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TESTIMONY

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‘SOMETIMES NOTHING CAN BE A REAL COOL HAND’

SAINT LOUIS COUNTY TIF POLICY, PUNTING, AND COOL HAND LUKE

By David Stokes

Testimony Before The Saint Louis County Tax Increment Financing Commission Regarding the Southwest Clarkson and Manchester Tax Increment Financing Redevelopment Plan in Ellisville, Mo.

To the Honorable Members of This Commission:

Ladies and gentlemen, 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 and analysis that the Show-Me Institute has conducted and reviewed concerning the costs and benefits of Tax Increment Financing (TIF). This testimony should not be viewed as specific support for, or opposition to, any particular plan

that the city of Ellisville is considering beyond opposition to the use TIF and other subsidies as a part of that plan.

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 standards for a designation of “blight,” or “conservation” (or another appropriate designation),

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making it eligible for subsidies. 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 is a bad joke. The “but for,” “blighting,” and other tests supposed to be subject to independent analysis are a rigged game. The standards for “conservation area” are so broad that almost any urban part of Missouri could fit into a classification. 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 subsidies? Not one. Taxpayer dollars fund the lawyers and planners who work arm-in-arm with the cities, shielding the entire process from any hard decisions or risk. Everyone involved in the process (planners, architects, lawyers, developers, the city itself) makes money if the project goes forward. Who among them is going to be stupid enough to jeopardize the entire deal by saying it — or something close to it — would likely happen even without the taxpayer assistance?

Tax Increment Financing has had the following effects for 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.
2. It has sparked the abuse of eminent domain for private purposes. All of the major eminent domain abuses within the county over the past 20 years have involved taxpayer-subsidized developments in point-of-sale tax cities.¹
3. It has made subsidies a permanent fixture of development in our community.
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 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. (And, in my opinion, the Municipal League’s criticisms of the EWGCOG’s study were weak and lacked substantive points.)
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 Ellisville is making tax choices that will negatively impact entities, such as the community college district, that serve everyone in Saint Louis city and county.

The East-West Gateway study is not the only study that has 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 from Illinois found that economic growth in cities that did not use TIF was stronger than in cities that did use TIF. From the study⁴ (emphasis added):

“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.**”

Democracy, as practiced in America, is not very good at intentionally doing nothing. Partisan gridlock may result in government doing nothing, for better or worse, but when it comes to TIF in

Saint Louis County, I only wish we were so lucky. Sometimes, nothing is a real cool hand. Cities’ use of TIF and other incentives distorts the economic growth in our region and subsidizes less efficient, politically-favored developments. Does anyone seriously doubt that we would still have plenty of retail in the Saint Louis area if we did not have subsidies? Of course we would. It is one thing for individual consumers to voluntarily choose big-box retail stores over long-established mom-and-pop shops. It is quite another thing for cities to give large retailers like Walmart an advantage over their competition through tax subsidies. The first is a natural part of the invisible hand; the second is an unfair and unnecessary advantage to one business over another.

For the Bossman in the movie, it made sense to have Luke dig the ditch, fill up the ditch, and then dig the Bossman’s dirt out of the ditch again until Luke was broken (physically, not fiscally). In the same way, it is not hard to see why Ellisville thinks it is beneficial and appropriate to use tax incentives for this area, and why Bridgeton wants to ensure that it has a larger Walmart within only its borders, or why the city of Saint Louis and Clayton went back and forth on Centene giveaways. The potential short-term gains and the appearance of elected officials “doing something” are powerful incentives. But, just like in the movie, the constant use of tax incentives for retail purposes in Saint Louis is the economic equivalent of “dig ditch, fill-up ditch, repeat.” The heavy use of TIF has not led to economic growth. Would economic growth have been worse

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without TIF? Perhaps – that is impossible to know. But if you are having trouble breathing, you should first stop choking yourself before you wonder about other factors.⁵

Municipal leaders in Saint Louis County are like the NFL coaches who always punt even though the mathematical evidence says they should go for it on fourth down more often. No matter what the math says about the odds of winning and scoring, the punt is the safe decision. If the team goes for it and fails, it is the coach's fault. If they punt and later give up a score, it is the defense's fault. The safe play beats the smart play. Doing a TIF is the safe play for local leadership. Other cities use TIF, and everyone wants a "do something" leader. So, even though the math says this is a bad move for the overall economic health of our region, city leaders support the TIF. The TIF project makes it appear that you are out there fighting for your community. In the short run, it may benefit your city. If it harms all the other taxing districts, such as the zoo-museum district, that is not your problem. Most of those people do not vote in your city anyway. For example, most residents of the Rockwood School District and Metro West Fire Protection District do not live in Ellisville, so they have no way of voicing their opposition at the polls.

According to a forthcoming paper for the Show-Me Institute from Washburn University Professor Paul Byrne, the differences in tax bases can result in inefficient development plans.⁷ Professor Byrne gives a hypothetical example where the increase in sales tax collections gives the city a reason to move forward with a

project, even though the combined loss (taken as net present value) in property tax revenues for the school district, county, and city more than offset the sales tax gains for the city. Of course, Professor Byrne's theoretical problem is exactly what other researchers like Dye and Merriman (the authors of the previously-cited Illinois study) have found occurs in reality.

I urge this TIF commission and the city of Ellisville to be one of the first political voices to recognize that the constant quest for retail tax incentives is actively harming the economic base of our region. By passing this TIF, Ellisville might gain in the short term, but it will do so at the expense of the schools, the county, and many other taxing districts. More importantly, it will just continue the downward spiral of incentive-based retail developments that shrink our region's tax base while appearing to benefit the latest player. That latest player, by the way, will almost certainly be a loser in the same game at some point.⁸

Unilateral disarmament in the TIF wars is the right move. Unlike the Cold War, there is no risk of annihilation with disarmament here. The residents of Ellisville will still have access to the necessary goods and services if Walmart and others, in the absence of this TIF, locates outside the city boundaries. Ellisville can give up any concerns about where retail locates within the region by switching to pool sales tax status. The city would then benefit from development throughout the county — the proverbial "nothing is a real cool hand."⁹

It takes a willingness to recognize the game is not working and to stop playing, instead of going ahead and repeating the failed strategies just because that is what some other cities are doing. Not playing is the right move for Ellisville. I hope this commission and this city can lead the way to a new realization for our region, where economic development works for everyone when governments do not play favorites and businesses succeed or fail on their own merits. Government should focus on keeping tax rates low for everyone, instead of artificially low for the chosen few and marginally higher for everyone else.

NOTES:

¹ Cities in Saint Louis County are either “point-of-sale” sales tax cities or “pool” sales tax cities. “Point-of-sale” cities keep the majority of the sales taxes collected within the city, but share a portion with the pool. “Pool” cities put all of the sales taxes collected within the city into the pool, which is then redistributed to the pool cities according to a formula.

² East-West Gateway Council of Governments, January 2011. “An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region.” Final Report: 18.

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

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

⁵ The Iowa State researchers referred to this as the “bird in the band” problem. City officials used TIF, and now they have a firm with jobs. How could TIF not be instrumental in that job growth? Local politicians are generally not interested in what might have happened absent their program or project.

⁶ As seen only through short-run sales tax collection increases.

⁷ Bryne, Paul. Release forthcoming. “Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions,” Show-Me Institute policy study.

⁸ Saint Ann, Mo., for example.

⁹ Warner Brothers, “Cool Hand Luke,” 1967.

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