



TESTIMONY

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THE NEW PROPOSED TIF PROJECT IN SIKESTON

By Michael Rathbone

**Testimony Before the Tax Increment Financing Commission
of the City of Sikeston**

To the Honorable Members of the Committee:

Thank you for the opportunity to present this testimony. My name is Michael Rathbone, 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 policy. The ideas presented here are my own and do not necessarily represent the views of the Show-Me Institute.

The redevelopment of the Sikeston 60 West Redevelopment Area (hereafter referred to as the “Redevelopment Area”) is welcome, but the now-standard assumption of public subsidies for these projects is unfortunate. According to the Tax Increment Financing (TIF) application for this project, the developer is asking for an \$800,000 request for the Redevelopment Area.¹ Sikeston has a history of granting TIFs to redevelopment projects. According to the Missouri auditor,

Sikeston has previously given out over \$9.5 million in TIFs to four projects, including a Holiday Inn Express and Colton’s Steakhouse and Grill.² The centerpiece of the current Redevelopment Area will be a movie theater.

This latest project proposal is an excellent opportunity for this commission to reconsider the constant subsidy approach. Nothing about this project should involve public assistance. The project is proposed for the desirable location near the junction of Highways 60 and 61. The idea that a new development right next to this junction needs a public subsidy is misguided. Redevelopment can go forward in this area without subsidies. The fact that other developments in Sikeston may have a subsidy is a testament to the ease of getting them, not the necessity of them.

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The TIF Process

In theory, establishing a TIF district involves serious and impartial deliberation and calculus by a city’s policymakers. When a city intends to revitalize a part of its community, it must first 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, is supposed to produce an economic growth engine that provides jobs, a revitalized community, and (eventually) an expanded tax base.

In reality, the process falls far short of being any type of objective assessment of the proposal. The tests that determine whether or not a project qualifies for TIFs, including the “but for” tests and “blighting studies,” have become a biased process subject to the “independent” analysis of interested parties. How else can I explain the fact that I cannot find one project in the state of Missouri that has failed these tests and that urban planners have 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) benefits 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?

Effects of TIF in Sikeston

Tax Increment Financing has had the following effects on the Sikeston region:

- 1) It has increased government management of the economy, further empowering planners and bureaucrats to decide where businesses locate instead of letting the market determine business decisions.
- 2) It has made subsidies an all-too-common fixture of development in the community. This issue is particularly evident in this proposal. As I mentioned before, Sikeston has previously approved TIFs for a Holiday Inn Express and Colton’s Steakhouse and Grill. It is currently considering a TIF for a project whose main feature is a movie theater. If Sikeston approves this project, where will the line be drawn for future projects? What type of business would NOT qualify for a subsidy?
- 3) TIF transfers the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
- 4) 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 Sikeston is making tax choices that will negatively impact entities such as the Sikeston School District.

Economic Research

The East-West Gateway Council of Governments studied the use of TIF in Saint Louis and concluded that TIFs and Transportation Development Districts (TDDs) have created jobs in Saint Louis, but at the rate of one retail job for every \$370,000 in taxpayer subsidies.³ That is not a road to growth—it is a road to failure.

A study on the use of TIFs in Iowa concluded that, “On net ... there is no evidence of economy-wide benefits (trade, all non-farm jobs), fiscal benefits, or population gains.”⁴

A recent study out of Chicago shows that Chicago’s heavy use of TIF has not led to net job creation for residents.⁵ Another study on Illinois’ use of TIFs found that economic growth was stronger in cities that did NOT use TIF than in cities that did. From the study:⁶

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 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 they directly benefit from them without paying the necessary costs.

TIFs are not a requirement for developments to proceed. Other cities in Missouri have had projects go forward without the use of TIF. Recently, the eastern Missouri city of Florissant rejected a Walmart TIF proposal within the city. Yet, the project is going forward without a TIF.⁷ Columbia also has recently rejected some major TIF applications. Sikeston should strongly consider joining that club.

Conclusion

It is understandable why TIF would be an attractive option for local economic development. Sikeston residents and policymakers might fear “unilateral disarmament” in the economic development game. Other cities still use subsidies, and that could put Sikeston at a disadvantage. That fear is overblown. In reality, cities like Saint Louis have been using TIF and other redevelopment tools for over half a century and it has not worked out well. *Mapping Decline*, a 2008

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book by Colin Gordon, documents the decline of the city of Saint Louis. The book's research is exhaustive. The dominant theme is the use of urban renewal tools and tax subsidies—and their absolute, total failure. From the conclusion:

The overarching irony, in Saint Louis and elsewhere, is that efforts to save the city from such practices and patterns almost always make things worse. In setting after setting, both the diagnosis (blight) and prescription (urban renewal) were shaped by—and compromised—by the same assumptions and expectations and prejudices that had created that condition in the first place.

I understand that Sikeston is not Saint Louis. That fact offers Sikeston the opportunity to avoid Saint Louis' mistakes. It is one thing for Saint Louis to try these projects and have them fail. It would be even worse for a city like Sikeston to follow that example with the knowledge that the

entire process has failed. At least the trailblazer who takes the wrong path has an excuse.

Instead of using TIFs to spur economic development, Sikeston can promote the fact that it resides in a county with some of the lowest commercial surtax rates (.23) in the state. In fact, New Madrid already has the lowest commercial surtax rate of any county bordering it with the sole exception of Stoddard County (.12). This is an appealing feature of the area and should be advertised to companies and developers who might want to do business in the area.

It is time for the city government to remove itself from its purported role in economic development and allow markets, entrepreneurs, and private companies to make those choices. Following the example of other cities statewide and recognizing the failure of TIFs, Sikeston should reject this most recent proposal and find new ways to entice economic development without burdening taxpayers.

Michael Rathbone is a policy researcher at the Show-Me Institute.

Notes

¹ Addendum to Detailed Analysis RPA I. Development Proposal 60 West TIF District.

² Office of the Auditor. "Local Tax Increment Financing Reports." 2013. View it online here: <http://auditor.mo.gov/TIF/SearchTIF.aspx>

³ 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.ewgateway.org/dirr/datafiles/2012update.xls>

⁴ 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.

⁵ Moser, Whet. "Do TIFs Create More Jobs? New Study: 'No.'" *Politics and Urban Life*, Nov. 13, 2013. View it online here: <http://www.chicagogamag.com/city-life/November-2013/Do-TIFs-Create-Jobs-A-New-Study-Says-No/>.

⁶ Dye, Richard, and David Merriman. "The Effects of Tax Increment Financing on Economic Development." *Journal of Urban Economics* 47, Issue 2, March 2000: 306-328.

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



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