

TESTIMONY

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THE USE OF TAX INCREMENT FINANCING IN KANSAS CITY

By Patrick Tuohey and David Stokes

Testimony Before the Kansas City Tax Increment Financing Commission

To the Honorable Members of the Commission:

Thank you for the opportunity to testify today. My name is Patrick Tuohey and I am the western Missouri field manager for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. I prepared this testimony in conjunction with David Stokes, the Show-Me Institute's director of local government policy. The ideas presented here are our own. This testimony is intended to summarize research that the Show-Me Institute has reviewed and conducted regarding Tax Increment Financing (TIF) in Missouri.

The Kansas City community is deservedly excited about the expansion of the Burns and McDonnell campus and

headquarters within the city. However, neither that excitement nor the undeniable quality of the company necessitates millions of dollars in tax subsidies. This size of the subsidy package and TIF that Burns and McDonnell will request is not public yet.¹ However, at basically any amount of subsidy, granting that TIF and other incentives would be very poor policy for Kansas City. By any economic development standard, giving a company tax dollars to simply expand close to its own, existing campus is an egregious use of other people's money.

This 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 a desirable location that already is part of an

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Patrick Tuohey is the western Missouri field manager, and David Stokes is the director of local government policy at the Show-Me Institute, which promotes market solutions for Missouri public policy.



Nothing about this project should involve public assistance. The project is proposed for a desirable location that is already part of an economically vibrant area

economically vibrant area. The idea that a new development nearby an existing corporate headquarters — by the same company no less — needs further public subsidy is sadly misguided. Redevelopment can go forward in this area without subsidies. The fact that similar developments throughout Kansas City may have received comparable subsidies 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 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 that the development — or something close to it — would likely happen even without taxpayer assistance?

Effects of TIF in Kansas City

Tax Increment Financing has had the following effects on the Kansas City 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.
- 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. Studies that attempt the task of measuring the economic

effects of TIF consistently find it to be negative.

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 Kansas City is making tax choices that will negatively impact entities such as the community college and library districts, which serve everyone in Kansas City and Jackson County. Kansas City appointees dominate the commission itself,² so simply having representatives from other governments on the commission is not enough.

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 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 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.”⁴

A recent study out of Chicago states simply that Chicago’s heavy use of TIF has not led to net job gains for residents.⁵ Another study involving Illinois found that economic growth was stronger in cities that did NOT use TIF than in cities that did. From the study (emphasis added):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 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 like Kansas City can easily recover

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any lost, or, more accurately, forgone property taxes via the substantial earnings or sales 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.⁷ 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 that the TIF does not cover.

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, Kansas City is weighing the gains from maintaining, and perhaps growing, future earnings taxes against the future loss of property taxes. While that equation may seem correct for any one project, trading property for earnings taxes is not in the long-term interest of Kansas City.

Conclusion

TIF has failed the Kansas City region. It has harmed the economy and other taxing districts without achieving any of its ostensible goals. Despite enormous use of TIF over the past few decades, the Kansas City economy is not growing as

fast as comparable cities.⁸ 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. Recently, the eastern Missouri city of Florissant rejected a Walmart TIF proposal within the city. Yet, the project is going forward without a TIF.⁹ Columbia also has recently rejected some major TIF applications. Kansas City should strongly consider joining that club.

NOTES:

- ¹ Collison, Kevin, "Burns and McDonnell Proposes \$130 Million Office Project on Ward Parkway," *Kansas City Star*, Feb. 24, 2014.
- ² Six of the 11 Jackson County TIF Commission members are from Kansas City.
- 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 Easthington. "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 online here: <http://www.chicagomag.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*, Volume 47, Issue 2, March 2000: 306-328.
- ⁷ The authors are aware that not every one of these districts applies in Kansas City.
- ⁸ Research compiled by the Brookings Institute. View online here: <http://www.brookings.edu/research/interactives/metromonitor#M28140-recovery-overall-nv>.
- ⁹ The developers in Florissant did receive a smaller subsidy in the form of a TDD from the court.



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