

TESTIMONY

April 24, 2014

Senate Bill 774: Reforming Tax Increment Financing Districts

By David Stokes

Testimony Before The Missouri House of Representatives
General Laws Committee

To the Honorable Members of this Committee:

Ladies and gentlemen, thank you for the opportunity to testify today. My name is David Stokes and I am the director of local government policy 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 state my opinion about the proposal in this bill regarding limitations on the allowed expenditures within Tax Increment Financing (TIF) districts based on research that the Show-Me Institute has conducted.

Missouri needs TIF reform. Senate Bill 774 is a beneficial compromise on the subject of TIF. The combination of a very large number of local governments and the inclusion of sales taxation in Missouri TIF law has

been a dangerous mixture. By one measure, Missouri local governments use TIF more than all but two other states.¹ Missouri's many cities have readily engaged TIF in order to increase the sales taxes they collect. This leaves other taxing districts, such as school districts — which depend more on property taxation — holding the empty bag. Originally intended as a treatment for “blight,” TIF has been aggressively used throughout Missouri's wealthier areas. SB 774 addresses this concern, in part, by limiting the use of TIF in projects where a city goes forward without county TIF commission approval to factors that directly address the condition of the property: demolition, clearing, and grading.

The constant quest by cities to give away more tax incentives in exchange for new sales tax dollars has had a dramatic impact on Missouri,

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ADVANCING LIBERTY WITH RESPONSIBILITY
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FOR MISSOURI PUBLIC POLICY

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including the following:

- 1) It has increased government management of the economy.
- 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.
- 4) It has transferred the cost risk of profit-making enterprises to the taxpayers.
- 5) It has failed at its main purpose: economic growth.
- 6) It has incentivized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else.

An East-West Gateway Council of Governments study in Saint Louis concluded that TIFs and Transportation Development Districts (TDDs) have created jobs 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.

That 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 was stronger in cities that did NOT use TIF than in cities that did use TIF.⁴

Senate Bill 774 intends to limit the expenditure of TIF funds to the amount required to return the property to “greenfield” status. As stated in the bill, it would still allow cities to override, upon a two-thirds vote of the city council, a county commission’s rejection of a TIF. However, in those cases, the TIF funds would be limited to the demolition of buildings and the re-grading of land. These are very reasonable changes to make. This bill would still allow TIF to be implemented in blighted redevelopment areas where the infrastructure is substantially degraded. It would not eliminate any one project. However, it would place much-needed limits on the constant expansion of TIF in the greater Saint Louis area, as well as Boone County, and that would greatly benefit Missouri.

More TIF reforms are needed, including eliminating TIF usage in the floodplain. It is time for Missouri to reduce government’s purported role in economic development and allow markets, entrepreneurs, and customers to make those choices. This bill helps accomplish that. SB 774 contains necessary reforms and would be a positive change for our state.

NOTES:

¹ That measure is TIF bond sales by state, 2005 to 2010. Reported by O'Toole, Randal. "Crony Capitalism and Social Engineering: The Case Against TIF." Cato Institute Policy Study No. 676, May 2011, page 12.

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, page 18.

³ Swenson, David, and Liesl Easthington. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" Department of Economics, Iowa State University, April 2002, page 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: pages 306-328.

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