



CASE STUDY

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Source: U.S. Army Corps of Engineers.

TAX-INCREMENT FINANCING IN POST-TORNADO JOPLIN

By Patrick Tuohey

On May 22, 2011, the deadliest tornado in the United States since at least 1950 swept through Joplin, Missouri, killing 161 people¹ and injuring another 1,100. In the City of Joplin, 4,000 dwellings were destroyed and another 3,500 were damaged; 9,200 people were displaced.

It was also one of the most expensive tornadoes in terms of real property damage and loss. Within a few weeks there were over 16,000 insurance claims with total damage estimated at between \$2 billion² and \$2.8 billion.³ It was estimated that Joplin lost about \$34 million in assessed valuation due to the tornado.⁴ In the months that followed, Joplin and its tragedy captured the attention of people from all over the world.

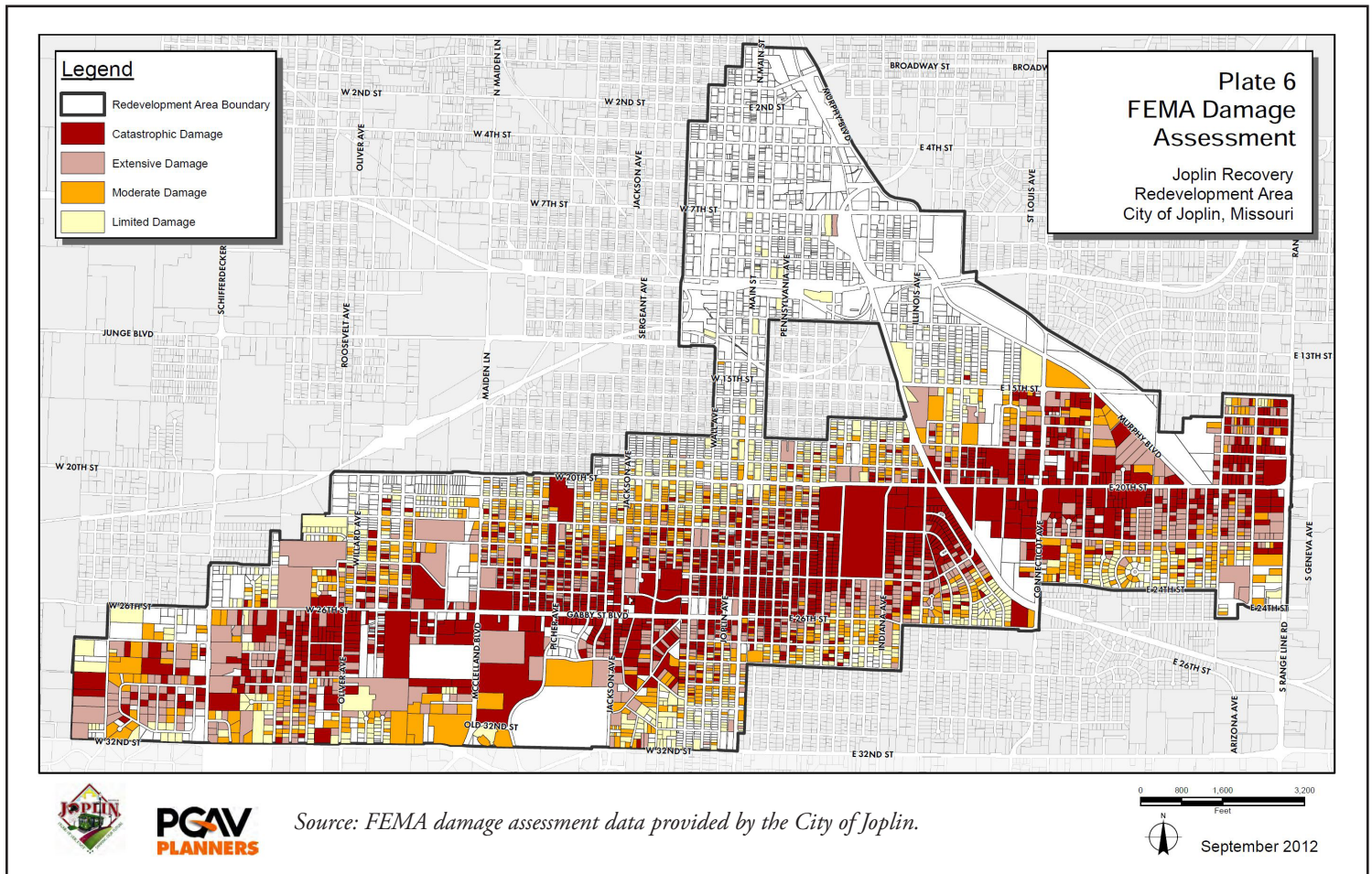
Joplin was rebuilt, and rebuilt quickly. As part of the reconstruction effort,

city leaders adopted a tax increment financing (TIF) subsidy program and created the Joplin Redevelopment Corporation to manage it. What happened next is a useful lesson in TIF and development subsidies for all Missourians: The taxpayer funded scheme played little if any role in Joplin's almost-immediate reconstruction. In fact, the subsidies appear to have done little more than allow for mismanagement and profiteering.

TAX INCREMENT FINANCING

TIF was designed as a tool for cities to encourage development in areas that suffered from blight or to promote conservation.⁵ For this reason, two requirements must be met before a project can be approved for TIF. The first requirement is that

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the designated property must be classified as either a “blighted,” “conservation,” or “economic development” area. The second requirement is that incentives may only go toward projects that would not occur if incentives were not offered. This second requirement is known as the “but-for” test, as it is intended to demonstrate that but for taxpayer assistance, a project would not move forward.

When a TIF project is approved, taxing jurisdictions that are funded through property taxes—schools, libraries, mental health services—have their income from the TIF district frozen for the length of the TIF period, which is capped at 23 years. In other words, they don’t benefit from increases in the land’s taxable value until the expiration of the TIF. Proponents of TIF argue that there really is no cost to this freeze, because according to the “but-for” test, the parcel would not have generated any new taxes at all if the development had not taken place.

SUBSIDIES FOR A DEVELOPER

In late 2012, more than a year after the tornado hit, the TIF Commission and the Joplin City Council approved the creation of a 23-year, 3,100 acre⁶ TIF district to help finance \$806 million in redevelopment projects.⁷ This was to be the largest TIF district in Missouri history. *The Joplin Globe* published at the time:

David Wallace, chief executive officer of Wallace Bajjali Development Partners, the master developer, has said up to \$57 million in tax revenue could be generated to secure bonded indebtedness to help finance some of the \$800 million in projects.

TIF differs from tax abatement in that in a TIF deal the developer is still required to pay taxes on the original (pre-TIF) in property value. It is the taxes paid on the increase in the property value that are diverted back to the developer. So imagine a property valued at \$1 million dollars. At a simple 10 percent property tax rate, the developer would still be required to pay \$100,000 in taxes

to the jurisdiction. However, if the value of the property rose subsequent to the creation of a TIF district, the amounts in taxes due above that \$100,000 amount would be returned to the developer to offset the costs of the development.

In 2012, Wallace Bajjali benefitted from quick approval of the TIF because it meant that the freeze on tax income was based on the 2012 tornado-depressed property values. It was this rush that caused at least one Councilman, Bill Scarce, to vote against the plan.

According to the December 8, 2012 *Joplin Globe*:

The proposal was formally introduced to the city at the beginning of October, recommended for approval by the city's TIF Commission two weeks ago and considered Friday by council members on an emergency clause.

"I have some grave concerns about the quick passage of these TIF projects," [Scarce] said. "Why is there such a rush to pass this TIF?"

City Attorney Brian Head said one reason was for the developer to purchase several properties that the owners wanted to sell before the end of the year for tax purposes. Wallace also has said that for the TIF district to be

*established using 2012 property valuations, the council must have taken action by Dec. 31 or risk losing a portion of the anticipated revenue by using 2013 property valuations.*⁸

Had the Council waited until 2013, property values might have risen on their own, lowering the amount of tax revenue diverted back to the developer.

Another Councilwoman, Trisha Raney, said she "wasn't convinced that redevelopment would not occur without" the TIF.⁹ Ms. Raney's concern refers to the *but-for* analysis, one of the tests that every proposed TIF project must pass.

BUT-FOR TEST

Often it is skepticism regarding the finding of blight that drives opposition to TIF. In Joplin, however, the damage left behind was clear. Under debate was whether the government needed to offer taxpayer incentives in order to get people to rebuild. The argument that subsidies are necessary is based on the but-for test, in that but for a subsidy, no development would take place. According to researcher Paul Byrne of Washburn University:

*The but-for provision refers to the statutory requirement that an incentive cannot be awarded unless the supported economic activity would not occur but for the incentive being offered. This provision has economic importance because if a firm would locate in a particular jurisdiction with or without receiving the economic incentive, then the economic impact of offering the incentive is non-existent.*¹⁰

The but-for test is of questionable value as practiced in Missouri. About the same time as this TIF was being considered in Joplin, the Show-Me Institute's David Stokes delivered testimony before the Saint Louis County TIF Commission in which he offered:

*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?*²¹



Aftermath of Joplin, Missouri, tornado (2011). Source: The DLC, Creative Commons 2.0.

Stokes isn't alone. In his 2013 paper about the use of TIF in Chicago, T. William Lester, an assistant professor at the University of North Carolina–Chapel Hill concluded:

Overall, TIF failed to produce the promise of jobs, business development, or real estate activity at the neighborhood level beyond what would have occurred without TIF. This finding is made by comparing fundamental economic development outcomes in block groups that received TIF designation to those that did not, controlling for the initial underlying characteristics of these neighborhoods. Furthermore, when we measure the impact of actual TIF funded investments, we still find no evidence that TIF effectively obtained desired economic development outcomes.¹²

While members of the Joplin TIF Commission and City Council probably were not aware of the above research and testimony, the Joplin Recovery TIF Redevelopment Plan & Project report¹³ would have been enough to invite skepticism. The report bases its but-for analysis on an affidavit from David Wallace, the CEO of Wallace Bajjali Development Partners, who stated:

To the best of my knowledge, based on the Redevelopment Plan and other information available to me, the Redevelopment Area is, on the whole, a "Blighted Area" as such defined by Section 99.805 of the Missouri Revised Statutes, as amended, and has not been subject to growth and development through investment by private enterprises, and would not reasonably be anticipated to be developed without the adoption of tax increment financing.

The affidavit refers to the Redevelopment Plan regarding the but-for test, but the Plan contains very little analysis regarding the need for taxpayer investment. On page 6 the report simply contains a bulleted list of "factors that have

led us to conclude that the area likely will not be developed without the adoption of" TIF. As the City Attorney indicated (see above), one incentive for the developer to push for quick approval of TIF was because of the likelihood that people would build on their own, resulting in increased property values—thereby decreasing the tax increment that would be returned to the developer. As Stokes testified above, no one had any incentive to question the need for public subsidies.

JOPLIN REBUILDS

In hindsight, the weakness of the but-for analysis was even more unfortunate because none of these subsidies was necessary. It is clear that Joplin was going to rebuild regardless of public development subsidies such as TIF.

Joplin claimed to have lost \$34 million in assessed property value due to the tornado in 2011. According to the Clerk of Jasper County, in which the vast majority of the property damage took place (Joplin does not levy its own property tax), the total assessed property value inside Joplin has already grown beyond what it was in 2011. (See Figure 1.)

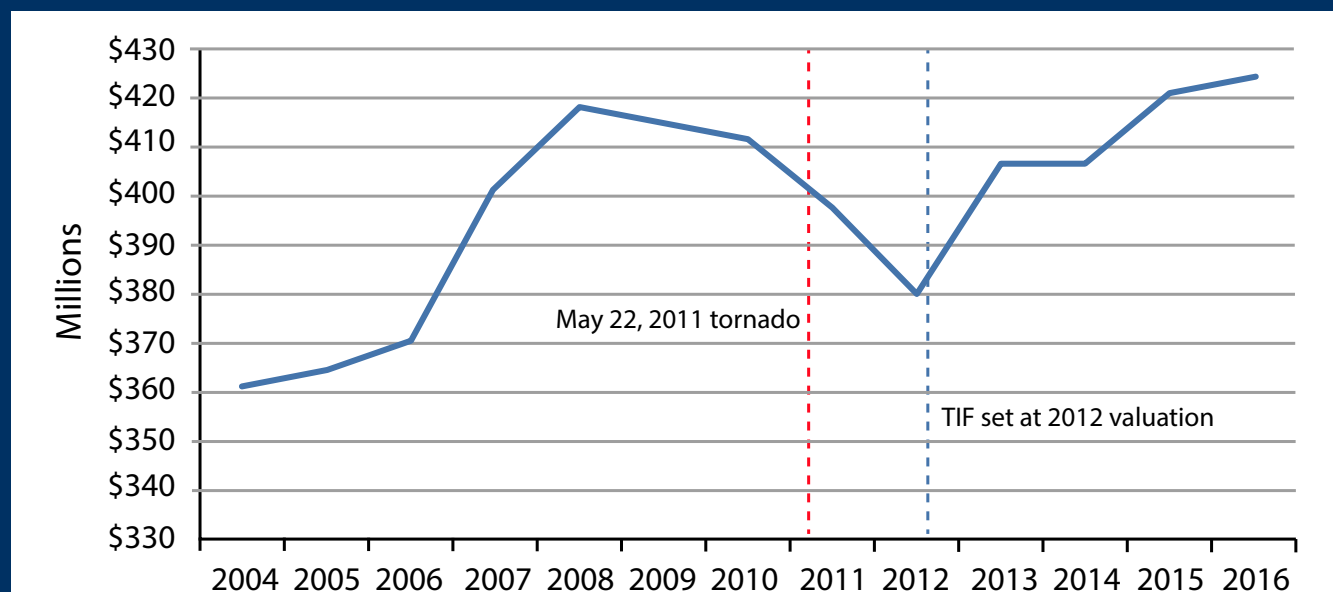
None of this growth can be credited to the developer, Wallace Bajjali Development Partners. In January 2015, the company vacated its office in Joplin due to a falling out between the partners. As reported in a March 2015 story by Houston Public Media:

One bright spot is that the disappearance of Wallace Bajjali Development Partners has done little to slow the rebuilding of Joplin. One of the biggest worries a city faces after a disaster is that much of its population, its workforce, would leave and not come back. Mayor Mike Seibert says that didn't happen with Joplin. "To give the impression that

Figure 1:

Assessed Valuation of Joplin City within Jasper County

By 2015, total assessed property value in Joplin had grown beyond its 2011 (pre-tornado) level.



Source: Jasper County Clerk.

their leaving and their departure has put us in some sort of terrible, dire position is a very gross [mis]representation of the situation here," he says.¹⁴

Mayor Seibert is correct; the departure of Wallace Bajjali was not especially harmful because the need for the developer in the first place—as suggested by the Redevelopment Plan—was overstated. Joplin has filed a lawsuit against Wallace Bajjali for \$1.5 million to recoup fees paid to the developer.¹⁵

In the meantime, Joplin has been rebuilding itself—largely from the proceeds of insurance claims that the but-for test never considered! Not only has Joplin recaptured all lost assessed property value and then some, but the city claims that the population was higher in 2015 than it was in 2010 before the tornado.¹⁶

THE JOPLIN REDEVELOPMENT CORPORATION

The TIF set up by Joplin called for the creation of the Joplin Redevelopment Corporation (JRC), which would issue the bonds that would be used to pay master developer Wallace Bajjali. Though Wallace Bajjali never lived up to its commitments to rebuild Joplin, the city did issue the TIF recovery bond, and the property taxes intended to pay it down are still being collected by the JRC.

In many cases, TIF is used to refund developers for the cost of the project from the increased tax increment that results from their project. For example, a developer builds a new office park and pays a higher tax load due to increased value and economic activity. The amount of the tax above the previous undeveloped level—the increment—is refunded to the developer to offset the costs of the project. But this is not always the approach.



Rebuilding after of Joplin, Missouri, tornado (2011). Source: State Farm, Creative Commons 2.0.

STATE AUDITOR'S REPORT

Joplin's experience with TIF is more than a case of unnecessary government involvement. According to a report from Missouri's State Auditor, Nicole Galloway,²⁰ the entire process was flawed. The way in which the developer was chosen appears to have been designed to favor a particular firm, the predevelopment agreement did not protect the city, and the city did not act to ensure compliance.

The two things the JRC managed to do, acquire property and pay professional fees, drew criticism.

According to the auditor's report, some of the fees paid to the developer were "questionable and excessive." The conclusions regarding the purchases of land made by the JRC were more damning. According to the report's Citizens Summary:

The Joplin Redevelopment Corporation (JRC) failed to obtain independent appraisals or adequately research previous real estate transactions when purchasing multiple properties for redevelopment, and, as a result, paid substantially more for some of the properties than necessary. The JRC purchased 16 out of 36 properties in the redevelopment zone from Four State Homes (FSH), a real estate development company, which had purchased the 16 properties from the original landowners, and then sold the properties to the JRC, in most cases for substantially higher prices (39 percent higher than the original purchase price), a short time later.

The report raises the possibility that these flawed purchase and sale agreements weren't accidental, pointing out that "several activities involving former Mayor and current Councilmember Woolston represent potential conflicts of interest." It also concludes that despite the developer's multiple failures to meet contractual obligations, the JRC repeatedly agreed to extend deadlines.

The JRC came into being in December 2012 and subsequently issued \$18.25 million in bonds to be repaid with proceeds from TIF, which captures about \$2 million each year. According to a July 2016 staff report, the corporation has paid down \$3.7 million of the bond debt.

An annual report on the TIF compiled on October 31, 2015,¹⁷ stated that the TIF has created no new jobs, built no new public infrastructure such as streets or utilities, and engaged in no site development or rehabilitations of existing buildings. The city has not hired a developer to replace Wallace Bajjali. According to the *Globe*:

Mayor Mike Seibert said Joplin is now relying on private investors to redevelop the city instead of trying to find another master developer. "We didn't feel like we need that type of expertise at this point, considering it wasn't successful in the overall development," Seibert said.¹⁸

All the JRC has done, apparently, is acquire land and pay professional fees—but even those activities were controversial. The potential good news, according to the report, is that the bonds issued may be retired by 2026 instead of 2035.¹⁹

CONCLUSION

The effort to rebuild Joplin after the 2011 tornado provides us with a rare opportunity to evaluate the but-for claims that are part of every TIF plan. While Joplin was certainly blighted, the speed with which the city was rebuilt—and the overwhelming amount of private, unsubsidized capital that was used to do so—give the lie to the claim made by Wallace Bajjali in Joplin, and other developers around Missouri, that capital just won't move without taxpayer subsidies. In this case, the developer never delivered on promises, leaving the redevelopment corporation to just buy and sell land while the real work of redevelopment was done by individual homeowners and private companies.

While the circumstances in Joplin are unique, the policy that allowed the city to set up unnecessary taxpayer-funded subsidies exists across Missouri and around the country. If a TIF was not needed to help rebuild a city devastated by a natural disaster, how can it be said that it is necessary to rebuild thriving economic enclaves in Saint Louis or Kansas City? The research is clear that TIF does not play a role in creating jobs or revitalizing neighborhoods. If anyone doubts this, let them come to Joplin.

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