



REPORT

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OVERGROWN AND NOXIOUS: THE ABUSE OF SPECIAL TAXING DISTRICTS IN MISSOURI

By Graham Renz and Patrick Tuohey

KEY FINDINGS

- Hundreds of micro-governments known as special taxing districts have extracted over a billion dollars in tax revenue from Missourians.
- Over a 10-year period, community improvement district (CID) sales and use tax collections have grown by more than 1100 percent. Transportation development district (TDD) sales tax revenues have jumped roughly 500 percent since 2010.
- The overwhelming majority of TDDs and CIDs across the state were not subject to public votes; they were effectively imposed by private interests.
- There is no single, reliable database that tracks historical and current information on the number of TDDs and CIDs or their spending.
- Effective reforms will address the formation of TDDs and CIDs and their sales and use tax authority.

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INTRODUCTION

Special taxing districts (SDs) are political subdivisions² of the State of Missouri that fund specific improvements and services, including various kinds of infrastructure, neighborhood security, and fire protection. In theory, SDs are innovative financing and governance tools that can efficiently and effectively deliver goods and services to taxpayers. In practice, however, certain SDs—particularly transportation development districts (TDDs) and community improvement districts (CIDs)—arguably create more and worse policy problems than they solve. Specifically, these districts allow narrow special interests to tax the public for private gain. This study investigates the growth and spending of TDDs and CIDs in Missouri over the past two decades. It discusses the policy problems these districts create and various reforms that can rein in TDD and CID growth and abuse.

Background

Government in the United States is stratified. State governments operate below the level of the Federal government, and below states are numerous other levels of government, including county, city, and village and township governments. In addition to these various levels of general government are still other governmental units, such as school and library districts. But in all states there are other, less familiar levels of government. These lesser-known government units, known broadly as special taxing districts (SDs), are political subdivisions of the state established to provide very specific services and improvements, such as sewer infrastructure, fire protection, and neighborhood security. Their narrow, singular purpose is why they are known as “special.”

In Missouri, SDs can be established to impose and collect tax revenue for a wide variety of purposes. There are drainage and levee districts, sewer districts, port improvement districts, nursing home districts, and fire protection districts, to name just a few. While the process by which an SD is created differs by kind, most are formed through a petition of the courts by residents or property owners within a proposed district. Once a court receives a petition to form a district, an election or series of elections is held within the district in which voters decide whether or not to impose new taxes for a specific improvement or service.

There are three broad rationales for SDs:

- A public service or improvement may be needed or desired in an area that spans several general government jurisdictions, and coordination among these jurisdictions can be challenging. Rather than attempting to provide the needed service or improvement through inter-government activity, an SD can be formed to provide just that service or improvement.
- A public service or improvement may be needed or desired in a very specific or small area, making the provision of that improvement or service by a general government an unfair redistribution from other taxpayers in the jurisdiction.
- An existing general government may not be financially capable of providing a service or improvement, in which case an SD can be established to raise additional revenue for the service or improvement.

There is no centralized database on SDs in Missouri, so pinpointing exactly how many exist (and where they exist) is challenging.³ Table 1 lists the number of unique SD financial reports on file with the State Auditor’s Office (SAO). Pursuant to state law (RSMo §105.145[2017]), political subdivisions of the state, SDs included, are required to submit financial reports annually to the SAO. These figures cover the past five years and include districts that currently exist and some districts that no longer exist. These figures do not capture the number of districts that have failed to report or make themselves known to the state government. So while these figures are not perfectly precise, they serve as an approximation for how many SDs exist across the state.

In theory, SDs are innovative financing tools that can help provide public services or improvements more efficiently than general governments. If an SD has a single, narrow purpose and need not go through standard bureaucratic procedures or get caught up in local politics, it should be able to deliver to taxpayers quickly and effectively.⁴ In practice however, certain SDs arguably have created more and worse policy problems than they have solved.

TDDs and CIDs can impose sales and property taxes, special property assessments, and other taxes and fees for

public improvements such as roads and bridges, public transit, neighborhood security, beautification, and other infrastructure and services. Since their introduction in Missouri in the 1990s, TDDs and CIDs have helped fund meaningful infrastructure and neighborhood projects. Use of these districts, however, has drifted from its original purposes. Rather than pay for genuine public-goods that benefit everyone in the affected area, these districts have become convenient tools in Missouri's corporate welfare toolbox. TDDs and CIDs are now, more often than not, taxing the public to fund land acquisitions, site improvements, vertical improvements (buildings), and infrastructure associated with *private* developments. In a recent and particularly egregious example, the luxurious Kansas City InterContinental Hotel—valued at \$28 million—established a CID to collect an extra sales tax to renovate its guestrooms and parking garage.⁵

Unfortunately, Missouri law allows, and arguably even encourages, the use of these SDs for private gain. TDDs and CIDs, for instance, may be established by a single property owner—which is often a retail developer—who has complete control over whether and how sales taxes are imposed and, ultimately, how the revenue from those taxes is spent. Since the property owner is the only constituent of the district, they are the only one with any say (save municipalities in the case of CIDs) in the district's business. This effectively pushes ordinary consumers—taxpayers—to the sidelines and allows narrow special interests to tax the public for private gain. Unsurprisingly, given how lucrative these districts can be, the number of TDDs and CIDs across Missouri has exploded. Before 1997, there were no TDDs or CIDs in the state; today there are more than 600. For comparison, there are roughly 950 municipalities in the entire state. If TDD and CID policies remain in their current form, there is little reason to believe their growth will slow or that their abuse will cease.

The current study has three purposes. The first is to investigate the growth, spending, and use of TDDs and CIDs in Missouri. While state and local auditors have investigated some of these districts in the past, few reports have looked comprehensively at TDD and CID growth across the state. The second purpose is to explore and discuss the problems associated with and created by these districts. The third purpose is to consider reforms to Missouri law that could help address the abuse of TDDs

Table 1: Special Taxing Districts in Missouri

Kind of District	Unique Financial Reports
Ambulance district	115
Community improvement district	416
Drainage and levee District	152
Fire protection district	409
Metropolitan culture district	1
Museum district	1
Nursing home district	31
Port improvement district	5
Public water supply district	240
Regional recreation district	1
Sewer district	37
Special business district	2
Special road district	231
Street light maintenance district	5
Transportation development district	228
Total	1,874

Note: The number of unique financial reports on file with the State Auditor is an approximation of how many SDs exist in Missouri.

Source: Missouri State Auditor, as of July 2018, https://app.auditor.mo.gov/Local/SearchPolysubFinancialReports.aspx?_ga=1.91051418.1014418486.1479842937.

and CIDs. The overarching goal of this study is to help policymakers and the public better understand how these districts work, how they affect Missourians, and how they can be reformed.

TDDs AND CIDs: AN OVERVIEW

Before discussing the growth and spending of TDDs and CIDs and the policy problems they create, it will be helpful to review the mechanics of how these districts are formed and governed. In fact, the processes by which these districts are formed and governed explain much of their growth and abuse.

Transportation Development Districts

Missouri is one of fourteen states with known TDD-enabling legislation.⁶ The establishment of TDDs is authorized in Missouri through the 1990 Transportation Development District Act (RSMo §238.200–280[1990–2016]).⁷ The law states that a district may be formed to “fund, promote, plan, design, construct, improve, maintain, and operate” any “bridge, street, road, highway, access road, interchange, intersection, signing, signalization, parking lot, bus stop, station, garage, terminal, hangar, shelter, rest area, dock, wharf, lake or river port, airport, railroad, light rail, or public mass transportation system and any similar or related improvement or infrastructure.” In short, TDDs can fund a vast array of transportation-related infrastructure projects.

So why form a TDD? Suppose you’re a developer and you want to build a grocery store. The only problem with your plan is that the land where your store will sit isn’t served by a road capable of handling the traffic you expect the store to generate. The city cannot afford to build you a bigger road, nor can you, the private developer, afford to build the road. But without the road, your project cannot move ahead. So you form a TDD to levy an extra tax on your customers to help pay for the road. The main idea is that the district, not the city as a whole or you the private developer, funds the road that primarily benefits just constituents of the district (in this case, the grocery store). In this way, TDDs fund improvements through something like a user-fee.

Though it depends on who initiates the formation of a district, TDDs in general may levy sales taxes (in increments of 0.125% up to 1%), property taxes (not to exceed \$0.10 per \$100 of assessed value), special property assessments, and tolls or fees. TDDs can issue debt with terms of up to 40 years, secured with the above revenue sources.

A TDD is formed by submitting a petition to the circuit court of the county in which the proposed district is to be located. The petition can be submitted by either (1) a minimum of 50 registered voters within the proposed district; (2) all owners of record of real property within the proposed district; (3) the governing body of a local transportation authority (LTA)—for example, a city,

county, or similar political subdivision—within the proposed district; or (4) two or more LTAs within the proposed district (e.g., a city and the county within which the former is located, or two neighboring cities) through a joint resolution. In the case of method (2), where owners of real property petition the court, there is no minimum number of property owners required—a single property owner may propose a TDD on just his property.

A petition must include a variety of basic information about the proposed district, such as its name, a description and illustration of the district’s boundaries (Figure 1), the project or projects it plans to fund, the estimated costs of its project(s), and the district’s estimated revenues. TDDs are governed by a board of directors, and depending on what method (1–4) is used to file the petition to form a district, the board may have anywhere from 4 to 15 members.⁸ Board members are elected either by registered voters or property owners in the district, depending on whether any voters reside within the district. Alternatively, LTAs may appoint directors to certain TDD boards.

Once a court receives a petition to form a TDD, it holds a hearing to determine if the proposed district is illegal, unconstitutional, or an undue burden on the residents or property owners within its boundaries. If a district and its proposed funding mechanisms are not found legally defunct, incomplete, or defective, the court allows the process to continue, sometimes to a vote. After a proposed district passes this legal litmus test, a public notice about the formation of the district is issued for a short period of time. The notice contains details about the district and its proposed projects, and a date by which the public can officially express their support of or opposition to the district. Depending on what method of filing the petition is used, a public hearing on the formation of the proposed district may also be held.

If, after any hearing or series thereof, a proposed district is still determined to be legally viable, the court causes an election or series thereof to be held on the formation of the board of directors and the funding mechanism(s) of the proposed district. Elections may be on general, special, or mail-in ballots. In general, a simple majority is required to establish a district and approve its funding mechanism; however, if a property tax is a proposed funding mechanism, a four-sevenths majority is required.

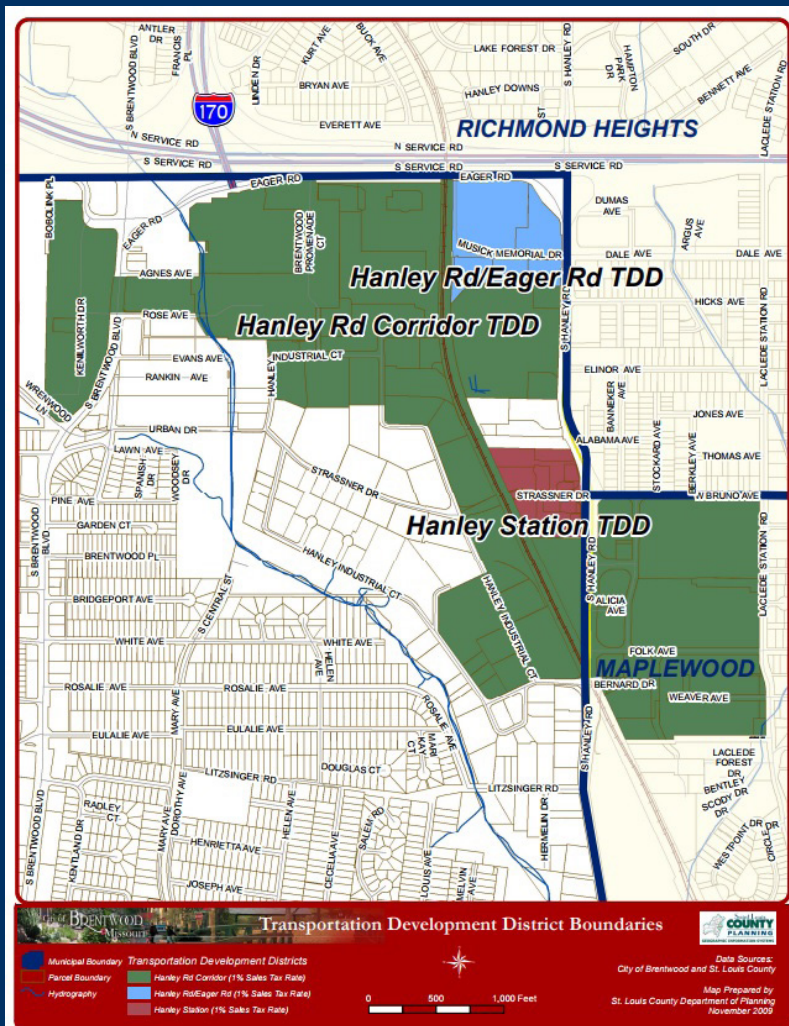
But, in method (2), where *all* owners of record of real property within the proposed district petitioned to form the district, the district and its funding mechanism are established and approved by “unanimous petition.” Clearly, in a case where a single property owner petitions to form a district, the petition itself essentially establishes the district and approves its funding mechanism, which is often a sales tax.

Recent legislation (2016 HB 1418) requires that if a district and its funding mechanism are approved, the newly formed TDD must alert the SAO of its establishment in writing.⁹ If a proposed sales tax is approved, the TDD must notify the state Department of Revenue (DOR), which collects and administers the tax. If property taxes or special assessments are approved, the TDD must notify the collector of revenue of the county within which it is located, who administers the taxes.

Before the funding or construction of any improvements, a district must submit project plans to the Missouri Highways and Transportation Commission (MHTC), which oversees the state highway system, for approval. If a district’s proposed projects would not be a part of the state highway system, it must then submit its plans to the appropriate LTA for approval.

Once a district is established, it may elect to undertake new projects, or to not undertake previously authorized projects, subject to voter approval. Once a district completes its projects, or is determined incapable of doing so, the SAO determines if a district’s financial position is such that it may be abolished. After all district debts and project costs are paid, ownership and control of district projects must be transferred to either the MHTC or LTA. District voters are then asked if the district may be abolished, with a simple majority required to formally dissolve the district. Of special import, there is no requirement that a TDD must

Figure 1
An example of TDD Boundaries in Brentwood and Maplewood



Source: City of Brentwood, Missouri, <https://www.brentwoodmo.org/DocumentCenter/Home/View/597>

be abolished, or that it will dissolve at a certain date; a district can always submit new projects, and corresponding taxes, to voters for approval.¹⁰

Community Improvement Districts

CIDs, sometimes known as business improvement districts or community development districts, exist in every U.S.

Figure 2

The Grove neighborhood in St. Louis

The Grove neighborhood in the City of St. Louis used a CID to fund various beautification improvements.



Source: Paul Sableman, Creative Commons 2.0

services. Also, within a “blighted area,” a CID can contract with or fund a private property owner to “demolish and remove, renovate, reconstruct or rehabilitate any building or structure owned by such property owner.”¹³

While the CID Act allows districts to pay for a wide array of projects and services, the basic motivation behind CIDs is to provide a mechanism for residents and property owners to improve their neighborhoods. For instance, if a part of town wants to brand itself with a unique look, using flower baskets, new sidewalks, and streetlight banners, it can form a CID to

state.¹¹ CIDs were authorized in Missouri through the 1998 Community Improvement District Act (RSMo §67.1401–1571[1998–2016]).¹² The law states that a CID may be formed to “provide assistance to or to construct, reconstruct, install, repair, maintain, and equip” any “pedestrian or shopping malls and plazas . . . parks, lawns, trees . . . convention centers, arenas, aquariums . . . streets, alleys, bridges, tunnels[.]and other site improvements . . . parking lots, garages or other facilities . . . streetscape, lighting, benches . . . paintings, murals, display cases, sculptures, and fountains,” and “any other useful, necessary or desired public improvement,” among other things. CIDs can also provide security, cleaning and maintenance, business support and training, and marketing and other

fund those improvements. Examples of such CIDs can be found in the Central West End and the Grove in St. Louis (Figure 2), and downtown Kansas City.¹⁴ In Missouri, if you ever find yourself in a “historic downtown” neighborhood, you’re likely in a CID. But, as the above quoted language from the CID law itself shows, CIDs can fund much more than just flower baskets and sidewalks.

A CID may be formed as either a political subdivision of the state or a nonprofit organization. If the former, a CID can levy sales taxes (in increments of 0.125% up to 1%), property taxes (of an amount specified in the petition to establish the district—discussed below—but without a maximum rate), special assessments, business license taxes,

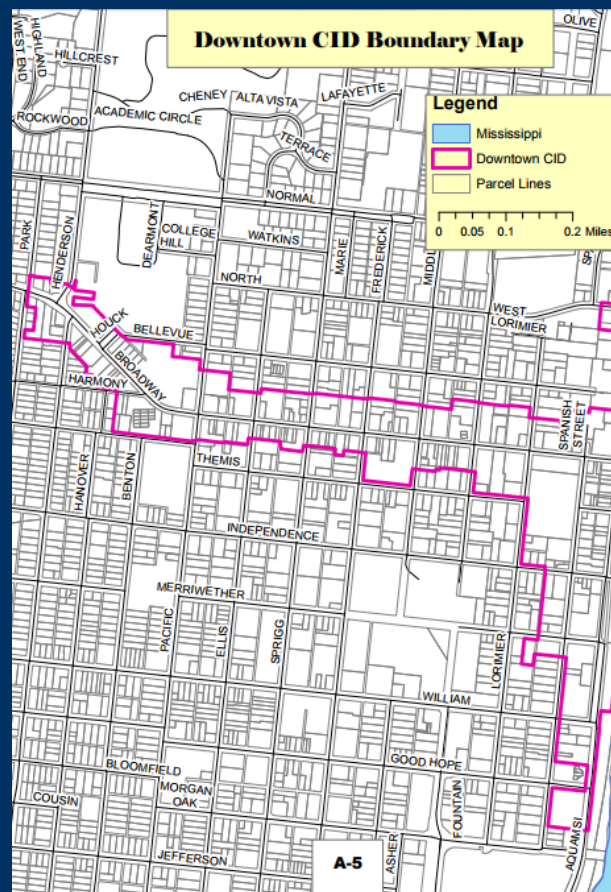
and fees and rents (see Figure 6 on page 9). A CID formed as a nonprofit organization can collect various fees and rents but can only levy special assessments. Both types of CID may issue debt, but with terms no longer than 20 years.

CIDs are formed through a process that is similar to, though less complicated than, that for TDDs. To form a CID, a petition must be filed with the municipal clerk of the city within which a proposed district is located. The petition must be signed by property owners collectively owning more than 50 percent of the assessed value of real property within the proposed district and by more than 50 percent per capita of all owners of real property within the proposed district.¹⁵ Similar to a TDD petition, a CID petition must contain various information about the proposed district, including the name of the district, a description and map of the district's boundaries (Figure 3), a five-year plan for the district's operations, the proposed revenues of the district, the total assessed value of real property in the district, and the length of time the district will exist.

The municipal clerk then conducts a review to verify that the petition is in accordance with the CID Act.¹⁶ If a petition passes legal muster, the public and property owners within the district are notified of a public hearing where they can express their support or opposition to the formation of the district. After one or more public hearings, the governing body of the municipality (i.e., the city council or board of aldermen) may establish the district by ordinance.¹⁷ However, this ordinance does not itself authorize the taxing mechanisms outlined in the petition to form the district—it simply means the district exists “on paper.”

Once a district is created, a board of directors for the district must either be appointed (by the chief executive of the city—i.e., the Mayor) or be elected by district voters—registered voters or property owners. (CIDs formed as nonprofit organizations fill their board of director seats as does any nonprofit organization in Missouri. See RSMo Chap. 355.) Often, an initial slate of directors for the board is submitted within the petition to form. The board must have at least 5 but no more than 30 members, and each must either own property within the district, own

Figure 3
An Example of CID in
Downtown Cape Girardeau



Source: City of Cape Girardeau, <http://www.cityofcapegirardeau.org/CityHall/Downtown-cape-Girardeau-CID.aspx>

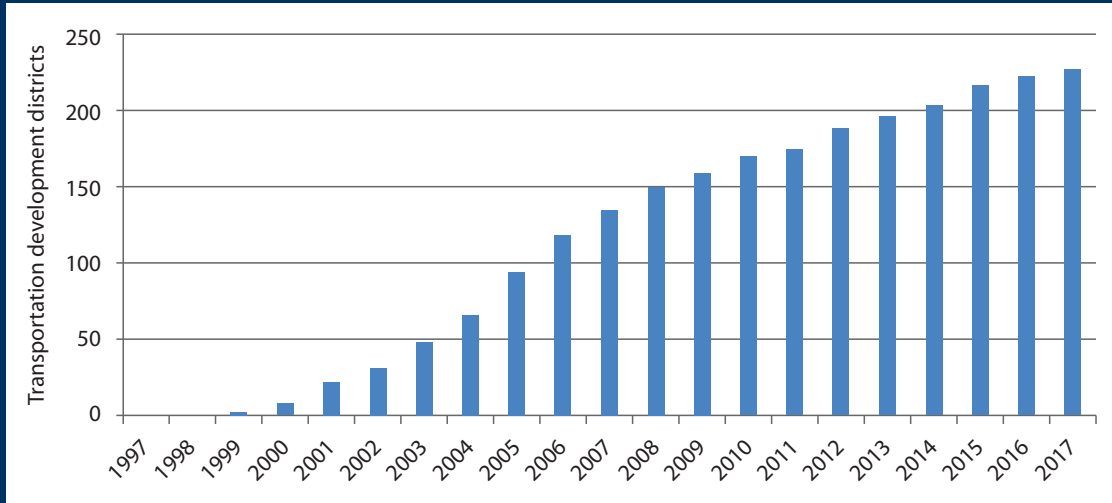
or operate a business within the district, or be a registered voter within the district. Often, the local government approves the CID by ordinance with the requirement that it (the government) be represented on the board of directors as well.

Once a board is formed, it can submit questions to district voters on the levying of taxes for improvements or services described in the initial petition. If voters approve those taxes, the board administers the projects through the CID and reports annually to the city it is located in and the

Figure 4

Transportation Development Districts in Missouri

The number of all TDDs in Missouri formed as either political subdivisions or nonprofit corporations.

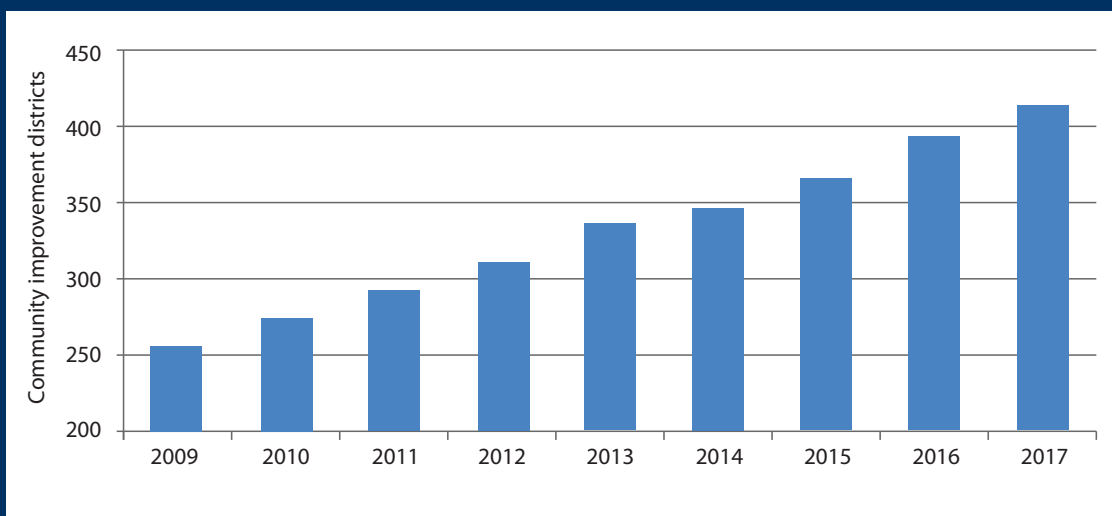


Data from Missouri Highways and Transportation Commission via Sunshine Law request. As of July 2017.

Figure 5

Community Improvement Districts in Missouri (All), 2009–2017

The number of all CIDs in Missouri formed as either political subdivisions or nonprofit corporations.



Data from Missouri Department of Economic Development via Sunshine Law request. As of July 2017.

state Department of Economic Development (DED). If a sales tax is approved, the CID notifies the DOR, which collects and remits the sales tax revenues to the CID. The collector of the county where the CID is located administers the property taxes and special assessments. CIDs formed as political subdivisions of the state are also required to submit annual financial reports to the SAO (see RSMo §105.145). After a district completes voter-approved projects and pays off its debt, or reaches the end of its voter-approved lifespan, it may be dissolved or renewed. There is no statutory limit on how long CIDs may exist.

THE GROWTH AND COST OF SPECIAL TAXING DISTRICTS IN MISSOURI

Having reviewed the basic mechanics of TDDs and

CIDs, we can examine their growth and cost. We will then consider policy problems the growth has created and possible reforms to address those problems.

The Growth of TDDs and CIDs

How many TDDs and CIDs are there in the Show-Me State? Figures 4, 5, and 6 depict TDD and CID growth across Missouri over the past two decades. The number of TDDs and CIDs in the state has grown rapidly. In 1997, there was a single TDD;¹⁸ as of July 2017, there were 228 (see Figure 4). Prior to 1999, there were no CIDs in Missouri; as of July 2017, there were 414.¹⁹ The explosion in the number of TDDs and CIDs is striking. Over roughly 20 years, two-thirds as many TDDs and CIDs have been established in the state as there are municipalities in Missouri's entire 197-year history.

While this paper was not designed to investigate what has driven TDD and CID growth, it is worth briefly addressing some

possible reasons. A significant uptick in CID formation seems to have followed the Great Recession, so one might hypothesize these districts formed to help insulate developments from market pressures, or that communities took it upon themselves to fund projects with lower general government revenues. These are plausible rationales, but there is no similar uptick in TDD growth. Given that TDDs and CIDs are formed for similar purposes, the data

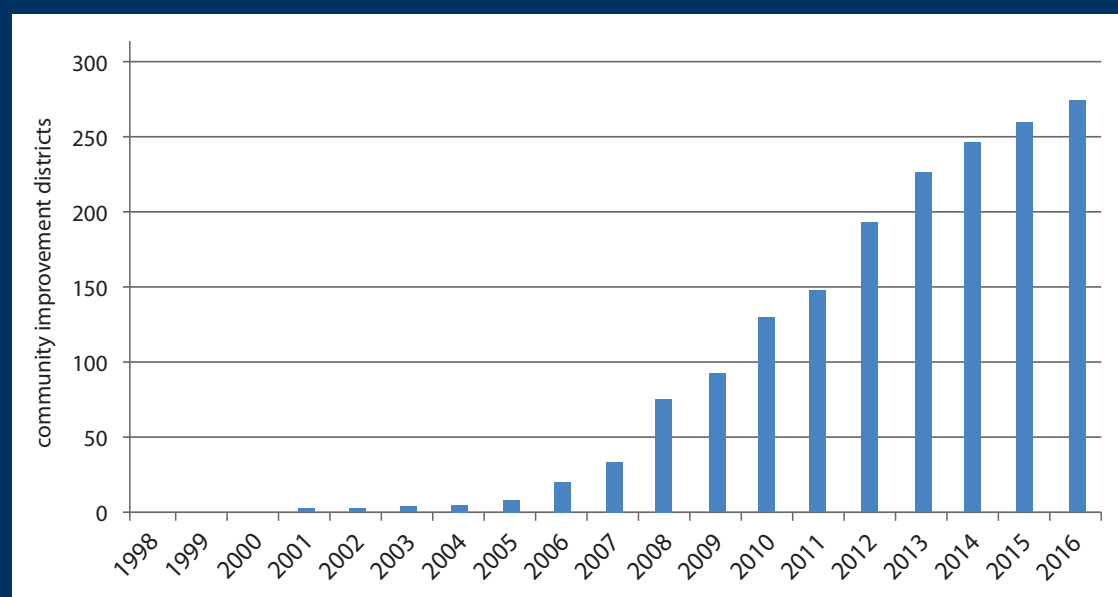
do not suggest that the recession significantly fueled the growth of TDDs and CIDs, though it certainly could have contributed to it.

Our suspicion is that TDD and CID laws are not sufficiently strict, and that the laws allow districts to be used as development subsidy generators rather than funding mechanisms for public goods. That is, we believe TDD and CID numbers have grown so rapidly because they are handy, legal tools for directing tax revenue toward private projects. In addition, these districts do not divert revenues from other jurisdictions, like schools and libraries, as TIFs and abatements do. Although we cannot conclusively pinpoint the exact cause of the explosion in TDDs and CIDs, we are fairly confident it is *not* the result of some massive unmet taxpayer demand for transportation, infrastructure, or community development projects. This view is further supported by the fact that the formation of TDDs began to grow in 1997, when the TDD Act's formation process was liberalized.

Figure 6

Community Improvement Districts in Missouri (PSD), 1998–2016

The number of CIDs in Missouri formed as political subdivisions.



Data from Missouri State Auditor via Sunshine Law request. As of July 2017.

The Cost of TDDs and CIDs

So how much are these districts costing taxpayers each year? Unfortunately, the exact figures are hard to pin down. Recall that TDDs and CIDs can impose sales and property taxes and special assessments. The DOR collects, remits, and tracks the sales taxes for districts that impose them. However, DOR does not collect or track the property tax and special assessment revenues TDDs and CIDs generate. Individual counties collect these taxes, but do not report data on them annually to the state. Since all TDDs and CIDs formed as political subdivisions are required to submit annual financial reports with the SAO, one *should* be able to determine the amount collected in property taxes and special assessments each year, but these reports are incomplete, and often districts fail to submit them at all. (See Figure 7, which depicts CID property tax revenue from these incomplete records.) There is no centralized database that provides thorough and accurate information on non-sales tax revenue for TDDs and CIDs.²⁰ Moreover, there is no reliable source for data on TDD and CID collections of any sort prior to the mid-2000s. This reporting and data problem is discussed in greater detail below.

As mentioned above, DOR tracks and publishes data on TDD and CID sales and use tax revenue annually. Figures 8 and 9 depict TDD and CID sales tax revenue over the past seven and nine years, respectively. (For years prior to 2010, DOR reports list only a single TDD; we have not included those earlier years since the data are clearly incomplete.)

From 2010 to 2017, TDDs across the state collected \$435,737,583 in sales taxes, and from 2008 to 2017, CIDs collected \$256,551,578 in sales and use taxes. In order to protect taxpayer information, DOR does not report sales tax revenues for TDDs with six or fewer constituents. Thus, the figures here understate how much tax revenue CIDs and TDDs have collected.

As the data show, Missourians (and guests of the state) have been paying more and more into TDDs and CIDs each year and can expect to continue doing so. Over a 10-year period, CID sales and use tax collections have grown by more than 1100 percent; further, TDD sales tax revenues have jumped roughly 500 percent since 2010.

What TDDs and CIDs generate as revenue each year is

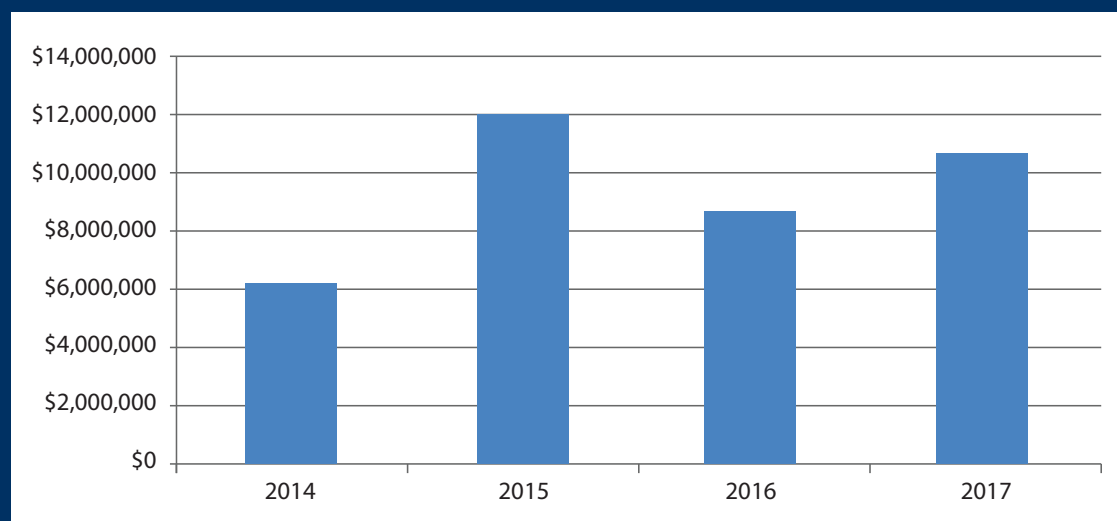
quite different from the total cost these districts may impose on taxpayers. Since many TDDs and CIDs issue bonds and notes to fund improvements, we also must look at TDD and CID debt to get a comprehensive idea of their total costs.

A recent report issued by the SAO indicates that as of December 31, 2015, TDDs held at least \$941 million in debt. However, this report relied on data from only 60 percent of TDDs,

Figure 7

CID Property Tax and Special Assessment Revenue (PSD)

CIDs formed as political subdivisions have collected more than \$37.8 million in property taxes and special assessments over the past four years.

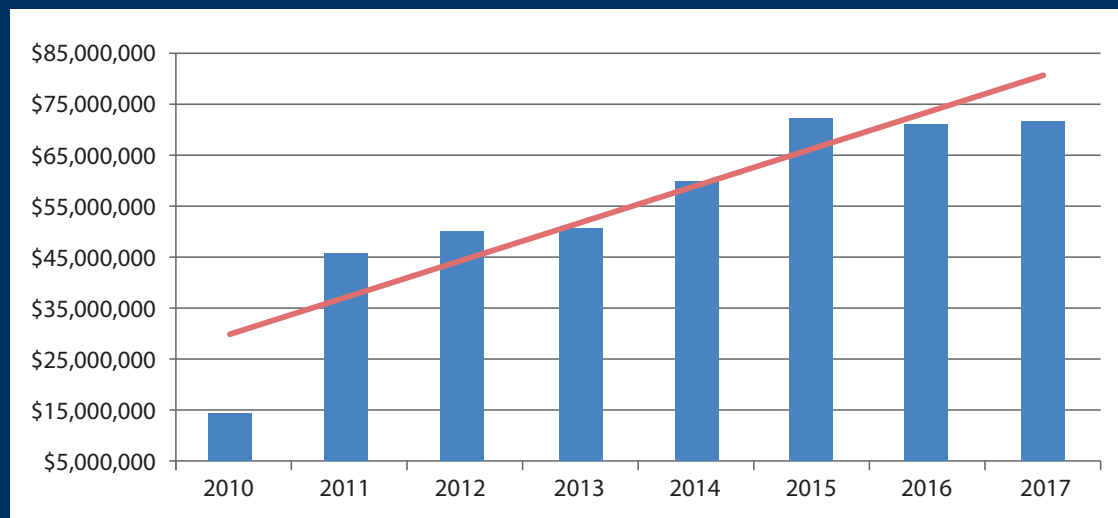


Source: Missouri State Auditor, as of July 2018, https://app.auditor.mo.gov/Local/SearchPolysubFinancialReports.aspx?_ga=1.91051418.1014418486.1479842937.

so it significantly understates the true financial liability of TDDs.²² An earlier audit, which reviewed statewide TDD activity up to December 31, 2011, found that TDDs had incurred \$1.7 billion in project costs and anticipated revenues of \$2 billion.²³ Since more and more TDDs have been created and issued debt since 2011, and the terms of debt are often longer than 20 years, the current total liability posed by TDDs is likely greater than \$2 billion. The authors' own review of the incomplete data on CIDs reported to the SAO indicates these districts, as of fiscal year 2017, held more than \$498.9 million in public debt. A 2018 SAO report pegs the total anticipated project costs of CIDs across the state at more than \$2.3 billion.²⁴ Since most of this debt is composed of revenue bonds, and not general obligation

Figure 8
TDD Sales Tax Revenue Statewide

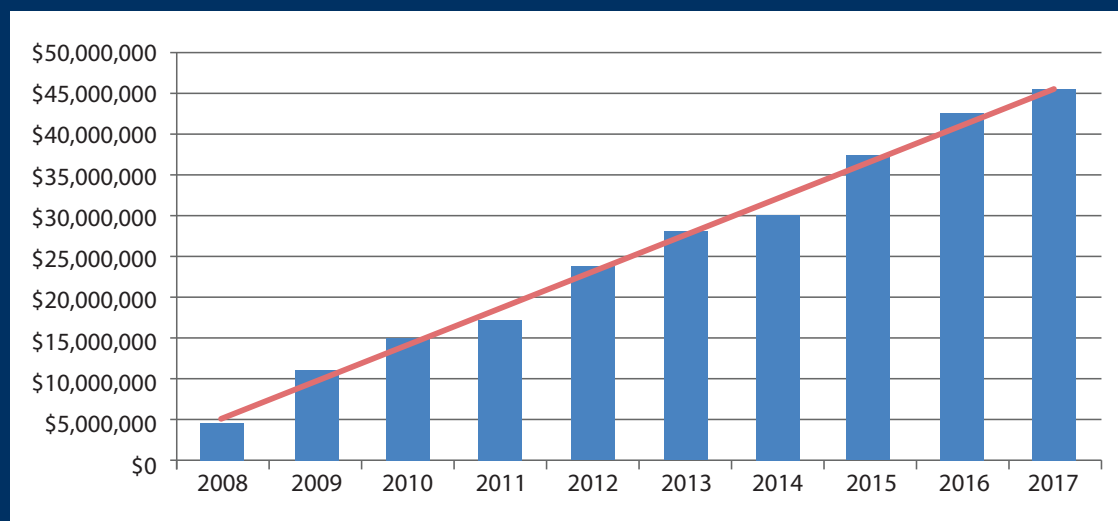
TDD sales tax collections have risen dramatically since 2010—from just over \$14 million to more than \$71 million in 2017.



Source: Missouri Department of Revenue, *Financial and Statistical Report*, numerous years, <https://dor.mo.gov/cafr/>

Figure 9
CID Sales and Use Tax Revenue Statewide

CID sales and use tax collections have risen at an even more dramatic pace than TDD collections—from just over \$4 million in 2008 to nearly \$46 million in 2017.²¹



Source: Missouri Department of Revenue, *Financial and Statistical Report*, numerous years, <https://dor.mo.gov/cafr/>

bonds, taxpayers in general are not on the hook should a development fail. However, if all goes as planned for projects funded by TDDs and CIDs, taxpayers will end up bearing the cost of this debt through sales taxes.

POLICY PROBLEMS

What is the problem, if any, with all these districts cropping up and collecting revenue? The simple existence of these districts is not objectionable in itself. While (arguably) no one likes paying taxes, it doesn't simply follow that we *shouldn't* pay these taxes, or that these taxes don't generate significant returns for Missourians.

It is difficult to calculate what return taxpayers receive on their investment in TDD- and CID-supported projects.²⁵ This is because it is hard to quantify the economic benefits of, say, a new interchange, and how those benefits are distributed. In addition, when TDDs and CIDs are used to help fund private developments, *taxpayers* see no direct return.²⁶ At best, in instances where districts help fund private developments, taxpayers' return is simply the development itself—a building or interchange, for example. Local governments may see additional sales tax revenues from new TDD- or CID-supported businesses, but those revenues are not always genuinely new—sometimes they are merely shifted from other areas with existing business.

The fact that TDDs and CIDs impose additional taxes is, in itself, not a compelling argument against their use. Moreover, TDDs and CIDs, in principle, can make meaningful infrastructure improvements throughout our communities. In fact, a number of TDDs and CIDs have made positive, meaningful impacts on Missouri communities. However, more and more, TDDs and CIDs are used as development subsidy programs. In this way, TDDs and CIDs have become corporate welfare programs much like TIF, tax abatement, and economic development tax credits. Additionally, TDD and CID laws are structurally deficient in ways that lead to major accountability and transparency issues.

Taxation Without Representation

The problem with TDDs and CIDs is that they may be created and impose taxes without a vote of the

people. Recall that TDDs and CIDs may be formed by nonresidential voters such as commercial land owners and developers. Also recall that these districts need only a single constituent to be created. (TDDs require a minimum of 50 residential voters *only* if residents reside within a proposed district. If there are no residents in a proposed district, this minimum voter requirement does not go into effect.) As a result, a single landowner can (1) propose a district, (2) cast *the* single vote to establish the district and approve its revenue sources and projects, and (3) appoint or elect the district's board of directors, which oversees district business. In short, TDD and CID laws allow a single landowner or developer to completely control all aspects of TDDs and CIDs.

Unsurprisingly, many TDDs and CIDs have a landowner or developer as their sole constituent. The SAO TDD report referenced above found that an overwhelming majority of TDDs have been formed by landowners and developers, not residents. Specifically, property owners or developers form 92 percent of TDDs. According to the SAO, no TDDs have been formed by residential voters alone, though some (8%) have been formed by LTAs and were subject to a public vote of district residents.²⁷

Unfortunately, similar data on CIDs are not available, so it is unclear just how many CIDs are controlled by a single, non-residential constituent. However, a recent report indicates developers have a controlling share on more than 230 CID boards.²⁸

The entity or group that forms a TDD or CID is only half of the issue. The other, equally important, half is the type of revenue a TDD or CID collects. Suppose a single developer creates a TDD and decides to raise revenue through property taxes or special assessments. The developer would pay these taxes, and so might gain little from forming the TDD. Why raise taxes on yourself to help pay for your project when you could just pay for your project out of pocket?²⁹ Property taxes and special assessments *internalize* the costs of district projects to district constituents. This means, broadly, that those benefitting from district projects are those who pay for district projects. This sounds both fair and economically sound, but it is rarely what happens with TDDs and CIDs.

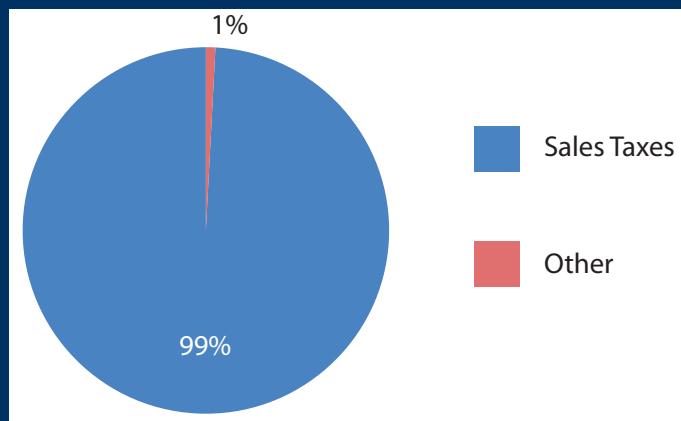
An overwhelming majority of TDDs and CIDs impose sales or sales and use taxes to fund district projects. These taxes *externalize* the costs of district projects onto taxpayers from outside the district. Suppose instead of imposing property taxes or special assessments, a developer imposes sales taxes in its CID. And suppose the land in the district will be developed into a commercial property such as a retail mall. Consumers from around the area will come and shop at the mall and pay district taxes, but the developer will be able to retain those taxes. (Of course, the developer could shop at the mall, and pay district taxes personally, but not as a developer.) In this scenario, the developer has all the say on whether such taxes are collected and what they're spent on. People from outside the district—ordinary consumers with no say in district business—pay for district projects, adding to the developer's bottom line.

This ability to externalize the costs of district projects seems like a logical explanation for why most TDDs and CIDs impose sales or sales and use taxes. (Also, many developments are retail-focused and therefore stand to generate significant revenues from such taxes.) As Figures 10 and 11 show, nearly all TDDs collect sales taxes as a major source of revenue and at least two-thirds of all CIDs collect sales and use taxes.³⁰ A recent report estimates that 87 percent of CIDs collect sales taxes.³¹ This means, in short, that the majority of TDD (and, likely, CID) spending is the result of one group or entity—developers and landowners—imposing taxes on another group—ordinary consumers—who are unaware of the tax and have no say in how the funds are collected or distributed.

The moral hazard this dynamic sets up is obvious. Current Missouri law creates a financial incentive for landowners and developers to push the cost of development onto taxpayers. Unfortunately, this is exactly what TDDs and CIDs seem to be used for most often.

Figure 10
TDD Revenue Sources, as of 12/2015

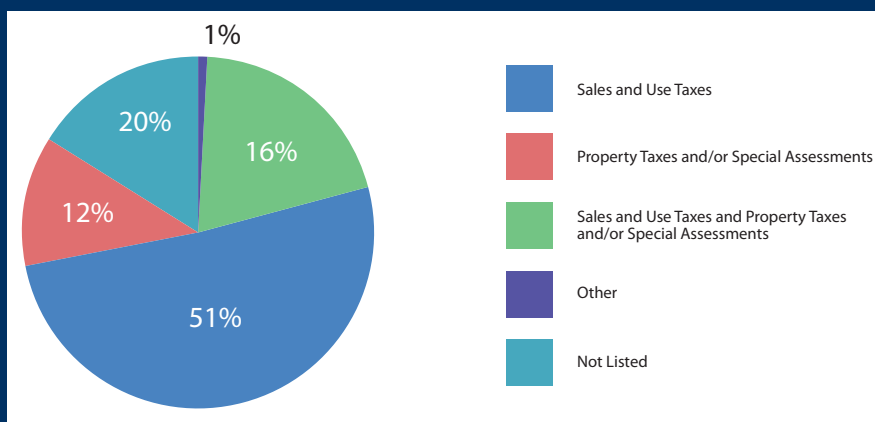
The overwhelming majority of TDDs impose sales taxes rather than just property taxes or special assessments.



Source: Missouri State Auditor, Report No. 2017-20, p. 7., https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?_ga=2.143002930.606615622.1503687118-1884248107.1484338334

Figure 11
CID Revenue Sources (All)

At least two-thirds of all CIDs collect sales and use taxes.



Data from Missouri Department of Economic Development via Sunshine Law request. As of July 2017.

Public Money, Private Gain

More and more, TDDs and CIDs raise public funds for private ventures. Rather than the creation of a TDD or CID being a response to a previously existing need for a public improvement or service, TDDs and CIDs are often created concomitantly with private developments. Sometimes TDDs and CIDs fund public goods that overwhelmingly benefit a narrow private interest (for example, the Chesterfield Sports Complex described below), and sometimes they provide direct subsidies for private developments (as with the InterContinental Hotel, also described below). In the former case, for example, a TDD or CID may fund a road expansion that greatly benefits a certain retail mall or was necessary for the initial development of the mall. (Of course, the public may *use* the road, but the need for expansion wasn't *driven by* public demand.) In the latter case, for example, a TDD or CID may purchase or improve land for a private development, or even make direct payments to landowners. In either case, TDDs and CIDs effectively act as corporate welfare conduits, shifting the cost of development from private investors to taxpayers. The projects discussed below show just how far TDDs and CIDs have drifted from the original intent of their authorizing legislation.

St. Louis City Foundry

South of Saint Louis University in midtown St. Louis lays the old Federal-Mogul foundry building, a more-or-less abandoned industrial site. In early 2016, it was announced that the site would be redeveloped, with developers planning a food court and office and retail spaces.³² Taxpayers will pay for the majority of the first phase of the project, totaling \$134 million. Table 2 shows a breakdown of the project's funding.

What's striking is not just the scale of the subsidies used, but the incredible variety of subsidies. You'll notice that TDD and CID sales taxes are among the various funding ingredients. The developers stacked both a TDD and a CID on the development site to charge an additional 1 percent sales taxes each, meaning shoppers will face an additional 2 percent in sales tax. The funds raised by the TDD and CID must be used to pay for statutorily authorized costs, such as site preparation and infrastructure, but these are costs traditionally covered privately by developers themselves (and when stacked

with a TIF, offer a plethora of line items and options to use for a reimbursement subsidy). Moreover, these are costs associated with a private development, not a piece of publicly-demanded infrastructure. The use of SDs in this project appears to be a passing of private costs onto taxpayers.³³

Cardinals Ballpark Village

Ballpark Village (Figure 12), an entertainment district adjacent to the Cardinals' Busch Stadium in downtown St. Louis, originally received some \$50 million in subsidies from the City of St. Louis for its \$220 million second phase of development.³⁴ But that wasn't sufficient. In late 2016, the Cardinals and their developers won approval for a new financing deal that included both a TDD and a CID. These districts will each levy 1 percent sales taxes to help fund infrastructure and other improvements associated with Ballpark Village.³⁵ Beyond the fact that paying for the construction of private entertainment districts is light years away from the original purpose of TDDs and CIDs, Ballpark Village went a step further and sought a "blight" designation.³⁶ If a property is declared blighted, it can use CID revenues for explicitly private purposes—for example, *building an entertainment district*. This is tantamount to John taxing Jane so John can install a new roof or new floors in his home. What makes all this even worse is the fact that the Ballpark Village property is prime downtown real estate next door to a major-league baseball stadium! The property had an appraised (or market) value of more than \$45 million in 2017—far from blighted.³⁷

Chesterfield SportsComplex

In 2016, the Hardee's Iceplex, an ice rink in the Chesterfield Valley, was sold to a high-end golf company, Top Golf.³⁸ Top Golf had plans to raze the Iceplex and build in its place a golfing and entertainment facility. This meant the Chesterfield Hockey Association (CHA)—which had practiced and competed at the Hardee's Iceplex for years—would be without a home in 2017.³⁹

CHA decided to move ahead with the planning and design of a new ice facility in Chesterfield, even though market analyses indicated the supply of ice outstripped demand. The \$22.6 million Chesterfield SportsComplex would serve as CHA's new home and keep families from having to find available ice time at other area rinks.

But there was a catch. The SportsComplex wanted a \$7 million public handout from the Chesterfield Valley TDD, which levies a three-eighths-cent sales tax in the valley retail area of Chesterfield.⁴⁰ The TDD was approved by voters in 2005 to fund various transportation projects in the area, such as the widening and realigning of various roads and the construction of biking and walking trails.⁴¹ Purchasing and improving land for a privately owned and operated ice rink wasn't a motivation for forming the TDD originally. But the TDD board placed a measure before voters in the district, asking them to extend and redirect the tax. On November 7, 2017, a mere 129 voters in the district—which encompasses less than one percent of households in Chesterfield—approved the measure to tax themselves, but mostly to tax others.⁴²

Numerous issues made the project controversial, but the core problem was the use of a TDD to direct public funds toward a private development.⁴³

There was an existing tax mechanism in place, and narrow special interests took advantage of it. There were no public transportation needs the additional sales tax satisfied. This was little more than a textbook example of what economists call concentrated benefits/dispersed costs phenomena.⁴⁴

All the more troubling, the CHA bought an ice facility with completely private dollars in 2017.⁴⁵

Table 2: **St. Louis City Foundry Phase I Funding**

Funding Source	Funding Amount	% of Total Project Cost
Federal Historic Tax Credit	\$14,917,000	11%
State Historic Tax Credit	\$17,384,000	13%
State Brownfields Tax Credit	\$5,075,000	4%
TDD/CID Sales Tax Revenue	\$18,100,000	13.5%
Tax-increment Financing (TIF)	\$19,400,000	14.5%
Loan & Developer Fee	\$59,290,000	44%
TOTAL FUNDING	\$134,166,000	100%

Source: *City Foundry Saint Louis at Cortex tax increment financing application*, <http://aldermanroddy.com/wp-content/uploads/2016/09/City-Foundry-TIF-Application-090916-COMP-1.pdf>

Figure 12
Ballpark Village

A view of Ballpark Village in downtown St. Louis.



Source: *Nicolas Henderson*

Chesterfield Outlet Malls

If you drive along I-64/40 in western Saint Louis County, you've likely seen three competing shopping malls: The Chesterfield Mall, Taubman Prestige Outlets, and Saint Louis Premium Outlets. You can't tell just by looking at them, but the two outlet malls are subsidized by TDDs and a CID.⁴⁶ These SDs help pay for site improvements and infrastructure—roads and parking in particular—associated with the outlet malls. If you know the area, you know there is no genuine public good provided by this infrastructure; it solely benefits the malls' private developers. There is no dearth of parking in Chesterfield.

The use of SDs in these cases is a departure from the intended purposes of the TDD and CID Acts allowing for community-driven infrastructure investment—the SDs in question are controlled entirely by the developers themselves. Moreover, these malls directly compete against one another; they are roughly 5 miles apart. It is arguable that these subsidies helped seal the fate of Chesterfield Mall, around long before either outlet mall. Chesterfield Mall has been in a steady decline, like many major brick-and-mortar retailers, but competition from the new outlet malls could well have contributed to a dramatic drop in its revenue.⁴⁷ (Other failing malls in the region make similar claims.⁴⁸) While the competition created by outlet malls is good for consumers, government subsidizing some market participants at the expense of others isn't something to cheer about.

Unfortunately, things didn't stop there. The Chesterfield Mall recently went into foreclosure, and the new ownership and the City of Chesterfield are looking for ways to repurpose the property.⁴⁹ The city's department of economic development has a suggestion: form a TDD to pay for improvements to the mall. Nearing the point of irony, the city may push for the use of the very SDs that helped put the mall in the position it is today.

The InterContinental Hotel

One of Kansas City's four-star hotels, the InterContinental, wanted to renovate its guest rooms and parking garage—but rather than pay for the \$16 million renovation itself, it looked to taxpayers for help. In late 2016, the owners of the hotel sought a blight designation

from the city in order to use CID sales tax revenue to pay for renovations.⁵⁰ The hotel's request was met with some resistance (especially from Show-Me Institute writers), but it ultimately won the "blight" designation.⁵¹ Some of the hotel conditions leading to the designation were "torn wallpaper," "stained carpet," and "worn bathroom finishes."⁵² The hotel even claimed that the poor condition of some of its furniture contributed to the property being blighted. In 2017, the property had a market value of more than \$28 million.⁵³ Instead of simply increasing its rates by 1 percent, the InterContinental used a CID to charge what amounts to a check-out tax that patrons likely won't notice until after their stay.

Unsurprisingly, other Kansas City area hotels, including the downtown Marriot, have since used CIDs in a similar manner to subsidize improvements—is this the new normal?⁵⁴

These are just a few examples of questionable uses of TDDs and CIDs. In these cases, along with others from across the state that we cannot thoroughly survey here, TDDs and CIDs are used to externalize the costs of private development onto taxpayers. Often private developers and landowners, not the public, reap the majority of the benefits from these districts.

Driving Missouri's Tax Climate Obfuscation and Burden

In 1997, there were just over 1,700 distinct sales tax jurisdictions in Missouri; today, there are more than 2,300.⁵⁵ This growth is due mostly to the proliferation of TDDs and CIDs. Figure 13 depicts the number of distinct sales tax jurisdictions across Missouri and the average statewide sales tax rate over the past five years.

These data make two things clear. For one, consumers and businesses alike must navigate an ever-growing maze of taxation. Each year, the sales tax landscape in Missouri grows more and more complex. While some sales tax variation is unproblematic and unavoidable (for instance, Kansas City and its suburb of Independence have different sales tax rates), SDs can add significant variation within just a single neighborhood. In some areas, if consumers simply cross a street they are subject to substantially different sales taxes.⁵⁶ But there is a clear, intuitive case

to be made for a simpler sales tax regime: Consumers shouldn't have to study sales tax rates or have an accounting background before shopping. SD growth drives an unnecessary obfuscation of Missouri's sales tax landscape, making it more of a mosaic than a predictable, uniform playing field. Unfortunately, the information asymmetry this mosaic creates hurts ordinary consumers.

Secondly, the data reveal that SD growth is correlated with a significant increase in average statewide sales tax rates. This correlation is to be expected, as TDDs and CIDs only exist in order to impose taxes of their own. Ultimately, this means Missourians are, on average, shouldering a greater and greater tax burden every year. In some areas of Kansas City and St. Louis, because of additional taxes on prepared food, restaurant patrons pay more than 13 percent in sales taxes.⁵⁷ Table 3 details several areas where overlapping SDs have driven sales tax rates especially high, often to above 10 percent. More money paid in taxes means consumers can invest and spend less on actual goods and services. While taxes in general, and sales taxes specifically, are but one factor among many in a business's decision on where to locate, will additional SD taxes contribute to or hinder Missouri's growth? While we do not claim SDs are responsible for a lack of economic growth, their proliferation in Missouri does not appear to have kick-started Missouri's economy. (In fact, since TDDs and CIDs came on the scene, Missouri's economic growth has been exceptionally slow.)⁵⁸ High sales tax rates also impact

the least well-off among us the most. If TDD and CID taxes are predominantly regressive, policymakers should be especially concerned about the greater impact they have on Missouri's lower-income families.

Hidden Taxes

An argument used to defend TDDs and CIDs is that if consumers—taxpayers—don't want to pay an additional, special tax, they can simply choose not to shop within a district. If you don't visit and make purchases within a TDD or CID, you won't pay the taxes these districts levy. This fact supposedly makes TDD and CID taxes much like user fees, and so, the argument goes, relatively unobjectionable from an economic point of view.

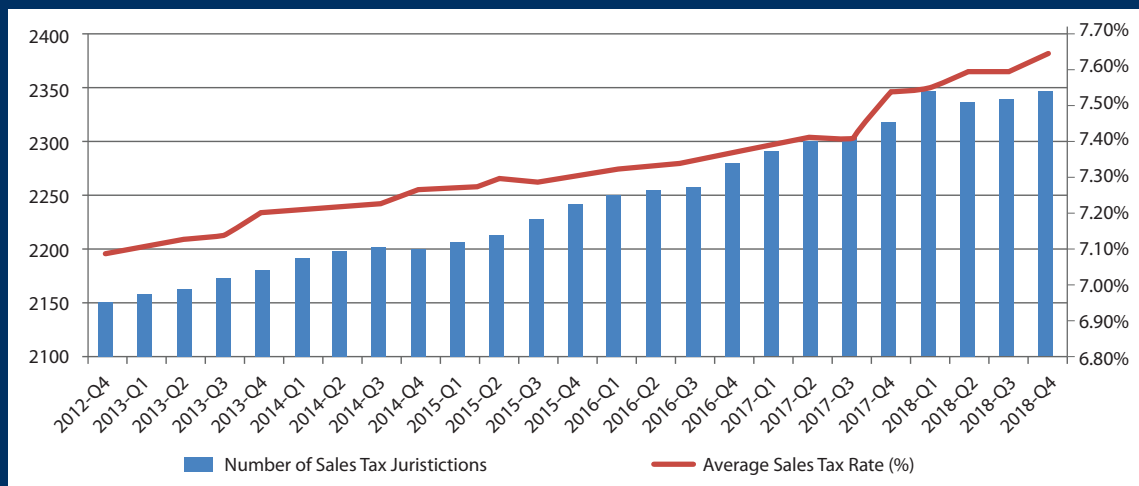
This argument hinges vitally on consumers knowing, or being given a reasonable chance of knowing, that they are within a TDD or CID. For a consumer to weigh whether or not to shop in a district, he must know when he is entering one.

The TDD Act states (RSMo §238.280 [2007]) states that merchants "shall prominently display the rate of the sales tax imposed or increased at the cash register area." This

Figure 13

Statewide Sales Tax Jurisdiction and Rate Growth

As the number of unique sales tax jurisdictions grows, so does the statewide average sales tax rate.



Source: Missouri Department of Revenue, Sales/Use Tax Rate Tables, <https://dor.mo.gov/business/sales/rates/>

Table 3: A Sample of Sales Tax Rates in Areas with Overlapping TDDs and CIDs, as of Q3 2018

Sales Tax Jurisdiction	Sales Tax Rate
Arnold ⁵⁹ • Ridgecrest TDD • Ridgecrest CID	10.350%
Belton • Belton-Cass Regional TDD • TXRH CID	10.975%
Kansas City (Jackson County) ⁶⁰ • Kansas City Downtown Streetcar TDD • Performing Arts CID • Kansas City Downtown Convention Center Headquarters Hotel CID	11.600%
Neosho • Neosho TDD • Big Springs Plaza CID	9.350%
Ozark ⁶¹ • Town & Country Village TDD • Town & Country Village CID	10.350%
Parkville • Parkville Commons TDD • PC-1 CID • 9 Highway Corridor CID	10.100%
Richmond Heights • Brentwood Blvd./Clayton Road TDD • Brentwood Blvd./Clayton Road CID	11.113%
St. Ann • St. Charles Rock Road TDD • Adie/St. Charles Rock Road CID	10.613%
City of St. Louis • Washington Ave. TDD • 1133 Washington Ave. CID	11.679%
Springfield • College Station TDD • College Station CID • Downtown Springfield CID	10.600%

Source: Missouri Department of Revenue, Sales/Use Tax Rate Tables, <https://dor.mo.gov/business/sales/rates/>

requirement is intended to ensure that consumers are given reasonable information on whether they are shopping within a district. In theory, if a retailer posts a notice about additional sales taxes by the register, all shoppers will be informed about the TDD tax.

In practice, however, notices about additional sales taxes often are not posted. The SAO's most recent TDD audit revealed that, of the 12 districts visited, all had businesses that failed to properly post the increased sales tax rate. That same audit found that the majority of districts audited contained no businesses with completely proper sales tax rate posting. In short, the argumentative linchpin for allowing the tax is not sturdy. As things turn out, consumers really aren't being given a reasonable chance of knowing that they're in a district. And, to make things worse, the CID act does not even require that a notice of additional sales taxes be posted.⁶²

SDs are also overlooked in state tax climate indices such as those produced annually by groups like the Tax Foundation, which don't include TDD and CID sales and use taxes.⁶³ Since SDs operate below the level of, and independently of, local government, the taxes they impose are seldom included in calculations of cumulative tax rates and burdens. This omission bolsters the misleading claim that Missouri is a low-tax state.⁶⁴ In truth, it is hard for even researchers and analysts to find information about TDD and CID taxes.

TDDs and CIDs, in effect, impose and collect taxes that few, if any, ordinary consumers know about. This is problematic.⁶⁵

Poor Reporting

Above we noted that data on TDD and CID revenue, spending, and debt are incomplete or inaccessible. For instance, DOR collects information on TDD and CID sales and use tax revenues, but only reliably back to 2010 and 2008, respectively, and doesn't track property tax or special assessment revenue at all. Data on property taxes and special assessments are available but not shared or compiled by individual counties, and while the information is contained in annual financial reports submitted by districts to the SAO, the information is incomplete. Almost no information in petitions and district five-year plans is available online. For example, if you wanted to see a map of a particular

TDD or CID and find out how much it has collected in sales, property, and other taxes since it was created, or how much debt it holds, you would probably be out of luck.

No central, statewide database or report exists for either TDDs or CIDs. There is a searchable database of political subdivisions hosted by the SAO, but, again, it is limited.⁶⁶ This database only contains information on revenues, expenditures, and debt. The data it relies on come directly from district officials, and are often incomplete, inaccurate, and sometimes misleading. It also doesn't contain historical data beyond the past five fiscal years. In short, the best data available is of an overall poor quality.

Reporting on TDDs and CIDs may have been so poor because standards have been low and information is often scattered across numerous state and local departments. For instance, it was just in 2016 that the TDD law was changed so that districts would incur fines for being late in reporting annual financial reports.⁶⁷ That is, even though the law *required* that reports be filed, since there were no penalties for not reporting, a significant number of TDDs didn't submit reports at all or didn't submit them on time.⁶⁸ With such standards, and without an enforcement mechanism until 2016, it's understandable why the data available are incomplete.

Also, having data tracked or hosted by DED, DOR, SAO, MHTC, and local governments makes it difficult to get a comprehensive picture of TDDs and CIDs. Often this means that several reports must be reviewed to get a complete picture of district activity, and sometimes the data hosted by one agency will conflict with data from another. Even though TDDs and CIDs are governed by separate laws, there is little reason why one department or agency cannot track, review, and host data on both TDDs and CIDs. If nothing else, these various departments, agencies, and local governments should be able to work together to produce a single database or report on TDDs and CIDs.

Considering that in recent years, TDD and CID annual revenues have exceeded \$100 million, shouldn't the public and policymakers be able to easily access reliable and comprehensive district information? Unfortunately, as things stand now, they cannot.

Lack of Transparency and Oversight

Transparency is an issue at all levels of government, but especially at the micro-level of TDDs and CIDs. Like many of the other issues with these districts, the problem stems from the fact that districts are often formed by landowners or developers without a vote of the public.

Since many TDDs and CIDs are formed and governed by a single, private constituent, they have little incentive to operate openly. This lack of public scrutiny has opened the door to various issues, ranging from conflicts of interest to self-dealing.

The same SAO report mentioned above lists a number of troubling TDD practices. It found that TDD boards often award contracts to their members' businesses, extend sales taxes far beyond what was originally proposed, and even pay private landowners rent for already constructed facilities, such as surface parking lots.⁶⁹ In some cases, TDDs have even funded—and are allowed to fund in perpetuity—the *maintenance* of private facilities. Such use clearly goes against the original intent of the TDD law, which was to help fund the capital costs of major public infrastructure projects. It is also at odds with the uncontroversial standards of good government.

CIDs suffer from similar problems. For instance, the Independence Events Center CID, which was formed in part by the City of Independence, overpaid the city by some 800 percent for administrative services.⁷⁰ In addition, the CID submitted statutorily required financial documents to the city months late.⁷¹ Other CIDs, such as the now twice-bankrupt⁷² Lake Lotawana CID, have awarded contracts to board members' firms⁷³ and have failed to keep board minutes, receipts, and other basic accounting and financial information.⁷⁴ The Robinwood West CID even failed to follow its own purchasing policy.⁷⁵ Other CIDs, such as the Big Spring Plaza CID in Neosho and the Hope Valley CID in Joplin, allegedly have been robbed of hundreds of thousands of dollars by consultants working with district officials.⁷⁶ Some CIDs, such as the BaratHaven CID in Dardenne Prairie, like many TDDs, have collected tax revenues in excess of what it was entitled to collect⁷⁷ and failed to cease tax collections in a timely manner.⁷⁸

In short, TDDs and CIDs often do not exemplify principles of good government. Were more residents, taxpayers, and public officials involved in the creation and operation of these districts, we suspect fewer transparency issues would arise.

POLICY RECOMMENDATIONS

TDDs and CIDs present a number of serious policy problems. How can they be reformed? Given the issues identified above, the most effective reform or package of reforms would appear to have two objectives. The first would be to reduce or eliminate the ability of landowners and developers to externalize the costs of their projects onto taxpayers. The second would be to improve the accountability and transparency of TDDs and CIDs. The reforms considered below center on these two objectives.

Arguably, reform in this area should be wholesale. A piecemeal approach runs the risk of merely changing *how* TDDs and CIDs take advantage of taxpayers, not stopping the abuse entirely. That said, legislation that incorporates several of the reforms below would be a step in the right direction in protecting taxpayers. At the end of this section, we provide a summary of proposals we think would best reform current TDD and CID laws.⁷⁹

Require Public Votes on District Creation, Taxes

The root problem with TDDs and CIDs is that a single property owner or developer can create them and impose taxes without a public *residential* vote. A way to address this is to require public residential votes on TDD and CID creation, taxes, spending, and board elections.

One way to implement such a reform would be to place all TDD and CID elections on the general election ballot of the jurisdiction in which a district lies. If a district falls within two or more jurisdictions, its elections would be placed on all affected jurisdiction ballots. For example, if a CID were proposed within the boundaries of a city or town, the elections on whether or not to create the district, authorize its revenue sources, and so on, would be placed on the general election ballot in that city or town. If a CID or TDD were proposed in an unincorporated part of a county, all county voters would be allowed to vote on whether or not to approve the district.⁸⁰ In cases where affected cities have small populations—and policymakers

could debate what qualifies as “small”—all *county* voters could be allowed to vote on the authorization of the district.

This reform would help bring TDDs and CIDs to the attention of more taxpayers. If TDD and CID elections become a standard part of general elections, more and more voters will become aware of them and their impact on taxpayers.

Some might object that this requirement would make financing development projects too cumbersome and slow. If approval for a project has to wait for a general election, interest rates could change and investors may no longer want to commit to a project, making developments too financially unpredictable to pursue.

However, if private interests are to directly benefit from public resources, they ought to be willing to go through some hoops. Traversing those hoops might take some time, but that doesn't mean the hoops shouldn't be there. Moreover, elections could also be held on municipal and primary elections in addition to general elections, meaning an election on whether to approve or reject a TDD or CID could occur up to every four months. This requirement needn't significantly protract the process by which developments secure funding. The core idea is that all registered voters in the immediately impacted jurisdiction should have a say on whether a SD is to be created, and that say wouldn't be confined to a laborious mail-in ballot election.

Before moving on, two notes about this reform. The first is that it would only apply to TDDs and CIDs that proposed to levy sales taxes. If a TDD or CID plans to impose property taxes or special assessments, property owners are the affected taxpayers, and they would, under current law, be given a say on whether or not the taxes or assessments are collected. Again, the core issue is that TDDs and CIDs *externalize* costs via sales and use taxes, not property taxes or assessments. Also note that CIDs formed as nonprofit organizations would not require public residential votes (because nonprofit CIDs cannot impose sales taxes). Second, the original 1990 TDD law required public residential votes on TDDs seeking sales taxes, broadly in the fashion outlined above, until it was changed in 1997.⁸¹ Accordingly, this reform would be a reinstatement of the original law governing TDDs.

Rescind Sales (and Use) Tax Authority

The reform discussed above would make it significantly harder to externalize the costs of TDD and CID projects onto taxpayers from outside a district. If a single developer or landowner could not, on their own, establish a district and impose taxes, the incentive to create TDDs and CIDs would significantly diminish. Convincing residential voters in an entire city or county that they ought to pay extra sales taxes to subsidize a private development is not likely to be easy.

But rather than indirectly *reduce* the incentive to externalize costs with general election requirements, policymakers could *eliminate* the incentive altogether by rescinding the sales taxing authority of TDDs and CIDs. Sales taxes are how developers or landowners “reach outside” of their districts into the pockets of non-constituent taxpayers. If TDDs and CIDs could raise revenue only by means of property taxes and special assessments, they could not externalize the costs of district projects by taking advantage of unsuspecting shoppers.

This reform, like the one above, would fundamentally change the way TDDs and CIDs function in Missouri. However, rescinding TDD and CID sales taxing authority would, *ceteris paribus*, totally eliminate any future externalization of district costs.

This reform has the benefit of simplicity: were it to go in effect, changes to election rules or procedures would not be necessary. The TDD and CID laws would look almost exactly as they do now, save for sales and use tax language.

So how would TDDs and CIDs fund projects? How could they get anything done at all?

Were this reform enacted, TDDs and CIDs could operate much as they were intended. Rather than a single landowner or developer creating districts with “community” in their name all on their own, TDDs and CIDs would be the result of multiple landowners and residents coming together to collectively share the cost of projects from which they directly benefit. (Were this reform alone enacted, single landowners or developers could still create TDDs and CIDs—there would just be less reason to do so.) For example, if property owners in a historic downtown area wanted to revamp their

neighborhood with streetscaping and additional security, they could form a TDD or CID to collect property taxes from all involved—all beneficiaries of district projects—to fund those improvements and services. Again, property taxes and special assessments internalize costs, so those who desire and benefit from district projects are the ones who pay for those projects.

One might object that this reform is appropriate for CIDs but not TDDs. TDDs were not intended to help fund modest community projects; they were intended to help fund infrastructure necessary for major developments. Forcing TDDs to rely on property taxes or special assessments would seriously diminish their viability and might prevent necessary infrastructure projects from being accomplished. Do we really want to bar, for example, a section of a city (or an entire city) from creating a TDD to fund pieces of important infrastructure?

In response to this worry we’d like to note a few things. First, increasingly, TDDs are used not to help finance major public infrastructure projects, but instead to subsidize infrastructure and site improvements for private projects on private land. To object to the reform currently being considered by appealing to what TDDs were *intended* to do instead of what they *actually* do is to ignore the issues discussed above.

Second, this reform could include exceptions for truly public infrastructure projects. For example, if there were a genuine public need for a bridge or crossing in a part of a city, a TDD could be allowed to collect sales taxes to fund the project. However, this exception would be abused. Who determines whether a project truly is a public good? A city council or board of aldermen would be good candidates, but history (along with the examples provided above) has shown that public officials are often eager to help support development projects with taxpayer money. Theoretically, exceptions for truly public goods would be a good compromise, but practically, such an exception could become the norm. Obviously, this wouldn’t be the policy outcome reformers had hoped for.⁸²

Lastly, we think this reform could be modified so as to exclude TDDs if it is coupled with the reform above. That is, it would be appropriate for some TDDs to propose and collect sales taxes if the taxes are subject to a public vote

open to all registered voters in the affected jurisdiction(s). If these two reforms were coupled, CIDs would no longer be allowed to collect sales taxes (or use taxes), while TDDs would still be allowed to collect sales taxes but such taxes would have to win approval from affected voters.⁸³

We should note that reforms have been proposed in the legislature. For example, in the 2018 legislative session HB 2168 was proposed and would have capped local sales tax rates at 12 percent.⁸⁴ While the bill wasn't aimed exclusively at TDDs or CIDs, it would have, effectively, limited their use in some areas that already have high base sales tax rates. While this legislation was pointing in the right direction, we do not think it would have significantly altered TDD or CID practice (though, of course, it would have created an important protection for taxpayers in general). That's because the base sales tax rate in cities is rarely 10 percent. So even if the legislation became law it would have still allowed TDDs and CIDs—which could overlap and both impose 1 percent sales taxes of their own—to crop up all across the state.⁸⁵

Create an Annual Report, Strengthen Reporting Standards

The availability and quality of information on TDDs and CIDs is unacceptable. Taxpayers and policymakers should be able to easily access district information such as annual revenues, sources of revenues, debt, expenditures, and more.

A number of reporting reforms could improve data accessibility and quality. First, the numerous state and local agencies and departments involved in overseeing TDDs and CIDs and hosting their financial reports could create a statewide, comprehensive report. This report, which could be updated annually, could include the following information on all active TDDs and CIDs along with historical data on now-inactive districts.

- Year formed and proposed date of dissolution
- Forming entity (e.g., landowner and/or developer, LTA, etc.)
- Number of parcels and constituents in district
- Date of and reason for extension, if any

- Purpose of district and proposed district projects
- Map of district
- Board membership and any changes thereof with dates
- Annual revenues for all years active, by type (e.g., sales tax, property tax, special assessment, etc.)
- Annual expenditures for all years active
- Debt (and collateral, if applicable) held as of report date and at end of fiscal year for each year active

If this information and data were compiled, taxpayers and policymakers could, for the first time and in one place, see the true cost of TDDs and CIDs. Again, the SAO only hosts financial reports for the past five fiscal years and doesn't host any information on CIDs formed as nonprofit organizations. Moreover, the data in these reports is not always uniform, and many reports simply leave out important information. In our review of hundreds of financial reports, we haven't found a single report that listed total district revenues or expenditures to date. By directing the SAO, DED, DOR, MHTC, and other involved agencies and departments to collect and compile this information, we can bring TDD and CID records up to date—where they should have been for years. The longer it takes to implement this reform, the larger the project will become.

To facilitate the above reform, TDDs and CIDs could be required to report on standardized forms. Though such forms are available, not all districts use them. In some cases, districts associated with certain cities merely submit those cities' comprehensive annual financial reports—documents sometimes hundreds of pages in length.⁸⁶ Requiring TDDs and CIDs to report on standardized forms, and requiring via financial penalty that districts report the information listed above, should ensure that more reliable and uniform data becomes available to taxpayers and policymakers.

Another reform that could improve both data quality and transparency would be to require that TDD and CID annual financial reports be audited. Similar reports, often known as comprehensive annual financial reports (CAFRs), for government units such as cities, counties,

and states, are audited for accuracy. Requiring them for SDs would neither create a serious financial burden nor be out of the ordinary for a taxing jurisdiction. And if it were determined that audits would in fact create a significant financial burden on districts with low revenue, districts with less than \$10,000 in annual revenue could be exempt from this requirement.

SD reports should also comply with Government Accounting Standards Board (GASB) reporting standards, which nearly all general governments comply with. Following these standards could help improve SD financial data quality and streamline and make uniform the reporting process.

There have been some recent, modest reforms aimed at improving reporting standards. As noted above, in 2016 HB 1418 was signed into law and gave DOR authority to collect fines from TDDs that failed to submit financial reports on time. Previously, although fines could be imposed on TDDs that submitted documents late, DOR had no authority to collect those fines. This reform gave teeth to uncontroversial reporting standards which were already on the books.

In 2018 HB 1858 was signed into law.⁸⁷ It directs the DOR to create a single map of all political subdivisions collecting taxes across the state. With this map, taxpayers and policymakers will be able to see, for the first time in one place, the various SDs in their communities. Previous to this reform, maps of TDDs and CIDs were only required to be made available during the formation process and could rarely be accessed after a district was created. Until this legislation was passed, one might not have been able to figure out exactly where a particular TDD or CID was. Given that many districts can encompass a single property, this reform, if executed properly, could be an important transparency measure.

Require Outside Oversight of District Business

The reforms discussed above could significantly reduce the misuse of Missouri's TDD and CID laws. However, there are other modest reforms that should be considered.

One such reform would be to give local governments the final say on TDD expenditures, and strengthen existing

oversight of CID expenditures.⁸⁸ Such a reform would mean the governing body of the jurisdiction in which a TDD or CID is located (e.g., a city council or county commission) would review and be asked to approve district contracts and spending. Requiring TDDs and CIDs to follow the procurement practices of the city or county they're located in would be worth considering as well. If TDDs and CIDs are to collect and spend taxes like local governments, shouldn't their business be conducted regularly and in the open like that of local government?

This reform could help bring light to district business and encourage district officials to spend tax dollars appropriately. It could also bring TDD and CID business to the attention of taxpayers and local policymakers in general. With elected officials at the city and county levels reviewing district expenditures, there would be an authority to answer to if conflicts of interest or practices of self-dealing arose. Legislation could be crafted to include a requirement that city or county officials—whoever is reviewing and being asked to approve district spending—report suspected issues to appropriate state agencies and departments, such as the SAO and DOR.

Like some of the other reforms discussed above, this one does not need to apply to districts that collect only property taxes or special assessments, including CIDs formed as nonprofits. Districts formed by LTAs and other local governments may not need to be subject to this requirement if they follow procurement practices of the city or county in which they are located.

Summary of Reforms to Prevent the Misuse of TDDs and CIDs

- **Rescind the authority of TDDs and CIDs to levy sales and use taxes; or, at the very least, require public residential votes on the creation, revenue generation method, projects, and governance of TDDs and CIDs seeking sales or use taxes.** Developers and landowners have no right to taxpayer money. If a TDD is pursued to help fund truly public goods, voters should have a say on whether or not to approve the sales taxes to support it.
- **SAO, DED, DOR, and MHTC should be required to compile historical documents, produce**

comprehensive reports, and update them annually.

Taxpayers and policymakers should have access to reliable and comprehensive data on TDDs, CIDs, and all taxing jurisdictions. Creating and annually updating a database or report on TDDs and CIDs will improve transparency and give taxpayers and policymakers a better idea of how these districts impact Missouri communities.

- **TDD and CID reports should follow uniform reporting standards, have annual audited financials, and conform to GASB rules.** The information provided in TDD and CID reports should be informative, uniform, and concise, and its quality shouldn't vary from district to district.
- **Local jurisdictions should review and approve TDD expenditures like most other local government expenditures. Existing oversight of CID expenditures should be strengthened, with a requirement that local jurisdictions report districts suspected of inappropriate spending, procurement, and other practices.** TDDs and most CIDs are local governments and should operate according to basic principles of good government. Safeguards should be in place to ensure districts conduct business appropriately.

CONCLUSION

On paper, TDDs and CIDs, like other SDs, are innovative financing tools that can efficiently deliver goods and services to taxpayers. Unfortunately, in Missouri, a number of these districts have shifted in purpose. While their focus used to be on making targeted infrastructure and community investments, it is now often on creating public revenue sources for private projects. In this way, TDDs and CIDs are similar to other development subsidy programs, such as TIF and tax abatement, both of which are used widely across the state.

This paper attempts to explain the use and operation of TDDs and CIDs, especially how they're created and contribute to the state's tax burden. The policy reforms proposed are subject to debate, but the growth and financial burden of these districts are real and should be part of the public discussion concerning Missouri's tax burden.

Patrick Tuohy is the director of municipal policy and Graham Renz is a policy analyst at the Show-Me Institute.

NOTES

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2. Some special taxing districts, for example, community improvement districts, may be either political subdivisions of the state or nonprofit organizations.
3. Recent legislation (2018 HB 1858) will require all political subdivisions to submit maps of their boundaries to the Department of Revenue (DOR), which is required to create a single map of all sales taxing jurisdictions and rates. We discuss this legislation more below.
4. For discussion, see Ross, Bernard and Levine, Myron. (2001). *Urban Politics: Power in Metropolitan America* (Itasca, IL.: F.E. Peacock), 6th Ed; and Briffault, Richard. (1999). "A Government for Our Time? Business Improvement Districts and Urban Governance." *Columbia Law Review* 99:365–477.
5. Lynne Horsley and Steve Vockrodt, "InterContinental, a premier KC hotel, seeks 'blight' designation" *Kansas City Star*. September 2, 2016. Available at: <https://www.kansascity.com/news/local/article99693672.html>. See also, David Martin, "InterContinental Hotel asks city for power to charge checkout tax." *The Pitch*. September 8, 2016. Available at: <https://www.thepitchkc.com/news/article/20832966/intercontinental-hotel-asks-city-for-power-to-charge-checkout-tax>.

6. Other states with TDD enabling legislation include Colorado, Delaware, Florida, Kansas, New Jersey, New Mexico, New York, North Dakota, Ohio, Pennsylvania, Tennessee, Vermont, and Virginia. For a discussion of some of these states' TDD legislation, see Williams, Kristine M. (2006). "Alternative Funding Strategies for Improving Transportation Facilities: A Review of Public Private Partnerships and Regulatory Methods" (Center for Urban Transportation Research, University of South Florida).
7. The TDD Act was established by 1990 SBs 479 and 649 § 35.
8. In method (4), when a district is formed by two or more LTAs, only four positions, filled by the chief officers and an appointed representative of each LTA, are required for the board of directors. In cases 1–3, the board of directors must have a minimum of five and a maximum of 15 members.
9. For more on 2016 HB 1418 and its legislative history, see: <http://www.house.mo.gov/Bill.aspx?bill=HB1418&year=2016&code=R>
10. For a helpful discussion of the TDD formation process, see "Frequently Asked Questions: Transportation Development Districts (Applies to "On State System" Projects)" (Missouri Department of Transportation, 2009). Available at: <http://www.modot.org/partnershipdevelopment/documents/TDDfaq.pdf>.
11. Morcol, Gustok and Gaustch, Douglas. (2013). "Institutionalization of Business Improvement Districts: A Longitudinal Study of the State Laws in the United States." *Public Administration Quarterly* 37:240–279.
12. The CID Act was established by 1998 HB 1636. For more on the Act's legislative history, see: <http://www.house.mo.gov/content.aspx?info=/bills98/bills98/HB1636.htm#truly>. For a sympathetic discussion of CIDs, see Lauber, Joseph. (2003). "Public–Private Partnership in Community Development: Applying Constitutional Standards for Implementing the Missouri Community Improvement District Act." *Journal of the Missouri Bar* 59:80–90.
13. "A "blighted" area is one which, "By reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals or welfare in its present condition and use." See RSMo § 67.1401.2(3)(a-b).
14. See <https://cwescene.com/>, <http://southgrand.org/>, and <http://www.downtownkc.org/community-improvement-districts/>, respectively.
15. In Missouri, assessed value is the portion of property value subject to taxation. Different land uses have different rates of assessed value. For instance, the assessed value of residential property is 19 percent of market (i.e. appraised) value, but the assessed value of commercial property is 32 percent of market value. See <https://stc.mo.gov/definitions/>.
16. See RSMo Chap. 67.1421.
17. In the portion of Kansas City located in Clay County, the city itself may initiate a petition to form a district, and then approve that district by ordinance—though, as discussed below, the funding mechanism of the district must be approved by voters. However, a CID established this way may only levy a property tax of not more than \$0.10 per \$100 of assessed value. See RSMo §§67.1421.2(5) and 67.1422.
18. While the TDD act was established in 1990, the first district was created in 1997. See Missouri State Auditor, Report No. 2006-12. Available at: <https://app.auditor.mo.gov/repository/press/2006-12.pdf>.
19. However, a recent SAO report pegs this figure higher, at 428 (as of December 2017). See Missouri State Auditor, Report No. 2018-056, p. 10. CID figures are tracked most comprehensively by the Department of Economic Development (DED); the SAO only tracks CIDs formed as political subdivisions of the state. But the SAO has had no power to enforce reporting standards; thus, SAO

data alone, until the recent publication of Report No. 2018-056, has not been reliable. However, DED data doesn't distinguish between CIDs formed as political subdivisions and CIDs formed as nonprofit corporations. Moreover, DED doesn't have accessible data on CID formation prior to 2009. So, I've included these two charts, covering different, but overlapping, time periods. Together, these charts provide one of the most comprehensive pictures of CID numbers in Missouri. Clearly, reporting standards leave much to be desired.

20. An exception is a recent TDD audit that detailed TDD property tax revenue for 2014 and 2015. For those years, TDDs collected \$19 million and \$15 million, respectively, in property taxes. However, these data are incomplete too, as addressed in the discussion below. See Missouri State Auditor, Report No. 2017-020, p. 4. Available at: https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?_ga=2.118011657.181719934.1502920241-671916911.1493217043.
21. However, SAO Report No. 2018-056 pegs CID sales tax collections during 2017 at \$56.9 million. See Missouri State Auditor, Report No. 2018-056, p. 38.
22. Missouri State Auditor, "Auditor Galloway finds unaccountable tax districts rack up \$1 billion in taxpayer debt." Available at: <https://auditor.mo.gov/content/auditor-galloway-finds-unaccountable-tax-districts-rack-1-billion-taxpayer-debt>.
23. Missouri State Auditor, "Citizen Summary" of Report No. 2013-065. Available at: <https://app.auditor.mo.gov/AuditReports/CitzSummary.aspx?id=205>.
24. Missouri State Auditor, Report No. 2018-056, p. 38. Available at: https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099.
25. Economists generally conclude that the benefits of economic development incentives, TDDs and CIDs included, rarely outweigh their costs. For a sample of local research, see East-West Gateway Council of Governments, "The Use of Development Incentives in the St. Louis Region—Update November 2016." Available at: <https://www.ewgateway.org/wp-content/uploads/2017/08/DevIncentivesRpt-2016.pdf>. For a nice research overview, see Jacob Bundrick, "Why Financial Incentives do not Increase Economic Activity" (Arkansas Center for Economic Research), available at: <http://uca.edu/acre/2016/08/23/why-financial-incentives-do-not-increase-economic-activity/>; Timothy Bartik, "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States" (W.E. Upjohn Institute for Employment Research), available at: <http://research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports>; and Jensen, Nathan and Malesky, Edmund (2018). *Incentives to Pander: How Politicians use Corporate Welfare for Political Gain* (Cambridge: Cambridge UP). For classic papers on some of the fundamental issues with economic development subsidies, see Baumol, William (1990). "Entrepreneurship: Productive, Unproductive, and Destructive." *Journal of Political Economy* 98:893–921; Fox, William and Murray, Matthew (2004). "Do Economic Effects Justify the Use of Fiscal Incentives?" *Southern Economic Journal* 71:78–82.
26. One might object that, for instance, if a TDD or CID funds a development that generates significant tax revenue, taxpayers do in fact see a return on their investment. This objection is reasonable; however, it is unclear how, assuming new tax revenues actually exceed TDD or CID tax contributions, taxpayers in general reap the benefit. A larger municipal budget doesn't immediately turn into higher levels of public good or city services. Moreover, one may wonder if governments should be in the business of risking tax dollars this way. For an example of a city losing such a bet, see Patrick Tuohey, "Kansas City's Economic Diversion." Available at: <https://showmeinstitute.org/blog/subsidies/kansas-city%E2%80%99s-economic-diversion>.

27. See Missouri State Auditor, Report No. 2017-20, pp. 25–35. Available at: <https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf>.
28. See Missouri State Auditor, Report No. 2018-056, p. 14. Available at: https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099.
29. While taxes are viewed more favorably by lenders than projected revenue, there is little financial incentive for a developer to finance a project through self-imposed taxes.
30. Note that Figure 11 includes CIDs formed as nonprofit organizations, which cannot impose sales or use taxes. If only CIDs formed as political subdivisions of the state were included, the percentage of CIDs which impose sales and or use taxes would be much higher.
31. See Missouri State Auditor, Report No. 2018-056, p. 8. Available here: https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099.
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33. For more, see Graham Renz, “Funding the Foundry: Why Are Taxpayers Continually on the Hook?” Available at: <https://showmeinstitute.org/blog/corporate-welfare/funding-foundry-why-are-taxpayers-continually-hook>.
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36. City of St. Louis, “Ordinance 68291.” Available at: <https://www.stlouis-mo.gov/government/city-laws/ordinances/ordinance.cfm?ord=68291>
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39. Dan Greenwald, “With Hardee’s IcePlex closing, search is on for new youth hockey home.” *4 KMOV.com St. Louis*. June 27, 2016. Available at: <http://www.kmov.com/story/32320631/with-hardees-iceplex-closing-search-is-on-for-new-youth-hockey-home>.
40. Jacob Barker, “Chesterfield to ask voters to approve sales tax extension for youth hockey complex.” *St. Louis Post Dispatch*. June 21, 2017. Available at: http://www.stltoday.com/business/local/chesterfield-to-ask-voters-to-approve-sales-tax-extension-for/article_7de7846b-2740-56f6-8d6b-326233091939.html.
41. City of Chesterfield, “Transportation Development District.” Available at: <https://www.chesterfield.mo.us/transportation-development-district.html>.
42. For more, see Andrew Aubochon’s contribution to the Show-Me Institute’s December 2017 Newsletter. Available at: <http://showmeinstitute.org/publication/local-government/show-me-institutes-december-2017-newsletter>. Chesterfield has roughly 20,000 households. See US Census Bureau, 2011-2015 American Community Survey. Available at: <https://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>.

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45. Russell Kinsaul, “Chesterfield Hockey Association to open new ice rink in Pacific.” *4 KMOV.com St. Louis*. July 31, 2017. Available at: <http://www.kmov.com/story/36016595/chesterfield-hockey-association-to-open-new-ice-rink-in-pacific>
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50. Lynn Horsley and Steve Vockrodt, “InterContinental, a Premier KC Hotel, seeks ‘blight’ designation.” *Kansas City Star*. September 2, 2016. Available at: <http://www.kansascity.com/news/local/article99693672.html>.
51. See Patrick Tuohey, “The Luxurious InterContinental Hotel is Blighted?” Available at: <http://showmeinstitute.org/blog/subsidies/luxurious-intercontinental-hotel-blighted>. See also Lynn Horsley, “InterContinental Hotel’s ‘blight’ request gets tepid reception.” *Kansas City Star*. September 7, 2016. Available at: <http://www.kansascity.com/news/politics-government/article100508357.html>.
52. You can find the blight study here: <http://cityclerk.kcmo.org/LiveWeb/Documents/Document.aspx?q=4%2bdYztoCpyP%2frm7Eepw6h9Fp571GpLw7p9QDaW1%2bozegUUGpz9OA7CRHf82umYo8>.
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56. See David Stokes, “Sub Shops and Sales Taxes: A Delicious Natural Experiment.” Available at: <http://showmeinstitute.org/blog/taxes-income-earnings/sub-shops-and-sales-taxes-delicious-natural-experiment>
57. Kansas City imposes a 2 percent restaurant tax on prepared food and St. Louis imposes a 1.5 percent restaurant tax. See City of Kansas City, “Sales and Use Tax Rates by Respective Taxing District.” Available at: <http://kcmo.gov/tax/wp-content/uploads/sites/60/2017/10/SalesandUseTaxRatesJuly2017.pdf>. Also, see City of St. Louis, “Restaurant Business.” Available at: <https://www.stlouis-mo.gov/government/departments/license/business-license-info/gbl/Restaurant-Business-License-Process.cfm>.
58. See Joseph Haslag and Michael Austin, “Was Missouri Always Like This? A Comparison of Missouri’s Growth with that of the United States.” Available at: <http://showmeinstitute.org/sites/default/files/20170428%20-%20Growth%20in%20MO%20vs%20US%20-%20Haslag.pdf>.
59. This rate also includes special sales taxes for the Rock Township Ambulance District, the Rock Community Fire Protection District, and the Jefferson County Emergency Services District, though these special sales taxes are imposed throughout all of the City of Arnold.
60. This rate also includes a special sales tax for the Kansas City Zoological District, though this special sales tax is imposed throughout all of Kansas City, Missouri, in addition to other municipalities.
61. This rate also includes a special sales tax for the Christian County Emergency Services District, though this special sales tax is imposed throughout all of the City of Ozark.
62. See Missouri State Auditor, Report No. 2018-056, p. 17. Available at: https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099.
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64. See Patrick Ishmael, “Putting to Bed the ‘Missouri is a Low Tax State’ Myth.” *Forbes*. March 23, 2014. Available at: <https://www.forbes.com/sites/patrickishmael/2014/03/23/putting-to-bed-the-missouri-is-a-low-tax-state-myth/#1e858ac133c8>.
65. Another reason the user-fee argument in support of TDDs and CIDs fails is that many district projects are not public goods. When TDDs and CIDs fund land acquisitions, site improvements, vertical improvements (buildings) and infrastructure for specific developments, there is no public good provided that creates a free-rider problem. There is just a development with costs a landowner or developer wants covered. A more legitimate user-fee argument in favor of pushing these costs on consumers would conclude with prices—not taxes—being higher in districts.
66. You can access the database here: <https://app.auditor.mo.gov/Local/SearchPolysubFinancialReports.aspx?ga=1.91051418.1014418486.1479842937>
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68. For some discussion, see Mike Faulk, “Auditor: Missouri’s taxing district law allows unethical practices, poor oversight.” *St. Louis Post-Dispatch*. April 10, 2017. Available at: https://www.stltoday.com/news/local/govt-and-politics/auditor-missouri-s-taxing-district-law-allows-unethical-practices-poor/article_ef84fda0-3823-5e5d-8616-6b69c2f12d1f.html.
69. See Missouri State Auditor, Report No. 2017-020, pp. 13–18. Available at: https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?_ga=2.143002930.606615622.1503687118-1884248107.1484338334.

70. See Missouri State Auditor, “Auditor Galloway releases audit of Independence Events Center CID.” Available at: <https://auditor.mo.gov/content/auditor-galloway-releases-audit-independence-events-center-cid>.
71. Missouri State Auditor, Report No. 2017-136, p. 9. Available at: https://app.auditor.mo.gov/Repository/Press/2017136820845.pdf?_ga=2.101360068.438967647.1531757431-380765374.1528205564.
72. See James Dornbrook, “KC-area community improvement district goes bankrupt—again.” *Kansas City Business Journal*. November 23, 2016. Available at: <https://www.bizjournals.com/kansascity/news/2016/11/23/kc-area-community-improvement-district-goes.html>.
73. See Missouri State Auditor, Audit Report No. 2012-113, pp. 8–10. Available at: <https://app.auditor.mo.gov/repository/press/2012-133.pdf>.
74. See Missouri State Auditor, Audit Report No. 2006-63, pp. 8–24. Available at: <https://app.auditor.mo.gov/repository/press/2006-63.pdf>
75. See Missouri State Auditor, Audit Report No. 2006-63, pp. 20–44. Available at: <https://app.auditor.mo.gov/repository/press/2006-63.pdf>
76. See Debby Woodin, “UPDATED: Joplin officials say Hope Valley CID account empty.” *Joplin Globe*. October 12, 2017. Available at: http://www.joplinglobe.com/news/local_news/updated-joplin-officials-say-hope-valley-cid-account-empty/article_dafa66c3-4b51-5864-8b6a-a675f9273259.html. See also, Jordan Larimore, “Hope Valley CID consultant charged with theft.” *Joplin Globe*. March 20, 2018. Available at: http://www.joplinglobe.com/news/local_news/hope-valley-cid-%09consultant-charged-with-theft/article_61560157-7b97-5aa4-8b0a-25eea1b99e81.html.
77. See Kurt Erickson, “Homeowners in St. Charles County subdivision were overcharged property taxes, report says.” *St. Louis Post-Dispatch*. October 25, 2017. Available at: https://www.stltoday.com/news/local/govt-and-politics/homeowners-in-st-charles-county-subdivision-were-overcharged-property-taxes/article_ad712be9-0532-5241-94ea-d47d91591ecf.html.
78. Missouri State Auditor, Report No. 2017-020, pp. 16–18. Available at: https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?_ga=2.143002930.606615622.1503687118-1884248107.1484338334. For other examples of conflicts of interest and potential abuse, see Missouri State Auditor, Report No. 2018-056, pp. 15–17. Available at: https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099.
79. See Missouri State Auditor, Report No. 2017-020 and 2018-056 for discussion of other reforms for TDD and CID laws.
80. 2018 HB 1234 would have required TDD elections be governed this way. See our testimony in favor of the legislation here: https://showmeinstitute.org/sites/default/files/20180110%20-%20House%20Bill%201234%20-%20Tuohey_Renz.pdf. We should note that this is how the original 1990 TDD law required elections to occur (see Audit Report No. 2017-020, pp. 11-12, 18-19). Unfortunately, an amended and significantly watered-down version of the bill emerged out of committee. See the amended version here: <https://house.mo.gov/billtracking/bills181/hlrbillspdf/4136H.08C.pdf>.
81. See Audit Report No. 2017-020, pp. 11–12, 18–19. Available at: https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?_ga=2.143002930.606615622.1503687118-1884248107.1484338334.

82. The State Auditor has suggested (Report No. 2017-020, pp. 12-13) TDDs conduct economic impact analyses and/or “but-for” tests to ensure district projects profit taxpayers. Again, while we believe this sounds good theoretically, we do not believe requiring these analyses would do much to safeguard taxpayers. “But-for” tests and cost–benefit analyses are already required for development incentives like TIF and certain tax credits, but these subsidies continue to be doled out generously. See <http://showmeinstitute.org/publication/subsidies/does-tax-increment-financing-pass-test-missouri>
83. As mentioned above, this would be a return to the spirit of the original TDD law passed in 1990. See Audit Report No. 2017-020, pp. 11–12, 18–19. Available at: <https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf?ga=2.143002930.606615622.1503687118-1884248107.1484338334>.
84. Learn more about the legislation here: <https://house.mo.gov/bill.aspx?bill=HB2168&year=2018&code=R>
85. Of course, rescinding TDD and CID sales (and use) tax authority would not revoke such authority already exercised by many TDDs and CIDs.
86. For example, the Baltimore Commons, Franklin Street, North Baltimore Street, and South 63 Corridor CIDs in the City of Kirksville.
87. Learn more about the legislation here: <https://house.mo.gov/bill.aspx?bill=HB1858&year=2018&code=R>. For discussion, see Graham Renz, “A Fine First Step in the Right Direction for Special Taxing District Reform.” Available at: <http://showmeinstitute.org/blog/subsidies/fine-first-step-right-direction-special-taxing-district-reform>.
88. This reform has been proposed for TDDs previously by the SAO. See Audit Report No. 2017-020, pp. 13–14. Another reform proposed in that report worth consideration is requiring districts to automatically sunset; that is, eliminate the ability of districts to extend taxes and take on new projects. Given the structural issues with TDDs and CIDs, however, we don’t believe this reform would be effective. If TDDs and CIDs can still be created and impose taxes without a public residential vote, once an old district sunsets, a new one could just take its place. Unless the electoral processes for TDDs and CIDs change, we don’t think this reform would be helpful. And if the electoral processes for TDDs and CIDs do change, particularly in the way described above, then there would be little reason to force districts to automatically sunset.



5297 Washington Place | Saint Louis, MO 63108 | 314-454-0647
3645 Troost Avenue | Kansas City, MO 64109 | 816-561-1777

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