



TESTIMONY

March 14, 2018

TAX INCREMENT FINANCING IN MISSOURI

By Patrick Tuohey

Testimony before the Missouri House Committee on Local Government
regarding House Bill 1236

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

My name is Patrick Tuohey, and I am the director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. The purpose of this testimony is to briefly discuss research by scholars and staff for the Show-Me Institute and others that supports the need to reform the use of tax-increment financing (TIF) in our state and, in particular, the need to limit the circumstances under which municipalities are able to employ TIF.

First, multiple studies in Missouri and across the country^{1,2} have concluded that TIF does not increase investment or create jobs. In fact, the very corporation that oversees TIF in St. Louis commissioned a study in 2016³ that found:

- Development incentives have little or no positive economic development benefits. The \$709 million St. Louis has spent on TIF and tax abatement (TA) over the past 15 years have not created jobs, revitalized neighborhoods, or increased long-term tax revenues.
- Rather than TIF and TA being used in economically depressed areas, they are used mostly in neighborhoods with strong housing markets. In fact, nearly two-thirds are used in just three neighborhoods in the central corridor.
- The quality and detail of reporting on incentives is so poor that officials and the public “cannot readily determine what may or may not be deemed a project worthy of consideration for a City tax incentive.”

Proponents of TIF point to one or two projects as anecdotal evidence

that TIF works. But these are just anecdotes, and could easily be countered with anecdotes of utter failure. Good public policy must be based on sound research, not anecdotes; and the data are clear: in St. Louis and Kansas City, TIF does not deliver on its promises.⁴

Supporters of TIF are likely to urge caution, as if economic development policy were some delicate program. But in the aggregate it is a failure. HB 1236 seeks to improve a process that at best moves jobs and development around rather than creating anything new.

Under Missouri statutes, TIF commissions are constituted at the city level. In Kansas City and St. Louis, where TIF is used most, 6 members of the 11-member commissions are appointed by the mayor. The remaining commissioners are appointed by the school district, the county, and the other taxing jurisdictions.⁵

In most cases, a TIF diverts 50 percent of the increase in economic activity taxes (EATs) such as sales tax and income tax that would otherwise go to the city. But it diverts 100 percent of the increase in property taxes that go to support schools, libraries, and county services.

In other words, current Missouri law allows cities to spend other jurisdictions' money. If the situation were reversed—and TIF diverted 100 percent of EATs and 50 percent of property taxes—it is highly likely that the city-dominated commissions in Kansas City and St. Louis would approve far fewer TIFs.

In Kansas City, developers don't even have an incentive to negotiate with the other taxing jurisdictions, because if their projects have the mayor's support, they effectively have the majority of the commission on their side. Even when commissioners exercise independence, as happened recently in Kansas City, the mayor can remove the commissioner and appoint another to serve in the position.⁶ The taxing jurisdictions with the least representation on the commissions have the most to lose.⁷

And the losses are piling up. In the past 15 years, according to the St. Louis Development Corporation, which administers the city's TIF programs, the city has distributed \$709 million originally intended for municipal services to developers through TIF and TA⁸ that have little or no positive economic development benefits. In Kansas

City, the local school district estimates that due to TIF alone it loses out on at least \$23 million each year.

This lost revenue must be made up for in additional taxes or reduced services. In November 2016, Johnson, Clay, and Platte Counties were asked to increase the levy for the Mid-Continent Library system. In discussing the need for the levy increase, the Library argued,

In addition, tax incentives and abatements by local government have impacted the revenue that would generally result from the growth of the Library's tax base. The Library's budget has been essentially flat for the past 8 years.

In Jackson, Clay, Platte, and Ray Counties, new children's services sales taxes have been passed within the year. Among the factors contributing to this tax increase is an effort to make up for the financial loss suffered by the mental health services due to TIF.

It is important to note that while the effectiveness of economic development subsidies in the aggregate is questionable, taxing jurisdictions are not necessarily against individual applications. In my discussions with officials representing libraries and school districts, they told me that they resent the volume and length of TIF projects as well as the unbalanced process used to approve TIF, not necessarily the practice itself.

HB 1236 improves the TIF process by introducing a 30-day period for public comment on each TIF being considered, and another 30-day comment period after a redevelopment plan or project is authorized. I am told by representatives of the taxing jurisdictions in Kansas City that it is common for substantive changes negotiated between the developer and TIF commission staff to be sent to commissioners less than 24 hours prior to meetings, or even occasionally placed on the table just before a meeting convenes.

Furthermore, and perhaps most importantly, HB 1236 allows taxing jurisdictions to "elect to have the portion of property tax revenue allocated" to them, "excluded from a tax increment allocation financing project or plan" with a two-thirds vote of its governing board.

HB 1236 also caps the number of years that property taxes may be diverted to TIF projects to 15 years.

Despite what TIF proponents may contend, this measure will not end the practice of TIF. However, it will incentivize those who wish to receive public funds to engage in substantive and good-faith negotiations with affected jurisdictions, to explain the costs and benefits, and to create development plans that truly benefit the larger community. This would be an improvement over how the process works today.

*Patrick Tuohy is the director of municipal policy
for the Show-Me Institute*

NOTES

1. Upjohn Institute for Employment Research. A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States. February 2017. Available at: <http://research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports>
2. T. William Lester; University of North Carolina's Center for Urban and Regional Studies. Does Chicago's Tax increment financing (TIF) Program Pass the 'But-For Test?'" February 2013. Available at: <https://curs.unc.edu/files/2013/05/Lester-Tax-Increment-Financing-in-Chicago-Working-Paper-2-12-13-FINAL-rm.pdf>
3. PFM Group. City of St. Louis, Missouri: City Economic Development Incentives. May 5, 2016. Available at: https://nextstl.com/wp-content/uploads/St.-Louis-City-Economic-Incentives-Report_FINAL-May-2016-1.pdf
4. T. William Lester, A. Rachid El-Khattabi; Show-Me Institute. Does Tax-Increment Financing Pass the But-For Test in Missouri. November 14, 2017. Available at: <https://showmeinstitute.org/publication/subsidies/does-tax-increment-financing-pass-test-missouri>
5. Mo. Rev. Stat. §99.820. Available at: <http://revisor.mo.gov/main/OneSection.aspx?section=99.820&bid=33551&hl=increment+financing%u2044commission>
6. Steve Vockrodt; The Pitch. Sly James pulls Phil Glynn off the TIF Commission following his No vote on Shirley Helzberg's request for public development subsidies. November 6, 2015. Available at: <https://www.pitch.com/news/article/20561074/sly-james-pulls-phil-glynn-off-the-tif-commission-following-his-no-vote-on-shirley-helzbergs-request-for-public-development-subsidies>
7. Rob Roberts; Kansas City Business Journal. TIF Commission Removes One Delay Facing BNIM Headquarters Project. December 1, 2015. Available at: <https://www.bizjournals.com/kansascity/news/2015/12/01/tif-bnim-shirley-helzberg-development-agreement.html>
8. PFM Group. City of St. Louis, Missouri: City Economic Development Incentives. May 5, 2016. Available at: https://nextstl.com/wp-content/uploads/St.-Louis-City-Economic-Incentives-Report_FINAL-May-2016-1.pdf



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

3645 Troost Avenue, Kansas City, MO 64109—816-561-1777

Visit us:
showmeinstitute.org

Find us on Facebook:
Show-Me Institute

Follow us on Twitter:
@showme

Watch us on YouTube:
Show-Me Institute