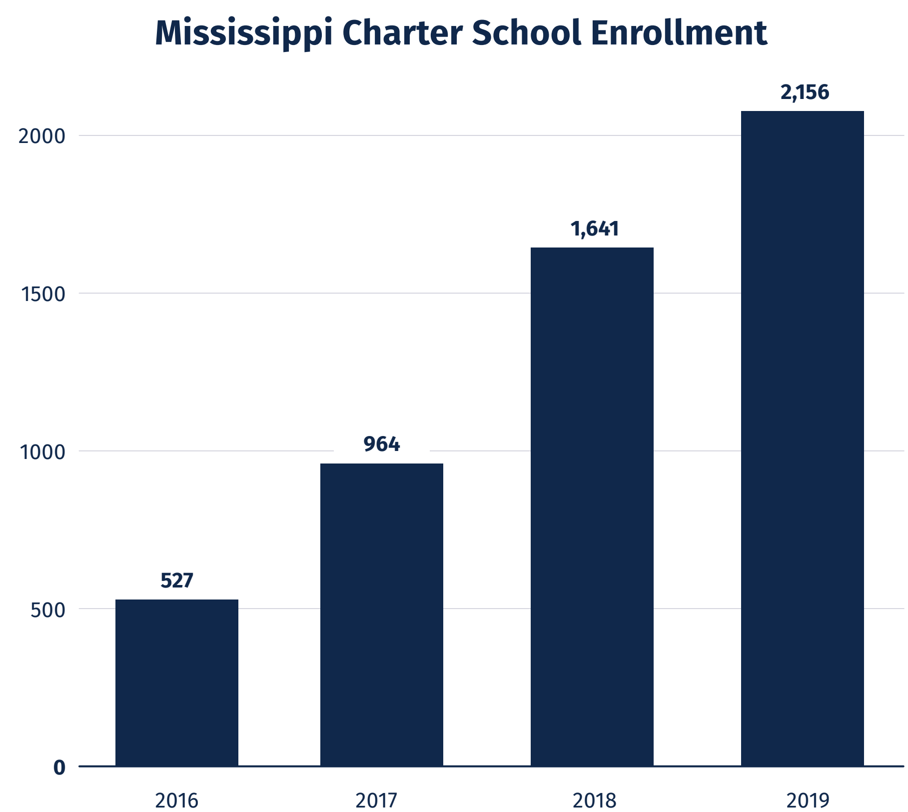
Key Facts

- Mississippi has six charter schools serving 2,156 students during the 2019-2020 school year. Three additional schools have been approved, but have not opened.
- Local school boards in districts rated A, B, or C are allowed to block charter school applications, essentially limiting charters to D or F rated districts.
- Students are allowed to attend charter schools if they live in C, D, or F rated districts.
- Virtual charter schools are not permitted.
- Mississippi has one authorizer, the Mississippi Charter School Authorizer Board, that oversees all charter applications.
- In 2019, the Mississippi Supreme Court ruled that the funding structure for charter schools in the state is constitutional.

Recommendations

+ Allow for multiple charter school authorizers.

+ Permit charter schools to open in any district in the state without having to receive permission from local school districts.
+ Allow students to attend a charter school regardless of the district where they live.
+ Make virtual charter schools available to students.
+ Extend the charter for charter schools from 5 years to 15 years.



Source: Mississippi Department of Education

Education Scholarship Accounts

Introduction

In 2015, Mississippi became just the third state in the nation to adopt Education Scholarship Accounts, or ESAs. This is an innovative approach to education, often referred to as vouchers 2.0, that allows parents to select the best educational setting, rather than just a private school, for their children.

With an ESA, parents are able to use the funds that would otherwise be spent on public education to pay for private school tuition, tutoring, therapy, textbooks, online classes, and other educational services. With this program, parents are able to truly customize and create a specific education for their children based on their needs.

The program began as a good step toward providing students with new options for their education, but it is currently limited to students with special needs who received an Individualized Education Plan within the past five years. Also, the program was severely limited by funding, resulting in long wait lists. The legislation authorized 500 scholarships the first year, with an additional 500 each year, but because funding remained at $3 million for the first four years, the program did not serve more than 435 students. In 2019, the legislature added a modest $2 million to the program.

This has resulted in wait lists and lotteries to determine the education a child will receive. And the wait list continues even after the additional funding for the program.

In a short time, the program has been wildly popular among participants. A 2018 review of the program showed 91 percent satisfaction by parents of ESA students.

ESAs have also brought a new meaning to accountability in education. Rather than test scores or government oversight that provide parents with little ability to do anything with the information they receive, parents now have the ability to evaluate the education their child is receiving and make the decision on whether they would like to continue with the current educational setting or make a different choice.

The legislature should continue to trust parents to be able to make these decisions for their children.

Key Facts

- The ESA is limited to students with special needs who have received an Individualized Education Plan within the past 5 years.
- ESA funds are allowed to be used for: Private school tuition, textbooks, tutoring, curriculum, transportation fees, online courses, nationally norm-referenced tests, therapy, public school services, and computer hardware.
- The program is funded by a separate appropriation from the legislature.
- The value of the ESA is $6,765 for the 2019-20 school year.
- Because of funding corresponding with demand, the ESA program in Florida has been able to grow from 1,570 students in 2015 to 11,917 in 2019 and the Arizona ESA program has grown from 153 students in 2011 to 6,028 in 2019.
- Tennessee expanded their ESA program in 2019 from students with special needs to also include students who live in Shelby (Memphis) and Davidson (Nashville) counties.

Recommendations

+ Remove the repealer on the current program. If not acted upon, the program will expire in 2020.
+ Tie funding to the education funding formula to ensure the program is consistently funded each year.
+ Move administration of the program from the Department of Education to the Department of Treasury, the Department of Finance and Administration, or a non-profit organization.
+ Allow homeschool families to participate in the program.
+ Allow unused funds to roll over year after year.
+ Incrementally expand the ESA program to make it available to all students currently enrolled in public school.

Prekindergarten

Introduction

Mississippi began its first statewide taxpayer-funded prekindergarten program in 2013, much to the delight of the education establishment who is sold on the premise that this is what students need to compete in today's economy.

Prior to the Early Learning Collaboratives, Mississippi has public school prekindergarten run by local districts as well as Head Start among public options. The premise of the Early Learning Collaboratives is to, as the Mississippi Department of Education says, create "a seamless set of standards that are aligned from birth through grade 12." Essentially, the regulatory and top-down environment of K-12 is now fully operational in prekindergarten.

Many will point to reports showing students are more ready for kindergarten if they go through the collaborative. But what we also know from numerous studies on taxpayer-funded prekindergarten is that the results tend to be short-lived.

A 2012 study of Head Start outcomes found that by third grade there was no significant difference between children who had been assigned randomly to a Head Start program and those who had not. More recently, a 2018 study on the oversubscribed Tennessee prekindergarten program found no significant benefit to students who were part of the program compared to those who applied but did not enter because of space.

Today, Mississippi has numerous private preschool providers. They may be run by churches, private schools, or some other private enterprise. But they are competing with one another. They compete for students and the tuition needed to stay in business.

And parents can then choose the best program — for their family. That decision may be based on curriculum, or some other factor that is important to them such as where the school is located, whether the program is three days, or five days, or if it is a half day or full day. Or countless other factors. It is the polar opposite of how education is provided and received from kindergarten through 12th grade.

The most appealing part of taxpayer-funded prekindergarten for most is that it comes at no cost to the parents. Yet, the state can provide free prekindergarten without taking over prekindergarten. In Florida, the state has a large voluntary prekindergarten program where families can receive a voucher to choose among a large selection of approved public or private preschools or child care providers. A better option would be to create an Early Education Tax Credit where individuals or corporations can receive state tax credits for donations to prekindergarten scholarships.

Key Facts

- Mississippi's first state funded prekindergarten program was launched in 2013 and provided $3 million in funding. By 2018, the funding had climbed to $6.5 million.
- 19 collaboratives served approximately 3,200 students in the 2019-20 school year.
- A total of 7,574 students were enrolled in public prekindergarten in the 2018-19 school year.

Recommendations

+ Proponents of taxpayer-funded prekindergarten should acknowledge the "fade-out" effects of children as they get older and focus on research-based improvements to help children retain behavioral and educational gains rather than focusing on kindergarten-readiness.
+ If we believe taxpayer-funded prekindergarten is necessary as a state, we should create an Early Education Tax Credit where individuals or corporations can receive state tax credits for donations to prekindergarten scholarships. These scholarships would then be distributed to families to choose the preferred prekindergarten option for their child.

Public School Finance

Introduction

Education spending is the biggest item in the state's general fund budget each year. All education activities totaled nearly 53 percent of the budget for the 2020 budget. Excluding higher education spending, about 40 percent of the general fund budget goes toward K-12 education.

The bulk of the state money, just under $2 billion in the 2020 budget, goes toward the Mississippi Adequate Education Program. The state also appropriated another $180 million for general education programs. State spending accounts for about 50 percent of total K-12 education spending. Roughly 35 percent comes from local sources and another 15 percent comes from the federal government.

Comparing Mississippi to other states, on a per capita basis, puts the state at 24th for spending $44.82 per $1,000 of personal income. The same data puts Mississippi sixth in general administration spending and ninth in school administration spending.

Yet, the only discussion we have on education spending is that we need more of it. The public is told we are just one new infusion of cash or the newest technology away from the education promised land.

Too often we equate the quality of public schooling with inputs — per-pupil spending, class size, school buildings, teacher pay, number of computers, MAEP, etc. But we have done that, nationally and in Mississippi.

Dating back to 1993, inflation-adjusted spending has increased by 78 percent in Mississippi, the number of administrators has increased by 51 percent, and the number of teachers has increased by 10 percent. What didn't increase? The number of students — enrollment is down seven percent. And ACT scores have remained largely static.

That is because, as research has now shown, funding levels are not a sufficient measurement of education. It is much more important to determine how that money is spent, and to focus on "educational productivity." This measures a return on investment, while also considering the differences in cost of living, household income, English language proficiency, and necessary special education services.

In Mississippi, there are vast differences among public schools and what they spend, often with just a county or city line dividing the two. And it generally doesn't fall along the traditional lines we are told. Some of the districts that spend among the most per-pupil have the lowest test scores in the state, while some of the districts that spend the least per-pupil have among the highest test scores. A serious discussion on education policy, and public school finance, should focus on educational outcomes, and not just inputs.

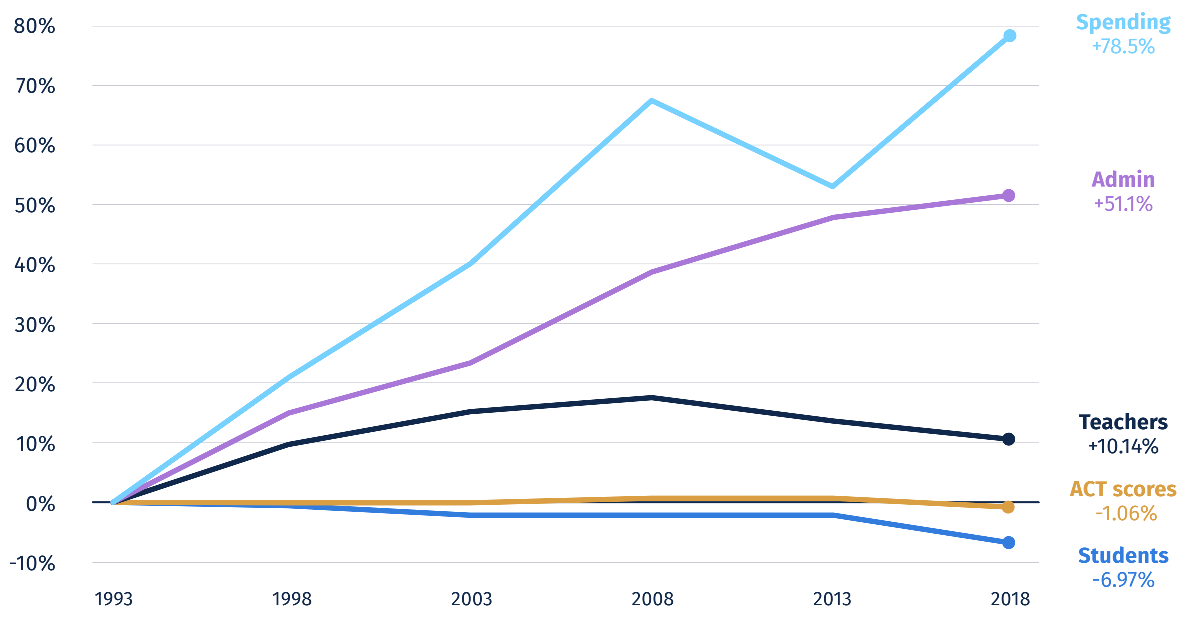
Key Facts

- Mississippi spent an average of $10,034 per K-12 student in federal, state, and local funds during the 2017-18 school year.
- During the 2017-18 school year, total K-12 spending from federal, state, and local sources was $4.9 billion.
- State funding is not distributed evenly to school districts, with low-wealth districts receiving more funding per student.
- Public school enrollment has steadily declined in Mississippi from 505,907 students in 1993 to 470,668 in 2018.

Recommendations

+ Acknowledge that there is a weak connection between education spending and student outcomes.
+ Adopt a student-centric funding formula that takes into account poverty, rather than free lunch participation, the specific special needs of a student, English language proficiency, and grade level.
+ Continue consolidations of smaller and low-wealth school districts.
+ Require school districts to post all public documents online, including budgets, check registers, and contracts.

Percent Change in Schooling Numbers, 1993-2018



Note: Spending CPI adjusted to constant 2018 dollars.

Sources: U.S. Department of Education, U.S. Census Bureau

Public School Open Enrollment

Introduction

Public school open enrollment is a form of school choice that allows students to transfer from their assigned district school to another school.

The two basic types of open enrollment include intradistrict, where students can transfer among schools within their home district, and interdistrict, where students can transfer to schools outside of their home district.

This allows families to make a determination on the needs of their child rather than on the basis of their zip code. And virtually every state — including Mississippi — allows student transfers in some form. Mississippi, however, has among the strictest policies that require both the sending and receiving school districts to approve a transfer. Essentially, the home district can decide they don't want you to leave, at least to another public school, and the student will not able to transfer.

While some school districts in the state have open policies, many do not. In those cases, you will only see transfers for geographic reasons or because a parent teaches in a district outside of their home district.

Other states have mandatory policies that require districts to allow student transfers, though those often have exceptions for reasons such as capacity. As a country, and in some states faster than others, we are moving away from children only attending their assigned district school model. Maybe it's to be closer to their parent's work, maybe it's to attend a specialty school, such as one that focuses on STEM or the performing arts.

Regardless, the premise is the same: Parents can have expanded education opportunities for their children.

Key Facts

- Students can only transfer to school districts outside of their home district with the mutual consent of both the sending and receiving school district.

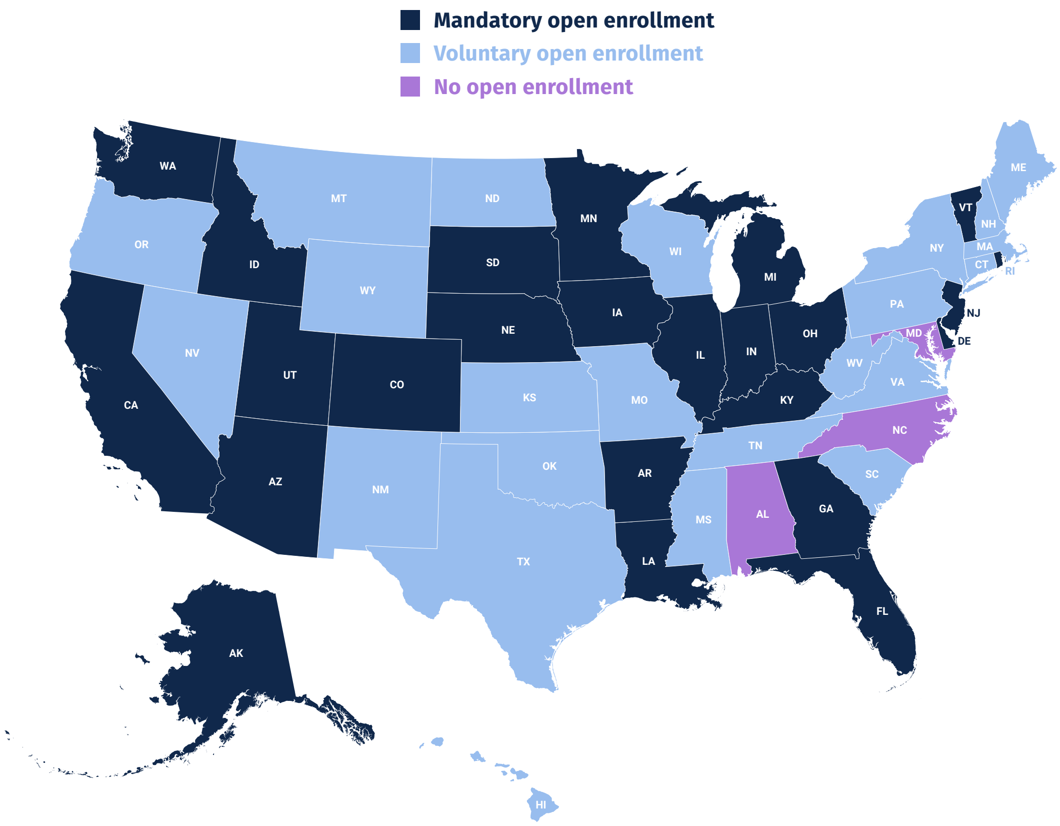
- 24 states have mandatory policies that require districts to offer open enrollment, in at least some circumstances.

- Only three states do not have open enrollment policies: Alabama, Maryland, and North Carolina.

Recommendations

+ Require mandatory interdistrict school district transfers based on availability. School districts should post the number of open seats prior to the school year, and hold a lottery if they have more applications than seats available.

Open Enrollment Policies by State



Source: Education Commission of the States

Data Sources

American Association of Nurse Practitioners
American Enterprise Institute
American Health Planning Association
American Institute of Economic Research
American Legislative Exchange Council
Americans for Tax Reform
Appalachian State University Department of Economics
Brewers Association
Cato Institute
Center for Public Integrity
Centers for Medicare & Medicaid Services
Clarion Ledger
Competitive Enterprise Institute
Distilled Spirits Council of the United States
Duke University
EdChoice
Education Commission of the States
Empower Mississippi
Film Mississippi
FindLaw
Foundation for Economic Education
Foundation for Government Accountability
Fraser Institute
Governing
Heritage Foundation
Hillsdale College
Institute for Justice
Institute for Market Studies at Mississippi State University
James G. Martin Center for Academic Renewal
John Locke Foundation
Kaiser Family Foundation
Legatum Institute
Mackinac Center for Public Policy
Manhattan Institute
Mercatus Center at George Mason University
Mises Institute
Mississippi Bureau of Narcotics
Mississippi Department of Education
Mississippi Department of Finance and Administration
Mississippi Department of Revenue
Mississippi Legislative Budget Office
Mississippi Public Service Commission
National Alcohol Beverage Control Association
National Alliance for Public Charter Schools
National Association of Manufacturers
National Center for Education Statistics
National Conference of State Legislatures
National Federation of Independent Business
North Carolina State University Department of Economics
Office of the Mississippi State Auditor
Organization for Economic Co-operation and Development
Pacific Research Institute
PEER
Pew Research Center
Prison Policy Initiative
Public Employees' Retirement System of Mississippi
R Street Institute
Reason Foundation
Tax Foundation
Transparency Mississippi
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