Show-Me Institute
Where Liberty Comes First

TESTIMONY

March 8, 2017

ON THE PUBLIC APPROVAL OF TAX-INCREMENT FINANCING REDEVELOPMENT PLANS

By Graham Renz

Testimony Before the Missouri House Local Government Committee

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

My name is Graham Renz, and I am a policy researcher 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. This testimony is intended to summarize research that analysts for the Show-Me Institute have conducted and reviewed regarding the use of tax subsidies as a development financing tool.

HJR 20 would, if approved by state voters, require redevelopment plans (explained just below) to be approved by a majority of voters within the county or city where the redevelopment plan is proposed. In brief, a redevelopment plan is tied to a neighborhood or geographic area where a county or city establishes that incremental tax revenues (explained below) may be redirected to a developer to subsidize their project. In effect, HJR 20 would, if approved by state voters, allow voters at the county and city levels to approve or reject redevelopment plans.

Redevelopment plans are a part of tax-increment financing ("TIF"). TIF is a finance tool that diverts property, sales, and other taxes away from schools, fire protection districts, libraries, and other jurisdictions to private developers. The money that TIF redirects comes from *incremental* tax revenues—new revenues generated by a development—away from the jurisdictions they would go to under normal circumstances.

TIF originated in California in the mid-twentieth century and came to Missouri in 1982.[1] In Kansas City, TIF was first used in 1984 to help finance the construction of a parking garage on the County Club Plaza.[2] Since then, TIF use has exploded across the state. According to the

Missouri Department of Revenue, the 474 TIF projects active in 2016 diverted more than $2.6 billion from schools, fire and police departments, libraries, and other jurisdictions. In just the City of Saint Louis, from 2000 to 2016, approximately $780 million in incremental tax revenues were redirected to private developers.[4] The City of Kansas City, Missouri, is in the process of analyzing its use of TIF, and there is little reason to doubt its cumulative tab is much different in size than Saint Louis's.[5] Cities and counties across Missouri have diverted huge sums of taxpayer money away from public coffers and into the pockets of private interests.

TIF and other development subsidies present a number of public policy problems that HJR 20 could help address.

TIF DOES NOT GROW THE ECONOMY

An overwhelming consensus exists in the economic literature that tax subsidies like TIF do not grow the economy or boost genuine economic development. A comprehensive report on economic development subsidies in Saint Louis concluded that, "[w]hile there may be disagreement about the value of some [incentive] packages, it is clear that *the City gains no net benefit from an extremely costly program with no real economic development impact.*" [emphasis added][6] T. William Lester, a professor of city and regional planning at the University of North Carolina, reviewed TIF use in Chicago and concluded that the finance tool had no significant effect on employment.[7] In Indiana, researchers at Ball State University found that, despite diverting hundreds of millions of dollars a year, TIF did not positively affect employment, business creation, or sales tax revenue.[8] In short, TIF, in most cases, does not do what its proponents claim it will do—grow the economy.

But why does TIF typically fail to deliver? TIF doesn't boost the economy because the developments it benefits very often would occur without the subsidy. That is, TIF doesn't actually create or spur development; it simply shuffles or rearranges development.[9]

GOVERNMENT PICKING WINNERS AND LOSERS

This fact highlights a related policy problem with TIF: the inherent limitations of government economic planning. Often, TIF does not result in real economic growth because it is used by government officials to encourage developers to build a *certain* kind of project in a *specific* area. For example, politicians wanting to bolster or rejuvenate a downtown neighborhood might use TIF to create an incentive for developers to build there. While the use TIF may help *downtown*, it hurts the other neighborhoods where development might have otherwise occurred had TIF not been offered. On net, the region sees no new growth; the growth that was going to happen simply happened in a way preferred by public officials. But do public officials know what investments are best? Can politicians and bureaucrats outsmart private actors in the market? Is it fair for politicians to choose which competitors in the market get competitive advantages?

EXCESSIVE TIF USE CAN MEAN HIGHER TAXES

The money redirected to developers by TIF would normally go to schools, fire and police departments, libraries, mental health funds, and other jurisdictions. So, when a county or city uses TIF, it often must find new revenues to make up for funding shortfalls or cut back on public services. Subsidized projects consume public goods like roads, schools, and police service, but do not contribute any new revenues for these. In Missouri, and elsewhere, these jurisdictions have had to ask voters for additional taxes to provide basic levels of service. Recently in Kansas City, the Mid-Continent Public Library (MCPL), a well-run and financially responsible steward of public dollars, was forced to ask taxpayers to increase their property taxes because of shortfalls created by TIF.[10] While MCPL has made policymakers aware that TIF takes a $7-million bite out of its budget annually for years, no evident restraint has been exercised in the awarding of TIF.[11] And the case of MCPL is not an isolated incident. Researchers have found a strong relationship between TIF and higher overall tax rates at the state level. Economists researching TIF in Indiana concluded that "the presence and size of a TIF district within a county is associated with higher overall tax burdens, which likely is due to a shift of the costs of public services to other taxpayers."[12] And the money involved is not chump change. Those same researchers estimate the annual impact TIF has on *schools alone* is equal to the salaries of 2,400 teachers .[13] In short, the greater the level of TIF funding granted to developers, the greater the level of taxation non-TIF beneficiaries generally pay for basic public services.

A RACE TO THE BOTTOM

The rampant use of TIF in Missouri is likely due to a number of factors, but TIF abuse is no doubt encouraged by municipal (and state) competition. Taxes can be a major factor for businesses deciding where to locate or expand. Since cities can award TIF, they often try to lure businesses with this financing tool. But because all competing cities can award TIF, each city is encouraged to grant a larger subsidy than its competitors. The ultimate result of this competition is not a business-friendly environment; it is an unnecessary raiding of public coffers. Since competing cities are often quite close geographically, the fact that a business locates in City A instead of City B usually has no significant effect on the overall, regional economy. Cities simply engage in a race to the bottom, giving away taxpayer dollars just so that, sometimes, a business moves a few blocks down the road.[14]

HOW TO FIX THE PROBLEM

Reforming TIF and other "economic development" subsidies has become a priority for some policymakers in Missouri. HJR 20 does some of that work. Rather than take a piecemeal approach to reform, the law would, if approved by state voters, give voters at the county and city levels the final say in approving TIF plans. Giving final authority to local voters—those taxpayers who are impacted most by these subsidies—would help to control the abuse of TIF. If voters in, say, the City of Saint Louis aren't convinced a development will truly benefit their homes and neighborhoods, they wouldn't have to help subsidize it. This is both eminently fair and economically prudent.

While those on the receiving end of corporate welfare programs like TIF may tell you otherwise, a reform like HJR 20 will not stifle economic growth. Cities with corporate welfare problems similar to Missouri's have enacted reforms much like HJR 20 and have not experienced economic downturns. (In fact, given the research discussed above, one might think a reduction in TIF and other giveaways could boost economic growth.) In 2015, voters in two Colorado cities, Littleton and Wheat Ridge, passed legislation that requires voter approval for TIF plans. Since then, those cities report their planning departments have been "swamped."[15] Given that TIF simply *rearranges* development, and doesn't *generate* it, there should not be any significant negative impacts from reforms like HJR 20. If anything, reforms like this simply give taxpayers more say in how their hard-earned money is spent.

Missouri ranks 10th out of all 50 states in terms of how much taxpayer money it gives away.[16] TIF is a major contributor to that unfortunate ranking. Reforms like HJR 20 can help rein in the abuse of TIF and help restore free market principles that can help grow the economic pie for all Missourians.

Graham Renz is a policy researcher at the Show-Me Institute.

ENDNOTES

1. Christina G. Dudley, "Tax Increment Financing for Redevelopment in Missouri: Beauty and the Beast" 54 *UMKC Law Review* 77, 79 (1985)
2. Kevin Cullison, "How Plaza Parking Kicked Off Kansas City's 30-Year Love Affair With TIF." KCUR, June 1, 2016. Available at: http://kcur.org/post/how-plaza-parking-kicked-kansas-citys-30-year-love-affair-tif#stream/0
3. Missouri Department of Revenue, *2016 TIF Annual Report*, p. 2. Available at: http://dor.mo.gov/business/tif/documents/2016TIFReport.pdf
4. Data assembled by author from the following two sources: for 2000–2014, PFM Group, "City of St. Louis, Missouri: City Economic Development Incentives." p. 2 (Available at: https://www.stlouis-mo.gov/government/departments/sldc/documents/upload/City-of-St-Louis-Economic-Development-Incentives-Report-May-5-2016.pdf) and for 2015–2016, City of St. Louis, Missouri Budget Division,"TIF and Other Development Project Fund Revenues." p. 4 (Available at: https://www.stlouis-mo.gov/government/departments/budget/documents/upload/TIF-Revenues-FY16.pdf)
5. See Graham Renz, "Getting Less out of More: Kansas City's Declining Tax Base" (Blog, Show-Me Institute, July 15, 2016). Available at: http://showmeinstitute.org/blog/corporate-welfare/getting-less-out-more-kansas-city%E2%80%99s-declining-tax-base
6. PFM Group, "City of St. Louis, Missouri: City Economic Development Incentives." p. 6.
7. T. William Lester, "Does Chicago's Tax Increment Financing (TIF) Programme Pass the 'But-for' Test? Job Creation and Economic Development Impacts Using Time-series Data." *Urban Studies* 51 (4): 655-674 (2014)
8. Michael Hicks, Dagney Faulk, and Pam Quirin, "Some Economic Effects of Tax Increment Financing in Indiana." (Policy Brief, Ball State University Center for Business and Economic Research, 2015). Available at: http://projects.cberdata.org/reports/TifEconEffects-012815.pdf
9. For discussion, see Randal O'Toole, "Crony Capitalism and Social Engineering: The Case against Tax-Increment Financing" (Policy Study, no. 676, Cato Institute, May 2011). Available at: https://object.cato.org/sites/cato.org/files/pubs/pdf/PA676.pdf
10. See Patrick Tuohey, "The TIF-Tax" (Blog post, Show-Me Institute, October 12, 2016). Available at: http://showmeinstitute.org/blog/budget/tif-tax
11. Mid-Continent Public Library, *2016-2017 Library Annual Budget*, p. 2. Available at: http://content.mymcpl.org/archive/files/d157a4d286914b2e4cc494241536c482.pdf
12. Hicks, Faulk, and Quirin, "Some Economic Effects of Tax Increment Financing." p. 7.
13. Michael Hicks, Dagney Faulk, and Skritant Devaraj, "The Fiscal Impact of Tax Increment Financing in Indiana." (Policy Brief, Ball State University Center for Business and Economic Research, 2016). Available at: http://projects.cberdata.org/reports/FiscalTIF-20160129.pdf
14. David Stokes, "$16 Million for Two Blocks?" (Video, Show-Me Institute, September 19, 2013). Available at: http://showmeinstitute.org/blog/corporate-welfare/16-million-two-blocks
15. Randal O'Toole and Mike Krause, "Expanding Use of Tax-Increment Financing Wrong for Colorado." *The Complete Colorado*, May 9, 2016.
16. Good Jobs First, Subsidy Tracker 3.0. Available at: http://subsidytracker.goodjobsfirst.org/prog.php?statesum=MO

Show-Me Institute

Where Liberty Comes First

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

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

Visit Us: showmeinsititute.org **Find Us on Facebook:** facebook.com/showmeinstitute **Follow Us on Twitter:** twitter.com/showme