TESTIMONY

January 27, 2021

ORDINANCE NO. 200497:
LIMITING THE USE OF REAL PROPERTY TAX ABATEMENT

By David Stokes

Testimony Before the Kansas City Council Neighborhood Planning and Development Committee

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

Thank you for the opportunity to testify. My name is David Stokes, and I am the director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well researched, free-market solutions to state and local policy issues. The ideas presented here are my own and summarize research regarding the use of tax increment financing and many other types of tax subsidies on economic growth in Missouri.

Ordinance No. 200497 would place beneficial limits on the amount of tax subsidies included in the many types of economic development incentives used by Kansas City. These subsidies include tax-increment financing (TIF), enhanced enterprise zones (EEZ), subsidies offered through the Land Clearance for Redevelopment Authority (LCRA), and several other property tax abatement programs, including those authorized under Chapters 100 and 353 of Missouri law. The current committee substitute caps the maximum subsidy at 70 percent of the tax otherwise owed. This would guarantee that, at a minimum, the person or entity who received the incentive would pay at least 30 percent of their taxes. Maintaining a *wide tax base* to support public services is important in order to avoid *high tax rates*, and these reforms will help to accomplish that.

As members of the committee are no doubt aware, in 2018 the Kansas City Council requested a study of the impacts of economic development programs such as these on Kansas City. The council wanted an independent, comprehensive review of the costs, benefits, and risks of the use of these subsidies. That is not what the council received.

The report presented to the city council by the Council of Development Finance Agencies (CDFA) was biased propaganda with indefensible and wildly exaggerated claims of fiscal benefits from subsidies.

The claims from the CDFA study that subsidies have benefitted Kansas City are in stark contrast with the overwhelming majority of economic studies about the benefits of local tax subsidy programs. The independent academic research into local economic tax subsidies has been consistent in finding that such programs produce either no benefit or very limited benefits.

Writing in the *Journal of the American Planning Association,* Alan Peters and Peter Fisher found that tax incentives in general fail to live up to expectations. They noted that economic literature has come to a general agreement that state and local taxes, and thereby incentives, do have some effect on economic growth. However, that effect is far smaller than people realize or admit, particularly those with an active interest in promoting the programs. Fisher and Peters quote a consensus estimate that state and local taxes and, therefore, economic incentives, have an elasticity between –0.2 and –0.3. That means that a 10 percent reduction in business taxes (via cuts or incentives) "will increase the long-run level of local business activity by 2 or 3 percent."[1] With that consensus estimate in mind, Fisher and Peters write:

> But given a typical incentive package that represents about a 30 percent cut in state and local taxes, the new "consensus" elasticity implies that **only about 1 in 10 new jobs in the average community will actually be attributable to the incentives**, even if incentives are provided for all new jobs. Thus, the best case is that incentives work about 10 percent of the time and **are simply a waste of money the other 90 percent.** [emphasis added]

The authors then relate that, in their experience, "It is **not unusual for public officials to attribute all new employment to incentive programs**."

Writing for the *New England Economic Review* In specific reference to enterprise zones, Peters and Fisher note that despite an advantage, "in theory," over other types of incentives (being specifically targeted to certain areas), EZs have "**failed to promote economic growth**."[2]

T. William Lester and A. Rachid El-Khattabi wrote the study, "Does TIF Pass the 'But-For' Test in Missouri" for the Show-Me Institute in 2017.[3] They reviewed numerous economic statistics in St. Louis and Kansas City and concluded that they could find "no support for the claim that TIF generated tangible economic development benefits in either Kansas City or St. Louis." As part of their work, they also reviewed relevant literature on the issue. They wrote that:

> Hicks, Faulk, and Devaraj (2016) took an alternative approach and evaluated the effectiveness of TIF by examining fiscal impacts. Their study, conducted in the context of Indiana, **found no net benefits for overall economic development** in terms of assessed value, payrolls, employment, taxable income, or taxable sales of goods. It also reported heavy losses to the state's non-TIF tax base—as large as $12.3 billion a year.
>
> Another strand of the empirical literature focuses on TIF's impact on real estate values and reveals mixed, but largely negative, results. For example, Dye and Merriman (2000) used data from municipalities within the Chicago metropolitan area to examine whether TIF adoption impacts overall growth in equalized assessed value (EAV). They found that **TIF adoption had a negative impact on municipality growth**, even after controlling for a variety of municipal characteristics—community type, community location, and fiscal structure. They attribute this finding to higher growth within TIF districts at the expense of non-TIF portions of the city. This finding is echoed by Merriman, Skidmore, and Kashian (2011) using city-level data from Wisconsin.[4] [emphasis added]

The above references are only a small percentage of the academic work on this issue.

It is long past time for Kansas City to adopt significant revisions of the use of tax subsidies within the city. Tax subsidies such as the ones that would be limited by this ordinance do not grow the economy. Instead, they reduce the tax base and they favor politically connected entities over the majority of citizens. They are part of a failed race to the bottom. City councilmembers can be commended for requesting the study of the use of incentives within the city, even if the final product was not worth the paper it was printed on. (That was not the city council's fault.)

The ordinance's proposed cap of 70 percent on the maximum subsidy is a step in the right direction that would guarantee that at least a portion of those future taxes properly go to the public services they were intended to support. More needs to be done, however, to lessen the demand to increase taxes on the many people and businesses that do not have a tax subsidy.

David Stokes is director of municipal policy at the Show-Me Institute

ENDNOTES

[1] Peters, Alan, and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association," Vol. 70, No. 1, Winter 2004.

[2] Peters, Alan, and Peter Fisher. "Tax and Spending Incentives and Enterprise Zones," New England Economic Review, March/April 1997, pp. 109-137.

[3] Lester, T. William and El-Khattabi, A. Rachid, "Does Tax-Increment Financing Pass the "But-For" Test in Missouri?" Show-Me Institute Policy Study No. 41, November 2017.

[4] Ibid, p. 4.

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