



# TESTIMONY

June 17, 2021

## THE CRESTWOOD MALL TIF PROPOSAL

*Saint Louis County TIF Policy and Cool Hand Luke*

*By David Stokes and Corianna Baier*

Testimony before the Saint Louis County Tax Increment Financing Commission

### TO THE HONORABLE MEMBERS OF THIS COMMISSION:

Ladies and gentlemen, thank you for the opportunity to testify today. Our names are David Stokes and Corianna Baier. We are policy analysts for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are our own. This testimony is intended to summarize research and analysis that the Show-Me Institute has published concerning the costs and benefits of tax increment financing (TIF). This testimony should not be viewed as specific support for, or opposition to, any particular plan that the City of Crestwood is considering beyond opposition to the use of \$17 million of taxpayer subsidies as a part of that plan.

In theory, establishing a TIF district involves serious and impartial

deliberation and calculus to determine whether the proposal could happen “but for” the taxpayer assistance, and if the area meets the standards for a designation of “blight,” or “conservation” (or another appropriate designation), making it eligible for subsidies.

In reality, the process is a bad joke. The “but for,” “blighting,” and other tests, which are supposed to be subject to independent analysis, are a rigged game. The standards for “blight” or “conservation area” are so broad that almost any urban part of Missouri could qualify for one of these classifications. The overwhelming majority of TIF proposals pass these supposed “tests” and get the green light for subsidies. While there may be examples of proposals that did not meet these thresholds according to the urban planners hired to analyze the plans, we are not aware of one specific project considered by a city or county in the state of Missouri

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that failed these tests and that urban planners found to be inappropriate for taxpayer subsidies. Not one. Taxpayer dollars fund the lawyers and planners who work arm-in-arm with the cities, shielding participants from any hard decisions or risk. Everyone involved in the process (planners, architects, lawyers, developers, the city itself) makes money if the project goes forward. Why would any of them jeopardize the entire deal by saying it—or something close to it—would likely happen even without the taxpayer assistance?

For this particular Crestwood proposal, the urban planners and the financiers say that the area is blighted and needs \$13.5 million in TIF subsidies and another \$3.5 million from a community improvement district to succeed. But it should be kept in mind that these statements—which were stressed at the May 27 TIF commission hearing—were not coming from independent voices, but rather from entities working for or with the developers.

The only—and we truly mean only—entity that has shown any consistent discipline regarding the use of taxpayer subsidies for redevelopment in our region has been you, the members of the St. Louis County TIF Commission. In Maryland Heights, Ellisville, and Shrewsbury, this commission has rejected harmful TIF proposals. (Due to prior versions of the TIF laws, those rejections in Ellisville and Shrewsbury were unfortunately overridden by the respective city councils. That opportunity was, thankfully, much less available to Maryland Heights in 2020 due to updates to the law.)

We commend the City of Crestwood and this project’s developers for not seeking TIF for the residential component of this plan. Residential TIF is perhaps the worst use of TIF, as its negative effects of adding students to schools without adding to the tax base of the school district are dramatic and immediate. However, this choice is a not-so-subtle indication that the developers (and perhaps the city) recognize that TIF is not really needed to develop this property. If homes can be built without subsidies at this location, and nearby grocery stores were previously built without subsidies, it strains credulity to insist that a Dierbergs at this location can only succeed with a tax subsidy.

Tax-increment financing has had the following effects on the Saint Louis region:

1. It has increased government management of the economy, further empowering planners and bureaucrats to determine where businesses locate instead of economic best practices.
2. It has sparked the abuse of eminent domain for private purposes. All of the major eminent domain abuses within the county over the past 20 years have involved taxpayer-subsidized developments in point-of-sale tax cities.<sup>1</sup>
3. It has made subsidies a permanent fixture of development in our community.
4. It has transferred the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
5. It has failed at one of its main purposes: economic growth. The East-West Gateway Council of Governments concluded that TIFs and transportation development districts have created jobs in our community at the rate of one retail job for every \$370,000 in taxpayer subsidies.<sup>2</sup> That is not a road to growth—it is a road to poverty.
6. It has authorized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else. In this TIF decision, the city of Crestwood is making tax choices that will negatively impact entities such as the community college district and the zoo-museum district, which serve everyone in Saint Louis city and county.

The East-West Gateway study is not the only one to find that TIF fails at job creation and economic development. A study for the Show-Me Institute on TIF in Missouri found no evidence that TIF systematically promotes economic growth in our state.<sup>3</sup> A study of the use of TIF in Iowa concluded that, “On net (...) there is no evidence of economy-wide benefits (trade, all non-farm jobs) fiscal benefits, or population gains.”<sup>4</sup> Another study from Illinois found that economic growth in cities that did not use TIF was stronger than in cities that did use TIF. From the study<sup>5</sup> (emphasis added):

If the use of tax increment financing spurs economic development that would not

have happened but for the public expenditures, we would expect (after controlling for other growth determinants and for self-selection) a positive relationship between TIF adoption and growth. If the use of tax increment financing merely moves capital around within a municipality, relocating improvements from non-TIF areas of the town to within TIF district borders without changing the productivity of that capital, we would expect (after appropriate controls) to find a zero relationship between TIF adoption and growth. **What we find, however, is a negative relationship between TIF adoption and growth. This is consistent with the hypothesis that government subsidies reallocate property improvements in such a way that capital is less productive in its new location.**

Democracy, as practiced in America, is not very good at intentionally doing nothing. Partisan gridlock may result in government doing nothing, for better or worse, but when it comes to TIF in Saint Louis County, we only wish we were so lucky. Sometimes, nothing is a real cool hand. Cities' use of TIF and other incentives distorts economic growth in our region and subsidizes less efficient, politically favored developments. Does anyone seriously believe that the St. Louis area wouldn't have plenty of retail if not for subsidies? Of course not. The major beneficiary of the TIF in this proposal is a Dierbergs grocery store. There are multiple other grocery stores nearby. Should there be another one? That is for consumers and investors to decide through the invisible hand of a free market. City government should not use subsidies to give unfair and unnecessary advantages to one business over another.

For the Bossman in "Cool Hand Luke," it made sense to have Luke dig the ditch, fill up the ditch, and then dig the Bossman's dirt out of the ditch again until Luke was broken (physically, not fiscally). In the same way, it is not hard to see why Crestwood officials think it is beneficial and appropriate to use tax incentives for this area, or why Maryland Heights wanted to pave over its floodplain using TIF, or why Bridgeton officials want to ensure that the city has a larger Walmart within its borders. The potential short-term gains and the appearance that elected

officials are "doing something" are powerful incentives. But the constant use of tax incentives for retail purposes in Saint Louis is the economic equivalent of "dig ditch, fill-up ditch, repeat." The heavy use of TIF has not led to economic growth for our region as a whole, but awarding TIF is the safe move for local leadership. Other cities use TIF, and the TIF project makes it appear that you are out there fighting for your community. Everyone wants a "do-something" leader, so even though the evidence says this is a bad move for the overall economic health of our region, city leaders support TIF. In the short run, it may benefit your city.<sup>6</sup> If it harms all the other taxing districts, such as the Lindbergh school district, that is not Crestwood's problem. Most of the residents of the Lindbergh school district do not vote in your city anyway. Would economic growth have been worse without the TIF? Perhaps—that is impossible to know. But if you are having trouble breathing, you should first stop choking yourself before you worry about other factors.<sup>7</sup>

According to a paper for the Show-Me Institute from Washburn University Professor Paul Byrne, the differences in tax bases can result in inefficient development plans.<sup>8</sup> Byrne gives a hypothetical example where the increase in sales tax collections gives the city a reason to move forward with a project, even though the combined loss (taken as net present value) in property tax revenues for the school district, county, and city more than offset the sales tax gains for the city. Of course, Byrne's theoretical problem is exactly what other researchers such as Dye and Merriman (the authors of the previously cited Illinois study) have found occurs in reality.

I urge this TIF commission and the City of Crestwood to be one of the first political bodies to recognize that the constant quest for retail tax incentives is actively harming the economic base of our region. By passing this TIF, Crestwood might gain in the short term, but it would do so at the expense of the schools, the county, and many other taxing districts. More importantly, it will just continue the downward spiral of incentive-based retail developments that shrink our region's tax base while appearing to benefit the latest player.

Unilateral disarmament in the TIF wars is the right move. Unlike the Cold War, there is no risk of annihilation with disarmament here. The residents of Crestwood

will still have access to the necessary goods and services if Dierbergs, in the absence of this TIF, locates outside the city boundaries. In fact, Crestwood can give up any concerns about where retail locates within the region by switching to pool sales tax status.<sup>9</sup> The city would then benefit from development throughout the county—the proverbial “nothing is a real cool hand.”<sup>10</sup>

According to data prepared by the St. Louis County Municipal League, switching to pool city status for Crestwood would trade some short-term pain for long-term stability. In its present status as a “point-of-sale” city, Crestwood’s per capita general sales tax collections have already declined from \$319 in 2006 to \$230 in 2020. At some point in the near future, Crestwood should consider joining the county sales tax pool for the one percent general sales tax.<sup>11</sup> According to the data, that would result in an estimated decline in tax revenue of approximately \$500,000. While not insignificant, that is less than four percent of the most recent city budget.<sup>12</sup> Crestwood will be receiving more than \$2 million in federal stimulus funds—more than enough to maintain services during such a switchover. Over the long-run, entering the sales tax pool would allow the city of Crestwood to stop playing the government-focused economic development game and benefit from real growth wherever it occurs within the county.

When a game isn’t working, the smart move is to stop playing rather than repeating failed strategies just because that is what some other players are doing. Not playing is the right move for Crestwood, which can address its long-term issues by joining the county sales tax pool. We hope this commission and this city can lead the way to a new realization throughout our region that economic development works for everyone when governments do not play favorites and businesses succeed or fail on their own merits. Government should focus on keeping tax rates low for everyone instead of artificially lowering them for the chosen few and making them marginally higher for everyone else.

This proposal before this commission for TIF and CID tax incentives for this retail development in Crestwood is a harmful and wasteful use of tax dollars.

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## NOTES

1. Cities in Saint Louis County are either “point-of-sale” sales tax cities or “pool” sales tax cities. “Point-of-sale” cities keep the majority of the sales taxes collected within the city, but share a portion with the pool. “Pool” cities put all of the sales taxes collected within the city into the pool, which is then redistributed to the pool cities according to a formula.
2. East-West Gateway Council of Governments, January 2011. “An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region.” Final Report: 18.
3. Lester, William, and Rachid El-Khattabi, “Does Tax-Increment Financing Pass the “But For” Test in Missouri?”, Show-Me Institute Policy Study No. 41, Nov. 2017.
4. Swenson, David, and Liesl Eathington. April 2002. “Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?” Department of Economics, Iowa State University: 11.
5. Dye, Richard, and David Merriman. March 2000. “The Effects of Tax Increment Financing on Economic Development.” *Journal of Urban Economics*, Volume 47, Issue 2: 306-328.
6. As seen only through short-run sales tax collection increases.
7. The Iowa State researchers referred to this as the “bird in the hand” problem. City officials used TIF, and now they have a firm with jobs. How could TIF not be instrumental in that job growth? Local politicians are generally not interested in what might have happened absent their program or project.
8. Bryne, Paul. “Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions,” Show-Me Institute policy study No. 32, April 2012.
9. Jennings, Ferguson, Beverly Hills, Pagedale, St. Ann, Breckenridge Hills, and Dellwood, Mo., are seven cities that have made that switch.
10. Warner Brothers, “Cool Hand Luke,” 1967.

11. Crestwood could continue as a point of sale city for its  $\frac{1}{4}$  cent general sales tax option in the interest of maintaining revenues. For the one cent general sales tax only, Crestwood currently receives \$183 per person while the standard pool amount would be \$133 per capita.
12. The amount of money collected from the sales tax pool would change if a city like Crestwood joined it. For example, the money that all went to Crestwood would now go into the pool, raising that \$133 per capita amount slightly.



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