



TESTIMONY

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TAX INCREMENT FINANCING FOR FENTON LOGISTICS PARK

By Michael Highsmith

Testimony Before the Tax Increment Financing Commission

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

My name is Michael Highsmith, 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 the staff of the Show-Me Institute has reviewed and conducted regarding tax increment financing (TIF).

The Fenton Board of Aldermen voted in favor of \$35 million in tax subsidies for the Fenton Logistics Park back in March, when the total estimated costs associated with the development were \$382 million. Today the proposal before St. Louis County's TIF Commission estimates costs of \$222 million, and the request calls for \$57 million in state and local incentives to make development feasible.¹

The redevelopment of the area commonly known as the former Chrysler Assembly Plants (hereafter referred to as the Redevelopment Area) is a welcomed project that has the potential to improve the local community, but the developer's request regarding the use of TIF appears excessive. Fenton has granted TIF subsidies in the past, but that in itself does not justify subsidies in the current situation. A history of granting subsidies merely demonstrates the ease with which developers can obtain such funds; it does nothing to justify their benefits. In order to determine whether TIF is applicable in this situation, past research on the subject should be considered.

ECONOMIC RESEARCH

Originally intended to encourage development in blighted regions, TIF has been aggressively used throughout Missouri's wealthier areas. The repeated use of TIF in Missouri has had the following effects:

1. It has increased government

management of the economy, further empowering planners and bureaucrats to decide where businesses locate instead of letting the market guide business decisions.

2. It has sparked the abuse of eminent domain for private purposes.
3. It has made subsidies a permanent fixture of development in our community.
4. It has transferred the costs and risk associated with profit-making enterprises from businesses to taxpayers.
5. It has failed to spur economic growth in an efficient manner. In 2011, the East–West Gateway Council of Governments concluded that TIFs and TDDs have increased the job base in Saint Louis at a rate of 1 retail job for every \$370,000 of taxpayer subsidies.²
6. It has incentivized local leaders to make tax decisions that may benefit their immediate city at the expense of neighboring municipalities.³

The conclusions reached by research on TIF's effects are not limited to Missouri. A study done on Chicago by the University of North Carolina concluded that "TIF ultimately fails the 'but-for' test and shows no evidence of increasing tangible economic development benefits for local residents."⁴ This means that there is little evidence that development would not have already taken place in areas where TIF was granted. Since the TIF subsidy

was developed to attract developers to blighted areas, this means that it has not served its original purpose. Instead, it has become a tax subsidy used to bring developers across municipal lines into areas that would likely have seen development anyway.

Granting TIF to businesses in one municipality pulls away revenue and economic development from neighboring municipalities. Cities may be in favor of TIF due to the increased revenues that they will see individually, but the overall region is harmed by this inefficient allocation of development. Additionally, development subsidies can be damaging to the municipality that uses it, because of missed potential revenue. If businesses would develop in a municipality without the use of TIF, then any money put toward the incentive is lost revenue for the community.⁵

FENTON LOGISTICS PARK

The use of TIF in the redevelopment area may be justifiable to a certain extent given that no new development has taken place since the Chrysler plant closed in 2009. However, confirming the efficacy of these incentives requires the different costs to be examined.

In 2011, Chrysler demolished its buildings, but the development area is still blighted with abandoned building slabs, footings, and worn pavement. According to KP Development's Master Plan for the project, the total estimated cost for site work (demolition, environmental remediation, utility infrastructure, lift station allowance, utility fees and inspections, grading/erosion control, and street improvements) is \$16,985,000.

While the restoration costs may be justified, the additional \$34,645,694 requested in subsidies for soft costs and professional fees is questionable. The purported justification for TIF is that it helps attract businesses to blighted areas that otherwise would not be developed. Here, returning the project area to Greenfield status actually makes it an attractive location for development. Given its proximity to the interstate and railroad, this expansive land base located in an growing industrial market would appear ripe for development. Subsidization of the area beyond the costs associated with preparing it for new investment appears unjustified and would divert revenues from public coffers to the developer.

CONCLUSION:

The appeal of TIF to developers is understandable in projects such as the one under consideration. There are costs associated with clearing the land that may be unusually burdensome for a developer to undertake. Nonetheless, care should be taken in granting subsidies, such as those requested here, that exceed restoration costs.

Isn't it time for our county to reduce government's purported role in economic development and allow markets, entrepreneurs, and customers to drive investment choices? This project presents an opportunity for the county to draw a line in the sand on subsidies that allow government to pick winners and losers.

Michael Highsmith is a policy researcher for the Show-Me Institute.

NOTES

1. Fenton Logistics Park Master Plan:
<http://fentonmo.org/DocumentCenter/View/5852>
2. An Assessment of the Effectiveness and Fiscal Impacts of the Use of Development Incentives in the St. Louis Region. (2011, January). <http://www.ewgateway.org/pdffiles/library/dirr/TIF-FinalRpt.pdf>
3. *ibid.*
4. Lester, T. (2014, February 06). Does Chicago's Tax Increment Financing (TIF) Programme Pass the 'But-for' Test? Job Creation and Economic Development Impacts Using Time-series Data. <http://usj.sagepub.com/content/early/2013/07/09/0042098013492228>.
abstract
5. Blocher, J., & Morgan, J.Q. (2016, August 08). Questions About Tax Increment Financing in North Carolina http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=2597&context=faculty_scholarship



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