



# SPECIAL TAXING DISTRICTS

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**THE PROBLEM:** Special taxing districts (SDs) are political subdivisions of the State of Missouri that fund specific services and improvements, such as neighborhood security, fire protection, and various kinds of infrastructure. In theory, SDs can help deliver services to taxpayers efficiently and effectively. But in practice, certain SDs—particularly transportation development districts (TDDs) and community improvement districts (CIDs)—may create more problems than they solve.

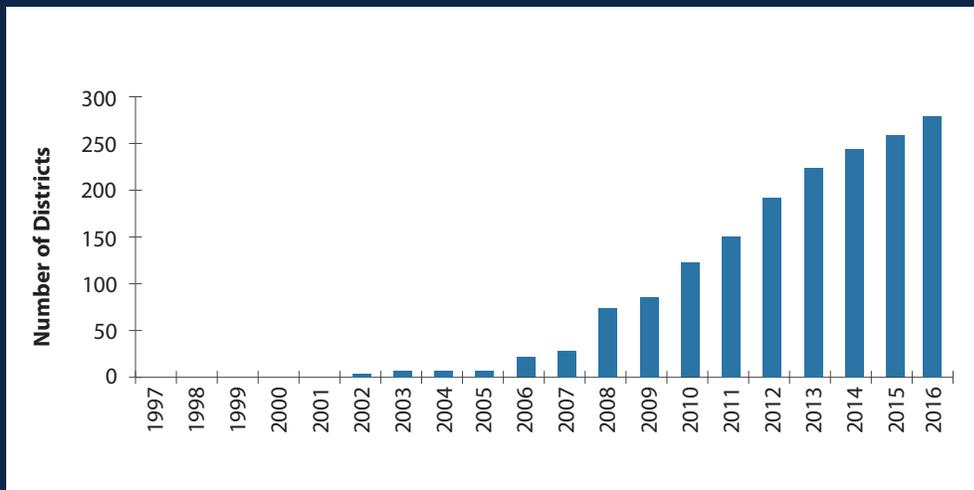
First, these districts allow narrow special interests to tax the public for their own private gain. For example, a luxurious hotel in Kansas City instituted a CID in order to charge a 1 percent sales tax that it will use to refurbish rooms and replace carpeting.

Second, the districts are often drawn tightly around businesses, such as shopping malls, so that no local residents have to vote for the tax increase. The ability to draw district boundaries gives business owners a great deal of power to charge local taxes without public oversight. Without that oversight, SD boards can extend the length of their tax increases well past the initial project need.

Lastly, the Missouri State Auditor has pointed out that SDs are not transparent and that taxpayers are often not consulted in their creation and have no idea of their existence. For example, customers often choose hotels based on room rates, but rarely by tax rate—in fact, many customers do not even know they are paying these additional sales taxes.

The number of SDs is growing rapidly, and the combined impact of these small districts is adding to the tax burden of Missourians across the state.

## COMMUNITY IMPROVEMENT DISTRICTS IN MISSOURI 1997–2016



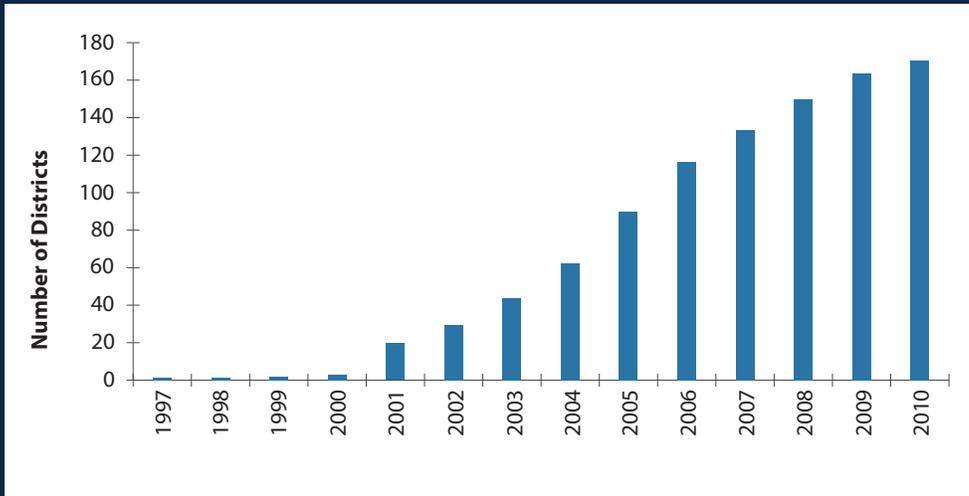
Sources: Missouri Department of Economic Development and Missouri Department of Revenue.

**THE SOLUTION:** Stricter requirements for the creation of SDs and stronger reporting requirements to ensure accountability.

Reforms that will provide greater taxpayer protection include (1) requiring that a minimum number of residential voters live in districts; (2) requiring that the State Auditor or Director of Revenue compile an annual report that details statewide SD spending, revenue, and debt; (3) requiring all SDs sunset unless explicitly approved by district voters, and (4) requiring more transparent public bodies, such as city or county councils or commissions, approve all SD bids. To truly curb abuse, the sales taxing authority of SDs could be revoked so that only property tax revenue could support district projects.

**THE OPPORTUNITY:** Reforming these districts could increase transparency and provide protection for taxpayers. It would also result in lower taxes in Missouri's largest markets by making sure that special taxing districts only act with the informed consent of voters.

## TRANSPORTATION DEVELOPMENT DISTRICTS IN MISSOURI 1997–2010



Source: Missouri Highways and Transportation Committee.

### SHOW-ME INSTITUTE RESOURCES

**Missouri State Auditor’s Report:** “Transportation Development Districts” (Report No. 2017-2020).

**Blog Post:** “Auditor’s Report Sheds Light on Special Taxing Districts”

**Blog Post:** “Missouri’s Troubling Sales Tax Mosaic”

### KEY POINTS:

- In 2014 and 2015 alone, TDDs in Missouri collected more than \$176 million in tax revenue—yet only 6% of those TDDs had residents within their boundaries. According to the State Auditor’s report, \$125 million of that revenue was collected without residential voter approval.
- Of the 34 TDD audits the State Auditor’s office has completed over the past 10 years, one-third concluded the TDDs under consideration were in bad financial shape. And nearly all audits indicated other issues, ranging from conflicts of interest and uncompetitive bidding practices to a failure to comply with basic accounting standards.
- Requiring SDs to demonstrate they are meeting their job creation and tax revenue goals would keep them accountable to taxpayers.
- SD board members voting for and approving contracts for themselves is a potential conflict of interest. Requiring that contracts be put out for bid would ensure a competitive process.