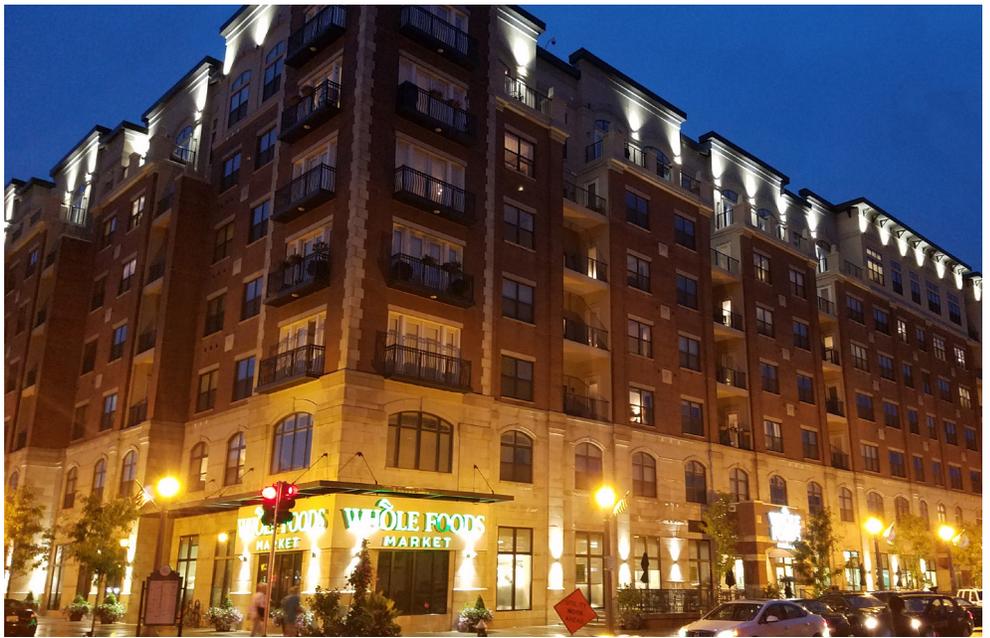




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TAX-INCREMENT FINANCING IN SAINT LOUIS

By Patrick Tuohey, Michael Highsmith, and Scott Tuttle

Saint Louis is shrinking. At just over 315,000 people in 2015, the city has been shedding population for decades, and in the 1980s it fell below Kansas City, where it remains now. The population has fallen each year since 2009.

As a result of population and economic deterioration, there is little appeal to potential investors, resulting in a downward spiral of economic decline. To facilitate growth in struggling areas, governments across the nation have adopted a tax subsidy known as tax-increment financing (TIF). Unfortunately, despite being used in dozens of development projects in Saint Louis, TIF has failed to produce demonstra-

ble economic benefits for the city. Part of the problem is that TIF is routinely used in relatively prosperous areas where development probably would have taken place without subsidies. Perhaps more importantly, there is little if any evidence that TIF has a net positive economic impact whenever it is applied.

OVERVIEW

Before exploring TIF use in Saint Louis it is important to understand its definition and some of the implications it has for local jurisdictions. TIF is (in so many words) a tax break granted to an incoming developer or business.

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When TIF is approved, the developer continues to pay property and economic activity taxes (sales, earnings, and utilities taxes), but the government returns a portion of that tax revenue to the developer to cover their costs of construction for a period of time up to 23 years. In practice, this means that the taxable value of a project is frozen at the predevelopment level. The taxes paid on the increase in the value—the increment—are returned to the developer to defer the costs of construction.

TIF was designed as a tool for cities to encourage development in areas that suffered from blight, or to promote conservation.¹ For this reason, two requirements must be met before a project can be approved for TIF. The first requirement is that the designated property must be classified as either a “blighted,” “conservation,” or “economic development” area. The second requirement is that incentives may only go toward projects that would not occur if incentives weren’t offered. This is known as the “but-for” test, as it is intended to demonstrate that but for taxpayer assistance, the project would not move forward.

When a TIF project is approved, taxing jurisdictions that are funded through property taxes—for example, schools, libraries, and mental health funds—have their income from the TIF district frozen for the length of the TIF. In other words, they don’t benefit from increases in the property’s taxable value until the expiration of the TIF. Proponents of TIF argue that there really is no cost to this freeze because, according to the “but-for” test, the parcel would not have generated any new taxes at all if the development had not occurred.

In Saint Louis City, decisions about whether TIF will be authorized are made by a TIF commission consisting of nine members. Six of the members are appointed by the municipality where the development is to take place, two members represent impacted school districts, and one member represents other taxing entities such as the library. Because TIF is awarded based on a simple majority of the commission, the result of this distribution of power is that schools have a voice on commissions that is easily ignored and thus can do little to stop projects that reallocate their funding.

TIF ABUSE

Unfortunately, the program is often misused. A 2014 essay by Show-Me Institute writers Patrick Tuohey and

Michael Rathbone, “Urban Neglect: Kansas City’s Misuse of Tax Increment Financing,” examined the use of TIF in Kansas City and found that the economic incentive was not being used for its intended purpose.² Rather than serving as a tool to spur investment in blighted and economically depressed areas, TIF has been used to subsidize development in parts of town that are already economically vibrant—often in the service of wealthy businesses. In this paper we examine whether the same phenomenon is happening in Saint Louis, Missouri.

A key issue contributing to TIF abuse in Saint Louis is the approval process. The standards with which applications are vetted have become so watered down that they are essentially meaningless. For example, the legal definition of blight is so open-ended that, according to Steve Potter, head of the Mid-Continent Public Library, “Every piece of property can be declared blight under the statute,” including, Potter observed, the Governor’s Mansion in Jefferson City.³

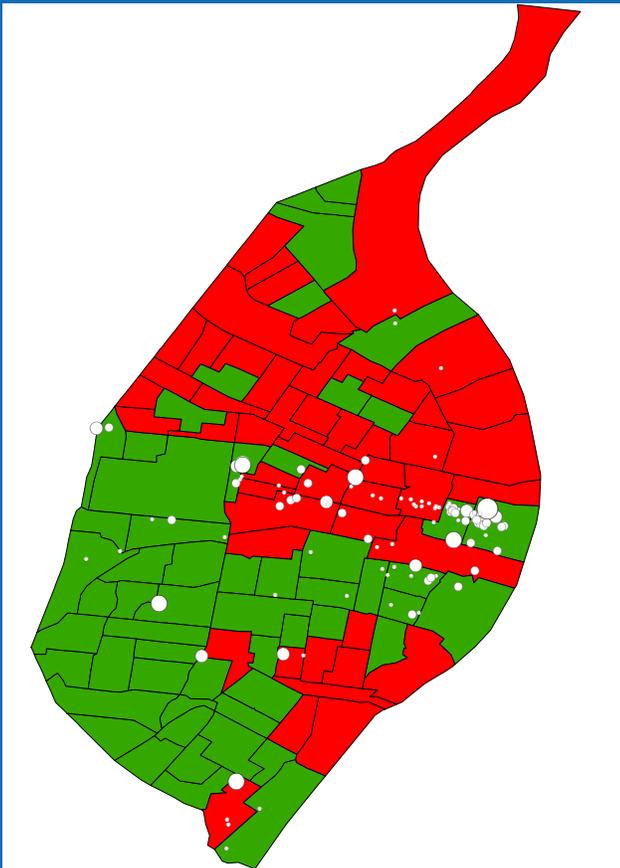
The “but-for” test presents problems as well. In several TIF applications, the TIF Commission concluded that a parcel would not be redeveloped without a taxpayer subsidy based on an affidavit from the developer. In other words, the person applying to get the subsidy was allowed to vouch for the need for said subsidy. Perhaps not surprisingly, the Show-Me Institute has been unable to find any instance where a consultant hired by a developer has not returned an affirmative finding of blight or “but-for” need.

Defenders of TIF policy argue that because TIF only affects the increase in property value that results from the development, taxing jurisdictions aren’t really harmed. After all, without the subsidized development, the property value would not increase. There are two problems with this. First, the TIF freezes the dollar value of the property tax, meaning that for a period of up to 23 years, it doesn’t even see an increase due to inflation. Second, several studies indicate that many developments supported by TIF would have happened even if the subsidy had not been offered. As we see in the following paragraphs, there seems to be little evidence that TIF has a positive effect on economic vitality in Saint Louis.

Map 1:

Poverty in Saint Louis, 2010–2014

Only a small percentage of TIF projects are located in high-poverty (red) census tracts.



Source: United States Census Bureau American Community Survey.

TIF LOCATIONS

Laying aside the arguments for or against each individual use of TIF, we look at the aggregate use of the subsidy in Saint Louis in an effort to determine if it is being applied in areas that it was designed for (economically depressed neighborhoods). Map 1 uses a 5-year estimate from 2010 to 2014 from the U.S. Census Bureau's American Community Survey (ACS) to represent poverty rates in Saint Louis. The red census tracts represent areas where more than 30% of the population lives in poverty, while

green census tracts represent areas where 30% or less of the population is in poverty. Each circle represents an individual TIF project that is currently active in the city, and the size of the circle indicates the amount of TIF revenue that has been returned to the developer thus far.

According to the St. Louis Development Corporation, some of the largest TIF projects include the Convention Headquarters Hotel, Grand Center, St. Louis Center, The Laurel, and 100 N Euclid. Of these, only Grand Center is found in a red Census tract. Note that the top half of the map, dominated by impoverished Census tracts, contain almost no TIF projects. These communities would seem to be the most appropriate for city-subsidized development, yet there is practically none.⁴

By contrast, consider one of the projects that was granted TIF: the Orion apartments located at 100 N Euclid (pictured on the cover) in the heart of the Central West End. While the property was considered blighted enough to receive public financing, the website⁵ describes it as “the most prominent neighborhood in St. Louis.” Their website proclaims,

Just below our luxury apartments is a Whole Foods Market and shopping plaza. Just around the corner is Forest Park, St. Louis' biggest and most active park – home to the St. Louis Zoo, the Muny Amphitheatre, St. Louis Science Center, History Museum, Art Museum, World's Fair Pavilion, and more. And just a few short blocks from our front door you will find unique dining, entertainment, and nightlife in the bustling Maryland Plaza.

The units, priced up to \$4,750 per month for a three-bedroom apartment (with a view), advertise such amenities as,

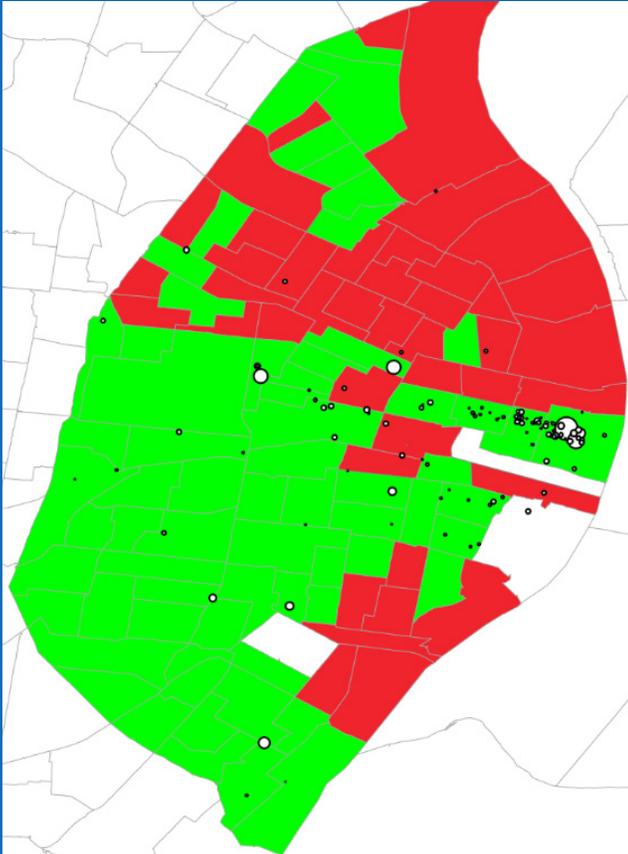
a rooftop saltwater pool, electric car charging stations, easy access garage parking, 24-hr concierge service, breathtaking city views, wi-fi thermostats, and customized closets.

Despite the luxurious accommodations and high-end rent, the developers applied for a TIF in the amount of \$10 million, saying that without it, the project was “economically infeasible.”⁶ ([cite.](#)) It is unclear why TIF commissioners believed it was in the public interest to subsidize the lifestyle of wealthy renters.

Map 2:

Poverty in Saint Louis, 2005–2009

TIF projects were even more concentrated in non-poor census tracts in 2005–2009, often in areas that would become impoverished over the next 5 years.



Source: United States Census Bureau American Community Survey.

The Central Corridor, which includes the Central West End and downtown, bounded by Delmar on the north and Highway 64/40 on the south, captures a great deal of TIF activity. Much of this area is impoverished, so it would seem an appropriate place for TIF, but a large percentage of these TIF projects are located downtown. In fact, nearly half of the city's entire TIF usage (47 projects) is concentrated in unimpoverished areas located downtown.

In Saint Louis we find that the total payout to date on currently active TIF projects amounts to \$263,994,940⁷ in refunded tax revenue. In the more impoverished zones (red areas on the map above), TIF spending totals \$56,864,015 (21.54%), while in the wealthier (green) zones, the amount of subsidies is an astonishing \$207,130,961 (78.46%).

Map 1 clearly represents that the majority of TIF in Saint Louis is currently being used in healthier parts of the city, while impoverished areas are being ignored.

Our next question was whether TIFs actually spurred economic development in their regions prior to 2014. If so, this could explain why we currently find them located in green portions of the map. To examine poverty rate changes over time, we compared our current map with an ACS 5-year poverty estimate from 2005 to 2009 (Map 2) and included only TIF projects that were active prior to 2010.⁸ By accounting for only pre-2010 projects we were able to evaluate projects that have had adequate time to affect their surroundings. Looking at the two maps side by side, we can see that there has been an increase in the number of impoverished tracts—often in areas in which TIF has been applied. Certainly, poverty is due to a myriad of factors well beyond the issuance of TIF, but looking at the changes that have occurred over time it is difficult to make the argument that TIF in Saint Louis is having a net positive impact.⁹

JOB CREATION

When we evaluate TIF's impact on job creation, what we find isn't encouraging. By dividing the amount of money diverted to developers thus far (\$263,994,940) by the number of jobs that the developers of these projects claim to have created or retained to date (7,572),¹⁰ we arrive at an actual cost per job of \$34,864.

It is possible that this cost per job is even higher, since it is difficult to measure if jobs are created along with a new development or if they merely relocated from other businesses in the area. If public incentives are used to help fund a development that simply moves jobs from one business to another, then the estimates for the actual cost of job creation could be much higher.

After TIF is granted for a project, there is very little to hold developers accountable for meeting their projections of job creation or economic spillover. The Missouri Department of Revenue's 2015 Annual Report on TIF found that statewide, only about one-third of the promised jobs ever materialize. The job creation that is claimed is not verified, and one Missouri Department of Economic Development official wrote that TIF related job creation is "self-defined and self-reported"

TIF STUDIES

A recent study of economic development incentives in Saint Louis conducted for the Saint Louis Development Corporation¹¹ concluded, among other things, that:

- Development incentives have little to no positive economic development benefits. The \$709 million Saint Louis has spent on TIF and TA (tax abatements) over the past 15 years has 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 level and quality 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."

The use of TIF is widespread in the United States, and the experience in Saint Louis is not isolated. In 2013, Bill Lester at the University of North Carolina–Chapel Hill undertook an examination of the use of TIF in Chicago and concluded,

"After controlling for potential selection bias in TIF assignment . . . TIF ultimately fails the "but-for" test and shows no evidence of increasing tangible economic development benefits for local residents."¹²

California, which was the first state to adopt TIF in 1962, discontinued its use in 2012 because it had become too costly. Cities around the country, including Kansas City and Saint Louis, are considering reforms to how they

use TIF. The Saint Louis Development Corporation is currently working to build a scorecard that can be used to evaluate where TIF is appropriate and where it is unnecessary.

CONCLUSION

An examination of the areas where TIF funds are being implemented shows that incentive use in Saint Louis does not align with its original intent. Poor areas are being largely ignored, while more prosperous neighborhoods receive the majority of subsidies. For TIF to benefit economically struggling areas, it must be *used* in economically struggling areas. Strict, objective requirements based on measurable criteria (perhaps including statistics such as unemployment or poverty thresholds or real estate values) should guide "but-for" tests. The currently common practice of basing the but-for decision on a developer's affidavit only invites abuse. If the same subsidy is available regardless of whether a project is undertaken in an affluent or a struggling area, the developer's incentives naturally point toward the wealthy area.

Similarly, in order to refine and improve any ongoing policy, we need to take a clear-eyed look at its past performance. In the case of TIF, accountability is (like the but-for test) often left to the developer's judgment. This means developers decide what numbers to report, leading to a lack of accountability if a project fails to meet its goals. A few projects reported in 2016 even reported their total costs as zero, casting serious doubt on whether these reports are taken seriously. An independent and impartial review panel would be better able to determine whether TIF subsidies are money well spent, and could even serve as a first step toward implementing "clawbacks," whereby a developer could be forced to pay back some or all of the TIF benefits it received if the project fails to produce economic growth as promised. Perhaps more importantly, accurate reporting of the success of projects now could inform decisions about awarding TIF in the future, so that costly mistakes are not repeated.

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ENDNOTES

1. <http://dor.mo.gov/business/tif/>
2. http://showmeinstitute.org/sites/default/files/2014%2012%20-%20KC%20TIF%20Misuse%20-%20Tuohy_Rathbone_0.pdf
3. <http://www.bizjournals.com/kansascity/print-edition/2012/07/13/kansas-city-commission-endorses.html>
4. The Northside Regeneration is an extensively subsidized project that has not begun development yet in the red northern portion of the Saint Louis. It is not shown here because these bubbles are based on TIF reimbursement that has occurred to date.
5. <https://theorioncwe.com/neighborhood/>
6. <https://www.stlouis-mo.gov/government/departments/sldc/documents/upload/Citywalk-Redev-Plan.pdf>
7. This total represents actual TIF reimbursable revenues to date from projects reported to the State Auditor in 2015.
8. <http://census.missouri.edu/acs/profiles/>
9. A longer period of time would be ideal for measuring impacts, but in order to provide precise data the ACS 2005–2009 estimate was the oldest available.
10. Both of these numbers are found by summing the individual reports listed in Missouri's 2015 Annual TIF Report (<http://dor.mo.gov/pdf/2015TIFAnnualReport.pdf>)
11. https://nextstl.com/wp-content/uploads/St.-Louis-City-Economic-Incentives-Report_FINAL-May-2016-1.pdf
12. <https://planning.unc.edu/people/faculty/williamlester/LesterTIFinChicagoforthcoming.pdf>

NOTES



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