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TESTIMONY

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THE NEXT STEP IN FLOOD PLAIN PROTECTION AND TAX INCREMENT FINANCING REFORM

By David Stokes

Testimony Before The Missouri House Economic Development Committee

Honorable Members of the 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 relates to limiting the use of Tax Increment Financing (TIF) within Missouri flood plains. My comments are based on research that the Show-Me Institute has conducted and reviewed.

Over the past decade, the Missouri General Assembly has taken several steps to preserve the state's instrumental flood plains from subsidized development. In 2003, Saint Charles County was given a special exemption that disallowed the use of TIF in the flood plain within that county.¹ In 2007, many other parts of Missouri

were added to the preservation list as part of the Hunting Heritage Protection Areas Act, which limited the use of TIF within the 100-year flood plain in Missouri, though with numerous exclusions.² House Bill 1709 intends to apply the safeguards that these parts of Missouri are experiencing to the rest of the state. I think that would be an excellent policy choice for Missouri.

In general, TIF has not been beneficial to Missouri. 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.³ That is not a road to growth — it is a road to economic failure.

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

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net (...) there is no evidence of economy-wide benefits (trade, all non-farm jobs) fiscal benefits, or population gains.”⁴ Another study from Illinois found that economic growth was stronger in cities that did NOT use TIF than in cities that did use TIF⁵

But TIF alone is not the issue in this instance. There is, more generally, a concern with subsidizing development in our flood plains. As a state famously defined by its rivers, Missouri should preserve its water resources and heritage. Missouri can do that without blanket rules forbidding any or all development within the 100-year or 500-year flood plains. One of the best ways to do that is to ensure that we are not subsidizing these developments. Those subsidies lead to an absurd circle where taxpayers subsidize development within areas where there is a predictable chance the development will have to be subsidized again after it may be damaged by a flood. At the very least, developers who wish to turn the flood plain into commercial or residential developments should do it without taxpayer assistance.

Approximately 9 percent of Missouri is within a flood plain.⁶ That is a significant total, and Missouri has more flood plains than other states. Nobody knows what the proper amount of development within the flood plains is. Some would argue it should be zero. Whatever it is, by definition, when you subsidize something you get more of it than

normal market forces would produce. While there may be certain things where subsidies are reasonably desired in order to get more of it, such as public safety, I do not believe flood plain development is one of those items.

Missouri should preserve our river areas and flood plains for recreation, shipping, hunting, environmental benefits, fish, wildlife, plant preservation, and other important reasons. One effective way to help do that is to limit subsidies within those areas, and HB 1709 helps do that.

NOTES

¹ RSMo 99.847.

² RSMo 252.243 The primary exclusion was that TIF could still be used within the flood plain in any urban area, defined as having more than 50,000 people and categorized by the US Census as an “urbanized” area. There were additional exclusions as well.

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, page 18.

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, page 11.

⁵ 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.

⁶ Shipley, Sarah “A Flood Of Development: Unprecedented Growth In The Flood Plain Brings Riches And Risks” *St. Louis Post-Dispatch*, July 28, 2003. Missouri has 6,400 square miles of flood plain out of a total of 67,900 square miles.



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