



TESTIMONY

October 19, 2021

THE DOUGLAS HILL TAX-INCREMENT FINANCING PROPOSAL IN WEBSTER GROVES

By David Stokes and Corianna Baier

Testimony before the Webster Groves City Council

TO THE HONORABLE MEMBERS OF THIS COUNCIL:

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), along with the damage done by the abuse of eminent domain. This testimony should not be viewed as specific support for, or opposition to, any particular plan that the City of Webster Groves is considering beyond opposition to the use of more than \$35 million in taxpayer subsidies and the authorization of the use of eminent domain as a part of that plan.

TAX-INCREMENT FINANCING

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 whether 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” 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

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

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 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, and 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 taxpayer assistance?

For this particular Webster Groves proposal, the urban planners and financiers say that the area is blighted and needs \$35 million in TIF subsidies and another approximately \$2.5 million from a community improvement district (CID) to succeed.¹ It should be kept in mind that these statements 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 the St. Louis County TIF Commission. In Maryland Heights, Ellisville, Shrewsbury, and Bridgeton, the county commission has rejected harmful TIF proposals. (Due to prior versions of the TIF laws, those rejections in Bridgeton, 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.) Whether the TIF commission supports or rejects this TIF, we encourage the members of the Webster Groves City Council to oppose this misuse of tax dollars as part of this proposal.

TIF 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. Most 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.² It is deeply concerning that Webster Groves, which is a pool city, is considering granting authority to use eminent domain as part of this project.

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 to accomplish one of its main objectives: economic growth. The East-West Gateway Council of Governments concluded that TIF and transportation development districts have created jobs in our community at the rate of one retail job for every \$370,000 in taxpayer subsidies. That is not a road to growth—it is a road to poverty.³
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 Webster Groves 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 promoted economic growth in St. Louis or Kansas City.⁴ 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.”⁵ 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 study⁶ (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.**

It is not hard to see why Shrewsbury officials thought it was beneficial and appropriate to use tax incentives for their area, or why Maryland Heights wanted to pave over its floodplain using TIF, or why Bridgeton officials wanted to ensure that the city had 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 approving a TIF project can make 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.

The Douglas Hill proposal for which TIF is being sought has a residential component to it. Those new apartments and condos will bring children into the community and into the school district. That is, of course, wonderful, but it is not wonderful that those children will be attending public schools without the expansion of the tax base to help fund that education. 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. Taxes will have to be raised on other members of the district who do not have the special TIF deal.

If it harms all the other taxing districts, such as the Webster Groves school district, some might say that is not the City of Webster Groves’s problem. Many of the residents of the Webster Groves school district do not vote in your city anyway (e.g., Shrewsbury, Rock Hill, Brentwood, Warson Woods, and Glendale residents). Would economic growth have been better or worse without TIF? That is impossible to know in every situation. But what is known is that local officials routinely

ascribe all of the economic growth from certain projects to tax incentives, when the fact is that local incentives generally have little or nothing to do with regional economic success.⁷

According to a paper published by the Show-Me Institute from Washburn University Professor Paul Byrne, the differences in tax bases can result in inefficient development plans.⁸ Byrne gives a hypothetical example which 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) found occurs in reality.

I urge the City of Webster Groves 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 proposal, Webster Groves might appear to 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.

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 Webster Groves. 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.

EMINENT DOMAIN ABUSE

Another major problem with the Douglas Hill development is the inclusion of eminent domain authority as part of the project. Is it right for the government to take your property for the benefit of another private party? Voters across the nation were outraged over a decade ago

when the Supreme Court said “yes” to that question in its infamous *Kelo* decision. Missouri’s elected officials reacted by pledging to change Missouri law to ensure that Show-Me State residents’ property would be secure, but they have not yet done so to the degree necessary.

Fundamentally, property rights are about equal rights before the law. Private property places the smallest homeowner on an equal footing with the largest corporation. If the company wants the homeowner’s land, it must pay a price the homeowner (or business owner) is willing to accept or look for land elsewhere.

In contrast, when the law permits eminent domain for private profit, ordinary property owners become subject to the whim of the powerful and well-connected. We have seen clear examples of the dangers of eminent domain abuse in St. Louis County in Clayton, Sunset Hills, Manchester, and University City.⁹ In recent years, the use of eminent domain for private development purposes has become less common, to everyone’s benefit. It would be a grave mistake to institute it as part of this proposal.

CONCLUSION

This proposal before this council for TIF and CID tax incentives for the Douglas Hill development in Webster Groves is a harmful and wasteful use of tax dollars, and the inclusion of eminent domain for private purposes would be a terrible choice for the city.

David Stokes is director of municipal policy and Corianna Baier is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.

ENDNOTES

1. Douglas Hill Tax Increment Financing Redevelopment Plan, August 2021, <https://www.webstergroves.org/DocumentCenter/View/9925/Douglas-Hill-Redevelopment-Plan-082321>.
2. 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. Webster Groves is a “pool” city.
3. 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.
4. 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.
5. 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.
6. 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.
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. Lee, Timothy, and Desfuli, Shaida, “The Specter of Condemnation,” Show-Me Institute Policy Study No. 10, October, 2007.



5297 Washington Place, Saint Louis, MO 63108—314-454-0647

1520 Clay Street, Suite B-6 | North Kansas City, MO 64116—816-561-1777

Visit us:
showmeinstitute.org

Find us on Facebook:
Show-Me Institute

Follow us on Twitter:
@showme

Watch us on YouTube:
Show-Me Institute