



POLICY B R I E F

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MISSOURI MUNICIPAL POLICY

By David Stokes

KEY POLICIES

- Remove the Kansas City School District property tax rollback exemption
- Expand county-level TIF commissions
- Give school districts an opt-out on TIF projects, like fire districts have
- Require true public votes for special taxing districts
- Prohibit the City of St. Louis from collecting the earnings tax on remote work
- Remove special, union-favored annexation rules for fire districts in St. Louis County
- Prohibit municipalities from mandating that landlords accept Section 8 vouchers
- Expand county tax subsidy reporting requirements and include them in the state tax commission's annual report

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

BACKGROUND

Missouri counties and municipalities are subject to the same special-interest pressures as any other government. Such pressures are often exacerbated by a misguided belief in their own local authority. Too often, local governments grant special tax deals, favor certain interest groups, enact harmful tax policies, and mandate activities that are not within their power to mandate. While the federal government is a union of sovereign states, no such relationship exists for municipalities, despite what some local officials may wish. Cities and counties are creatures of the state, as the Supreme Court explained many years ago. Accordingly, Missouri has both the right and the responsibility to change the rules for local governments that have overstepped their authority or enacted policies that will harm the state.

The model policies listed above and explained further below would change, in various ways, harmful local rules that are inhibiting freedom and economic growth in Missouri. Some of these poor policies can be blamed on cities or counties themselves, such as local “source-of-income” rules and earnings taxes on remote work, but many of them have been authorized by state law, and we need state law to change to address these policy failures.

In no particular order below is a proposed slate of reforms that, if implemented, would benefit Missouri.

Reform: Remove the Kansas City School District’s Property Tax Rollback Exemption

In recent years, the Kansas City School District (KCSD) has seen tremendous increases in assessed valuation and has chosen not to roll its tax rates back at all. That has led to enormous property tax increases for residents and businesses within the KCSD, which includes significant parts of Kansas City within Jackson County. The Kansas City school desegregation case ended a long time ago. It is time to remove this holdover as well.

From 2018 to 2022, KCSD’s assessed valuation went up 31%, and its property tax revenues went up 31%

as well. In every other taxing entity in Missouri, the tax rate would have been decreased somewhat to offset the property assessment hike. But not in the KCSD. The same thing is happening in 2023, with a likely assessment increase in the range of 30% to 35%, although the final, exact number is unknown as of this writing. The school board has shown no inclination to reduce its tax rate to help homeowners and taxpayers. The constitutional amendment giving the school district this exemption should be repealed.

Reform: Create Additional County TIF Commissions

The five counties that use the county TIF (tax-increment financing) commission mechanism have been more careful and judicious in their use of TIF.

The implementation of the county TIF commission format in St. Charles, Jefferson, and (to a lesser extent) St. Louis counties has reduced the use of TIF in those counties. Since the county TIF commission law was strengthened in 2016, St. Charles has approved only one TIF project, and Jefferson County has approved zero. St. Louis County has approved several, but it has also rejected some (which almost never happened before).

With the more common municipal TIF commission format, TIF decisions are made by cities that do not generally answer to the electorates they are affecting with their decisions. For example, residents of school districts impacted by TIF subsidies often don’t live within the city making the decision and have no ability to influence the decision through voting. County officials are much more likely to think regionally and are responsible to a much wider electorate. As seen in the above counties, the adoption of county TIF commissions has resulted in a significant reduction of the usage of TIF. (Note that there are two counties, Cass and Clay, that have only recently adopted the county TIF commission format, so it is too soon to judge the effects there.)

Reform: Allow School Districts to Opt Out of TIF

Arrangements

School districts are dramatically impacted by tax reductions from TIF and should be allowed to opt out of TIF subsidies as some other taxing jurisdictions are allowed to do.

It is often overlooked that TIF diverts property tax revenue away from more than just the city that usually approves it. Cities rely more on sales taxes than property taxes, while other taxing districts depend almost entirely on property taxes. School districts, emergency service districts, and others also lose out on tax revenue when TIF projects are implemented, but those taxing agencies have very limited say, if any, in the overall process. Overlooking this imbalance can have disastrous effects, especially when TIF is used for projects with a residential component. Residential developments can add dozens of new families to a city and thereby require increased spending on public safety and other services, yet TIF can mean that public safety providers do not receive any increase in tax dollars to account for these new families. Similarly, school districts gain students without gaining the funding to educate them. The state addressed this need for public safety by allowing certain fire, ambulance, and 911 districts to opt out of TIF proposals. We should do the same thing for school districts.

Reform: Public Votes for Special Taxing Districts

Special taxing districts, such as community improvement districts (CIDs) and transportation development districts (TDDs), are far too easily implemented in Missouri, and often done so in a manner designed to get around the Hancock Amendment.

We need to make new special taxing district taxes subject to the voters of a city or county, not to a vote by signature from a small number of property owners as is frequently the case now. Full public votes should be required for all CIDs, TDDs, and other special taxing districts within a city or county.

Reform: Exempt Remote Work from the Earnings Tax in the City of St. Louis

During and after the pandemic, St. Louis has been violating the law and forcing collection of the earnings tax for remote work. (Kansas City has not been doing this.)

The State of Missouri, through the general assembly, should declare decisively in state law that the city earnings taxes in St. Louis and Kansas City cannot be applied to telecommuting nonresidents who work from home. For many years, both cities have recognized that the earnings tax does not apply for the portion of work done outside of the city limits by nonresidents. This practice comports with the plain language of the applicable statute (emphasis added):

Salaries, wages, commissions and other compensation earned by nonresidents of the city for **work done or services performed or rendered in the city.** [RSMO 92.111.2(2)]

Despite the clarity of existing law, since 2020, the City of St. Louis has collected earnings-tax revenue from nonresidents who work for businesses within the city even if they perform their work from their homes located outside of the city limits. The pandemic posed significant financial challenges for individuals, businesses, and governmental bodies alike, but this decision was misguided and violated the law. If the lawsuits that have been filed against the city are any indication, it seems many workers and businesses agree. Furthermore, in early 2023 a judge ruled that the City of St. Louis acted improperly and owed refunds. The city is appealing that decision.

The argument for the earnings tax has always been that people working in the city need to contribute to city coffers. Whatever you think of that rationale, it would be a dramatic and improper expansion of the City of St. Louis's authority to continue to allow it to collect taxes for work performed outside of the city.

Reform: End Union-favoring Fire-district Annexation Policies in St. Louis County

There are special rules governing the annexation of unincorporated areas served by fire districts in St. Louis County. Special laws like RSMO 72.418 shield fire-protection districts from municipal competition for local tax dollars and harm taxpayers. This law needs to be removed. The law is highly beneficial for fireman unions and bad for everyone else, especially taxpayers. If residents and voters wish to have municipal annexations or incorporations that include fire protection by municipal fire departments, they should be able to do that throughout Missouri.

Reform: Prohibit Municipalities in Missouri from Enacting Rules that Require Landlords to Accept Section 8 Vouchers

Certain cities in Missouri, including the City of St. Louis, Maplewood, Webster Groves, and Clayton, require landlords to accept housing vouchers for rental property. The housing voucher program, commonly referred to as Section 8 housing, is a federal program. There is no federal requirement that landlords participate in it. The voluntary nature of the program is one of the reasons for its relative success. People are not forced to participate in it, yet many landlords do, and there is no documented shortage of low-income housing in St. Louis County. In fact, the St. Louis metropolitan area was recently ranked as the fourth-most-affordable housing market in the country in one survey.

There are numerous examples of government social programs where participation is voluntary. Doctors are not forced to accept Medicaid payments, yet many do. Grocery stores are not required to accept food stamps, yet many, if not most, do. That is how the housing voucher program has worked for many years. Local mandates force landlords either to accept the burden of joining the program against their will or to creatively find other reasons to deny potential renters. The state legislature should ban this practice, in the same manner that it has disallowed municipal rent-control rules in Missouri.

Reform: Expand the Requirements for Assessors to Collect Information on Tax Subsidies and Require It to Be Reported in the Annual Report of the State Tax Commission

The very simple goal here is to collect more information on tax subsidies and to make it easier to find and compile the information by county by having it all included in the annual State Tax Commission report. This legislation is so straightforward it may be able to be done via the consent calendar.

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