



# TESTIMONY

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## SENATE BILL 646 SPECIAL TAXING DISTRICT REFORM

*By Patrick Tuohey*

Testimony Before the Missouri Senate Ways and Means Committee

### **TO THE HONORABLE MEMBERS OF THIS COMMITTEE**

My name is Patrick Tuohey, and I am Senior Fellow of Municipal Policy at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. The purpose of this testimony is to briefly discuss research that the Show-Me Institute has published regarding the need to reform the use of special taxing districts (SDs) in our state and specifically to bring about more transparency and accountability. Attached [here](#) is the paper the Institute released last year on this subject.

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. Today I want to focus on two types of SDs, transportation development districts (TDDs) and community improvement districts (CIDs).

### **THE GROWTH OF SPECIAL TAXING DISTRICTS**

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, the Missouri Department of Revenue (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

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have collected.

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.

### TAXATION WITHOUT REPRESENTATION

One of the major problems with TDDs and CIDs is that they may be created and impose taxes without a vote of the people. As you know, TDDs and CIDs may be formed by nonresidential voters such as commercial landowners and developers. 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. A report issued by the State Auditor in 2017 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 report, no TDDs have been formed by residential voters alone, though some (8%) have been formed by local transportation authorities (LTAs) and were subject to a public vote of district residents.<sup>1</sup>

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 State Auditor's report indicates developers have a controlling share on more than 230 CID boards.<sup>2</sup>

Senate Bill 646 requires that for proposed CIDs and TDDs, any sales or use tax be submitted to the qualified

voters of the municipality in which the district is located instead of just within the district itself. As the attached paper discusses, this type of reform will address a root problem with TDDs and CIDs. It should be noted, however, that the paper also recommends that any such voting be scheduled during a municipal, primary or general election rather than through the use of mail-in ballots. If TDD and CID elections become a standard part of the regular elective process, 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 an 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.

Senate Bill 646 contains reforms that would be a positive change for the taxpayers of our state. More reforms are needed, but this proposal is a step in the right direction.

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### NOTES

1. Missouri State Auditor, Report No. 2017-20, pp. 25–35. Available at: <https://app.auditor.mo.gov/Repository/Press/2017020228917.pdf>.

2. 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](https://app.auditor.mo.gov/Repository/Press/2018056182702.pdf?_ga=2.222418717.749575314.1546451099-508928766.1546451099).



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