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TESTIMONY

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THE USE OF TAX INCREMENT FINANCING IN THE CITY OF SAINT LOUIS

By David Stokes

*Testimony Before the Tax Increment Financing
Commission of the City of Saint Louis*

To the Honorable Members of the Commission

Thank you for the opportunity to testify today. My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research that the Show-Me Institute has reviewed and conducted regarding Tax Increment Financing (TIF).

The redevelopment of the General American building in downtown Saint Louis is exciting, but the now standard assumption of public subsidies for these projects is unfortunate. According to the TIF application for this project, the developer is asking for more than

\$16 million in public assistance (which includes more than just this \$8,148,000 TIF request). Saint Louis crossed the Rubicon of authorizing TIF far too frequently many years ago. (There are currently 125 TIFs within the city.¹) However, even by Saint Louis' generous TIF standards, \$8 million in Tax Increment Financing to help a company move two blocks is eye-opening.

This is another excellent opportunity for this commission to reconsider the constant subsidy approach. Nothing about this project should involve public assistance. The project is proposed for a desirable location in a central part of an economically vibrant area. The idea that a new development right next to the Cardinals ballpark and Ballpark Village (also, unfortunately, subsidized) needs further public subsidy is sadly misguided. Redevelopment can go

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forward in this area without subsidies. The fact that other developments in downtown Saint Louis may have a subsidy is a testament to the ease of getting them, not the necessity of them.

The TIF Process

In theory, establishing a TIF district involves serious and impartial deliberation and calculus. A city intends to revitalize a part of its community, but first it must go through a complicated process designed to test whether certain tax incentives are allowed. The city contracts with urban planners who “independently” determine if the proposal could happen “but for” the taxpayer assistance, and also if the area meets the eligibility standards for a designation of “blight” or another appropriate designation. A developer is then brought into the process and, with the assistance of the government and the taxpayers, produces an economic growth engine that provides jobs, a revitalized community, and (eventually) an expanded tax base.

In reality, the process falls far short of reasonable standards for policy debate. The “but for,” “blighting,” and other tests that are supposed to be subject to independent analysis have become a biased process. How else to explain why I cannot find one project in the state of Missouri that failed these tests and urban planners found to be inappropriate for taxpayer assistance? Not one. Taxpayer dollars pay back the lawyers and planners who work arm-in-arm with the cities, shielding the process from hard decisions and risk. Everyone involved in the process (planners, architects, lawyers, and developers) makes money if the project goes forward. Who among them is going to jeopardize the entire deal by saying — or something close to it — the development would likely happen even without taxpayer assistance?

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Effects of TIF in Saint Louis

Tax Increment Financing has had the following effects on the Saint Louis region:

- 1) It has increased government management of the economy, further empowering planners and bureaucrats to decide where businesses locate instead of economic best practices and market factors.
- 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. This issue is particularly evident in this proposal.
- 4) It has transferred the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
- 5) It has failed at one of its main purposes: economic growth. The East-West Gateway Council of Governments (EWGCOG) concluded that TIFs and Transportation Development Districts (TDDs) have created jobs in our community at the rate of one retail job for every \$370,000 in taxpayer subsidies.² That is not a road to growth — it is a road to poverty.
- 6) It has authorized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else. In this TIF decision, the city of Saint Louis is making tax choices that will negatively impact entities such as the community college and zoo-museum districts, which serve everyone in Saint Louis City and County.

Economic Research

The East-West Gateway study is not the only study that found that TIF fails at job creation and economic development. A study of the use of TIF in Iowa concluded that, “On net (...) there is no evidence of economy-wide benefits (trade, all non-farm jobs) fiscal benefits, or population gains.”³ Another study in Illinois found that economic growth was stronger in cities that did NOT use TIF than in cities that did. From the study (emphasis added):⁴

If the use of tax increment financing spurs economic development that would not have happened but for the public expenditures, we would expect (after controlling for other growth determinants and for self-selection) a positive relationship between TIF adoption and growth. If the use of tax increment financing merely moves capital around within a municipality, relocating improvements from non-TIF areas of the town to within TIF district borders without changing the productivity of that capital, we would expect (after appropriate controls) to find a zero relationship between TIF adoption and growth. **What we find, however, is a negative relationship between TIF adoption and growth. This is consistent with the hypothesis that government subsidies reallocate property improvements in such a way that capital is less productive in its new location.**

The one thing TIF succeeds at doing is imposing new costs on other taxing districts without allowing them to grow their tax base to pay for those costs. Cities aggressively seek TIF because cities

are the only entities with the incentives to maximize their use, even while harming other taxing districts. Cities can easily recover any lost, or, more accurately, forgone property taxes via the substantial sales or earnings taxes that a new development garners.

Other types of taxing districts like the local school, community college, library, fire, or museum district depend (in most cases) entirely on property taxes and cannot replace the lost revenue.⁵ And, because any new development will increase service requirements to at least some of those entities, expenses for these entities will increase and create pressure to raise taxes on those people and businesses not covered by TIF.

The research is also strong that local earnings taxes are more harmful than local property taxes to economic growth. So, by hallowing out the property tax base in order to, presumably, keep the earnings taxes of companies that request subsidies, the city is moving in the wrong direction. In this particular TIF proposal, the city is weighing the gains from maintaining, and perhaps growing, future earnings and payroll taxes against the future loss of property taxes, either through foregone increases (General American Building) or potential real declines (Laclede Gas Building). While that equation may seem correct for any one project, trading property for earnings taxes is not in the long-term interest of Saint Louis.

Conclusion

As the East-West Gateway Council has documented, TIF has failed the Saint Louis region. It has harmed our economy and other taxing districts without achieving any of its ostensible goals. Despite enormous use of TIF over the

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past few decades, the population of Saint Louis is still shrinking and the economy is not growing as fast as comparable cities.⁶ It is time for the city to remove itself from its purported role in economic development and allow markets, entrepreneurs, and customers to make those choices. Recently, both Crestwood and Florissant rejected TIF proposals in their cities. Yet, in Florissant at least, the project is going forward without a TIF.⁷ Walmart stores in Kansas City are also being developed without TIF. The City of Saint Louis should strongly consider joining that club.

Note on Transparency

At a minimum, the city should greatly improve the transparency and public openness of the TIF process. It is incomprehensible that in 2013, the relevant TIF documents are not posted online for the public to review and study. While some TIF documents from other applications are now posted online, this proposal is not. All TIF applications should have all the documentation available online well before the public hearing, not after. The technology to do this is so cheap and simple that the lack of public availability of these documents could be viewed as a deliberate attempt to impede public involvement in these decisions. That has to change.

NOTES

¹ Source: Missouri State Auditor, 2012 TIF reports.

² East-West Gateway Council of Governments. "An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region." Final Report, January 2011: 18. View online here: <http://www.ew-gateway.org/dirr/datafiles/2012update.xls>.

³ Swenson, David, and Liesl Eastington. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" Department of Economics, Iowa State University, April 2002: 11.

⁴ Dye, Richard, and David Merriman. "The Effects of Tax Increment Financing on Economic Development." *Journal of Urban Economics*, Volume 47, Issue 2, March 2000: 306-328.

⁵ The author is aware that not every one of these districts applies in the City of Saint Louis.

⁶ Research compiled by the Brookings Institute. View online here: <http://www.brookings.edu/research/interactives/metromonitor#overall>.

⁷ The developers in Florissant did receive a smaller subsidy in the form of a TDD from the court.



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