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AN UPDATED LOOK AT TAX-INCREMENT FINANCING

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KEY TAKEAWAYS:

- Tax-increment financing (TIF) is an economic development incentive used by local governments to encourage development. TIF redirects property tax revenue (and often sales tax revenue) generated by a development back to the developer.
- Missouri cities' use of TIF has ballooned since its inception, with 413 project reports submitted to the Missouri Department of Revenue in 2020.
- Problems with TIF arise from the lenient qualifications and testing, overlapping districts, tax competition, and difficulty determining the effectiveness of the incentive.
- Possible reforms for TIF in Missouri include tightening definitions and eligibility requirements, broadening TIF commissions to county TIF commissions, and encouraging truces between competing jurisdictions.

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

INTRODUCTION

Tax-increment financing (TIF) is a tool that governments use to encourage economic activity by helping to finance development or redevelopment projects, with the hope that the new projects will spur additional development in the area. Essentially, TIF redistributes funds from local districts that receive property tax revenues into a fund that will offset some of the costs of a development. Of course, the actual process is much more complicated. Missouri began using TIF in the 1980s, and over time its use has become widespread. In 2020 the TIF Annual Report from the Missouri Department of Revenue contained 413 TIF reports from projects in 86 Missouri cities.[1] The increasing prevalence of TIF in Missouri is concerning because of several factors: eligibility criteria are too easily met; TIF arrangements typically last over two decades; and reports regarding TIF's effectiveness at spurring economic growth are, at best, conflicting. This report will present an overview of current TIF use in Missouri and discuss possible reforms to address the many problems associated with TIF.

MISSOURI TIF OVERVIEW

TIF started in the early 1950s when the federal government funded urban renewal projects that often required a match from local governments. TIF was developed to provide this match, and it remained a tool for local governments even when the projects and the federal urban renewal legislation ended.[2] California was the first to have a TIF statute, but 48 other states and the District of Columbia have followed suit.[3] The Missouri TIF statute was passed in 1982 and is called the Real Property Tax Increment Allocation Redevelopment Act.[4]

TIF uses property tax revenues (and often economic activity tax revenues) to help fund redevelopment projects. Figure 1 shows an example of the flow of property tax revenues before (without) and after (with) TIF. Property is taxed by multiple taxing districts in many cases, and tax collections are based on the value of the property. In the left picture, the redevelopment area (the property) has a market value of $100,000. With an assessment ratio of 32 percent in Missouri, the assessed value of this property is $32,000. This property is taxed by three taxing jurisdictions: the school district, the city, and the county. The school district taxes at a rate of $4 per $100 of assessed value, and the city and county each tax at a rate of $2 per $100 of assessed value. Accordingly, $2,560 of property taxes are collected from this property ($32,000 taxed at $8/$100). Per the property tax rates, $1,280 goes to the school district and $640 to both the city and county.

The right side of Figure 1 shows a property that was redeveloped using TIF. The redeveloped property now has a market value is $500,000, and the assessed value (still using an assessment ratio of 32%) is $160,000. When a property is developed using TIF, the property tax rates and revenue amounts that are distributed to the taxing jurisdictions remain unchanged at the pre-development levels for the duration of the TIF agreement. The property tax rate remains at $8 per $100 of assessed value, for a tax collection of $12,800. Though more tax revenue is collected due to the higher property value, the property tax dollars that go to the school district, city, and county remain at pre-development levels. This means the school district, city, and county continue to receive $1,280, $640, and $640, respectively, for the duration of the TIF period, which can be as long as 23 years. The remaining tax revenue is called the *increment* and is the difference between the taxes collected before and after the redevelopment. The increment, $10,240 in this case, is distributed to the developer, often via paying off bonds that were issued to help fund the development.

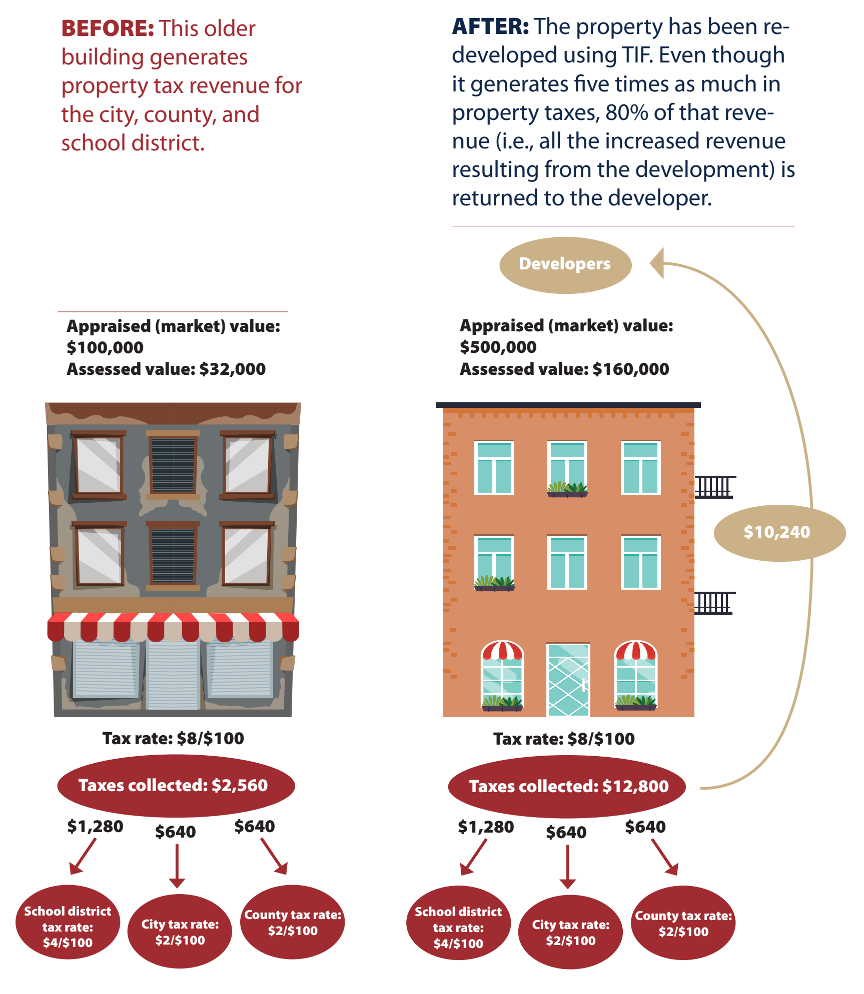
As previously noted, TIF can also capture and redistribute economic activity taxes (EATs), which include local sales and income taxes. Figure 2 illustrates the consequences of this arrangement when the developer captures 50 percent of EAT revenue.[5] The left side of Figure 2 shows that prior to development the property generated no sales taxes. The right side of Figure 2 assumes the developer has received TIF and has developed a supermarket. The property now generates $100,000 from sales taxes. Fifty percent of those sales tax revenues go to the taxing jurisdictions (normally the city or county) and 50 percent will go to the developer. The change in property tax revenue and distribution is not reflected in Figure 2, but it would also apply in this example.

Before a municipality can use TIF, a TIF commission must be created to handle the TIF creation process and planning stages.[6] A TIF commission reviews plans, holds public hearings, and gives a recommendation to the municipality on project proposals. This paper will discuss the operation of, and recent changes to, TIF commissions in greater depth when analyzing possible reforms. Redevelopment plans must include the category of the redevelopment area (that is, the official designation of the area that makes it eligible for TIF—see below), a cost–benefit analysis, a project timeline, and a few other elements.[7] The TIF commission issues a recommendation, but it is ultimately up to the municipality to approve or reject the project.

Figure 1

TIF Example 1

After development using TIF, the tax revenue increases[em dash] but all of the increase goes to the developer.



Source: olesia_g/Shutterstock

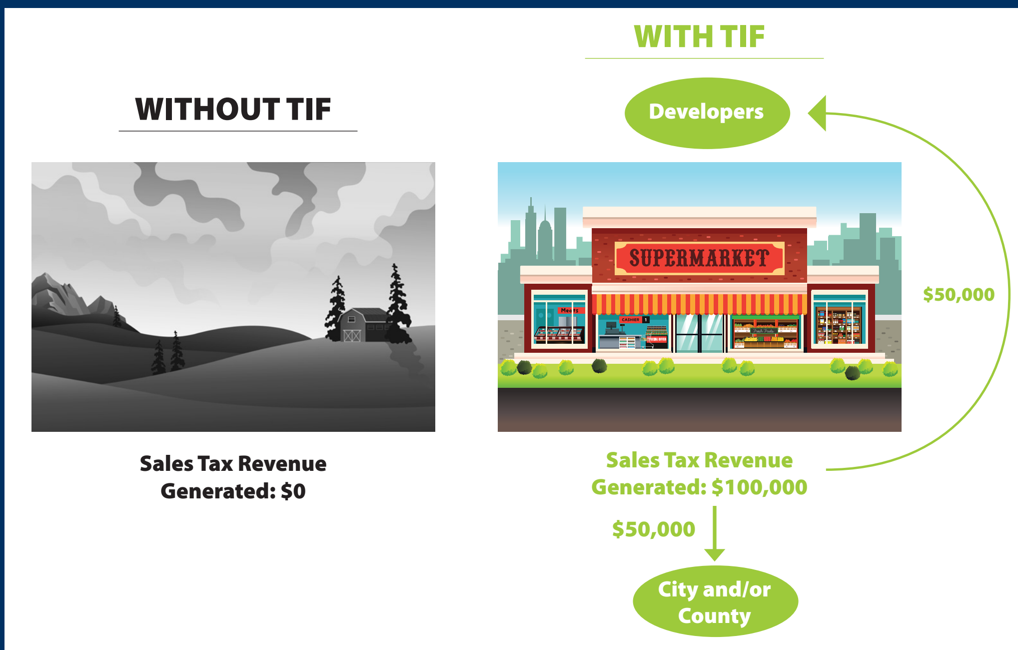
To be eligible for TIF, an area must qualify for one or more of the following designations: blighted area, conservation area, or economic development area. In Missouri, a blighted area is an area that in some way "constitutes an economic or social liability or a menace to the public health, safety, or welfare in its present condition."[8] This definition has been criticized as being overly broad and vulnerable to misuse.[9] A conservation area is one in which 50 percent or more of the structures in the area are 35 years old or older. A conservation area is not yet blighted but is considered detrimental to public welfare and may become blighted due to three or more factors from a list of fourteen.[*] Lastly, an economic development area is an area that does not meet the criteria to be classified as a blighted or conservation area, but for which:

> "the governing body of the municipality finds that redevelopment will not be solely used for development of commercial businesses which unfairly compete in the economy and is in the public interest because it will:
>
> (a) Discourage commerce, industry, or manufacturing from moving their operations to another state;
>
> (b) Result in increased employment in the municipality; or

* Senate Bills 153 and 97 changed the definition of conservation area to make it more restrictive beginning in 2022. For plans approved in 2022 or later, retail areas seeking a conservation area designation must meet the dilapidation criteria as one of the three factors. Senate Bills Nos. 153 & 97. https://www.senate.mo.gov/21info/pdf-bill/tat/SB153.pdf

Figure 2
TIF Example 2

Economic activity taxes can also be redistributed through TIF.



Source: Artisticco/Shutterstock

(c) Result in the preservation or enhancement of the tax base of the municipality."[10]

Once a TIF project is approved, costs that can be covered by TIF fall under the broad heading of "redevelopment project costs" and can include things like costs of studies, demolition of buildings, and legal expenses.[11]

MISSOURI'S CURRENT USE OF TIF

As previously mentioned, the use of TIF has increased dramatically since its introduction, and TIF is now a common economic development tool, especially in major metropolitan areas. The 2020 TIF Annual Report is a compilation of individual reports submitted by the authorizing municipalities and published by the Missouri Department of Revenue. This report contains 413 individual reports of TIF agreements from 86 different cities in Missouri.[†] Figure 3 shows these cities, with larger labels indicating more projects and color indicating typical home values in that city as reported by Zillow.[12] Red indicates that an area's typical home value is below Missouri's typical home value, and green indicates higher home values than Missouri's typical home value. Unfortunately, the addresses and/or zip codes of the individual projects are not available, so a map of more specific locations along with more specific home value information cannot be provided. Such a map would be especially useful for St. Louis City and Kansas City, where home and property values vary drastically by neighborhood. [‡]

Missouri's five largest cities (Kansas City, St. Louis City, Springfield, Columbia, and Independence) all have TIF projects. Table 1 shows the cities in Missouri with the highest number of TIF projects reported. Unsurprisingly, many of the largest cities in the state have the highest number of projects. St. Louis City and Kansas City dwarf other cities, with 125 and 78 projects, respectively.

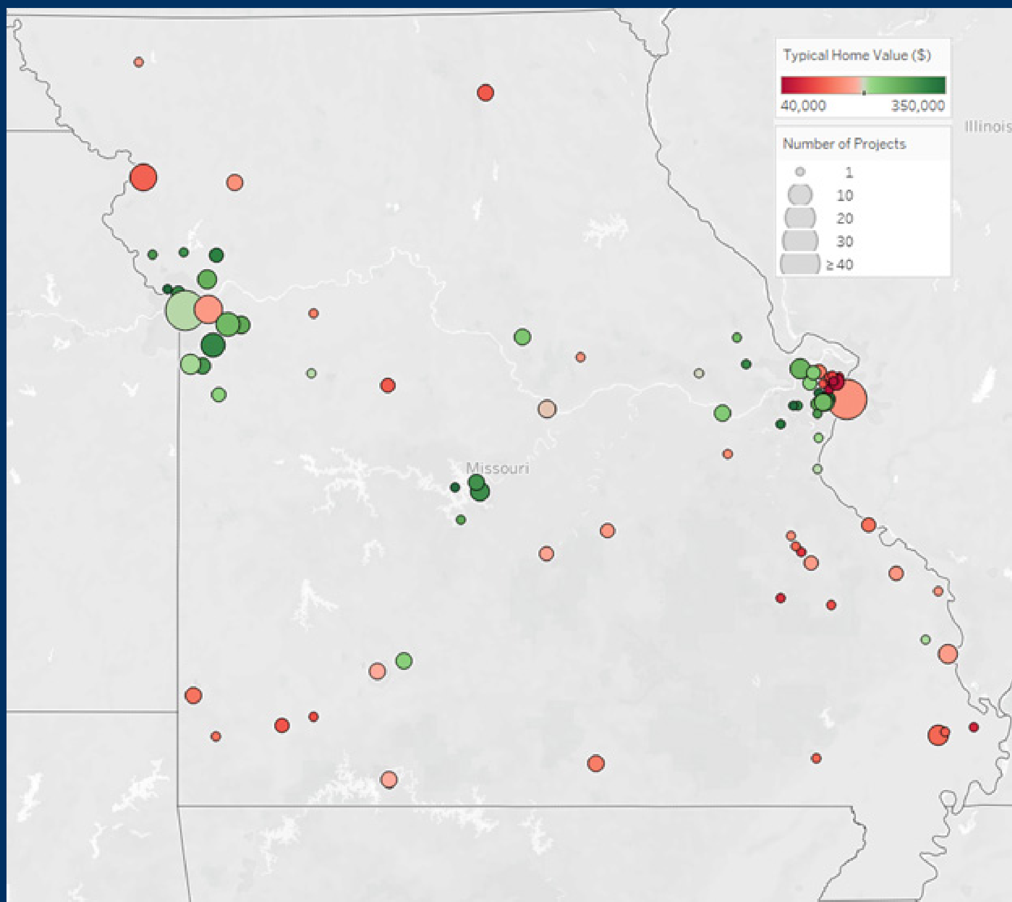
† The 2020 TIF Annual Report contains information only from those districts that submitted reports for 2020. It is always the case, and especially so given that 2020 was a tumultuous year, that there are TIF districts in Missouri that did not submit their 2020 report and are therefore not counted in this dataset.

‡ It should be noted that, though Kansas City and St. Louis City do not have particularly high typical home values, it is not correct to assume that the TIF projects all occur in the areas of the city that are bringing that typical value down. In fact, many TIF projects in these areas are in the relatively affluent neighborhoods.

Figure 3

TIF Projects in Missouri, 2020

Use of TIF is widespread in Missouri.



Data from 2020 Missouri TIF Report

Table 2 shows the cities with the highest number of TIF projects per 100,000 people. Many cities listed in this table are small cities with populations substantially less than 100,000 people, but it is relevant to examine the relationship between population and the number of TIF subsidies.

Table 3 shows the cities in Missouri with the highest total anticipated TIF reimbursable project costs. These numbers show the amount that these cities are expected to pay out during the life of all currently active TIF projects. Kansas City and St. Louis top this list, but this is unsurprising given that they have the highest number of projects and the highest populations.

Going through the data from the 2020 Annual TIF Report (see Appendix) reveals some interesting information. There are 338 projects with blight designations, 59 with conservation area designations, and 16 with economic development designations. Clearly, the blight designation is the most popular, which is understandable considering that fighting blight was the original purpose of TIF. The TIF report requires that a "project status" be reported by the district. The project status can either be *fully operational, under construction, starting up, seeking developer, inactive,* or *dissolved,* though the exact definitions of these statuses are unclear and assigning an accurate status is left to the discretion of whoever completes the form—an area for possible improvement in TIF reporting.[13] In the 2020 report, 279 projects were classified as *fully operational*, 83 as *under construction*, 21 as *inactive*, 12 as *starting up*, 11 as *dissolved*, and 7 as *seeking developer*.

One of the selling points of TIF projects is the potential for new jobs from the development. Many TIF proposals include projections of dozens, if not hundreds, of new jobs. Two hundred and sixty-five projects in the report projected new jobs from their development. Only 97 have delivered the projected number or more thus far, though some projects are still under construction and have time remaining in their TIF life. Two hundred and eighty projects have reported at least 1 new job to date from their development (this number is higher than the number of projects that projected new jobs because many projects reported 0 projected new jobs). The project with the largest number of projected new jobs in this report is

Table 1

City TIF Use by Number of Projects

City	Population	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Number of Designations: Blight	Number of Designations: Economic Development	Number of Designations: Conservation
St. Louis	300,576	**125**	41.59	$ 1,358,592,449	$ 159,005	72,391	21,892	-	-	125	-	-
Kansas City	495,327	**78**	15.75	$ 3,041,746,813	$ 201,278	54,842	51,542	21,405	4,694	37	6	35
Independence	116,672	**16**	13.71	$ 280,133,520	$ 164,638	4,543	3,663	98	28	15	-	1
St. Joseph	74,875	**14**	18.70	$ 169,643,466	$ 119,703	5,584	4,972	1,881	1,222	14	-	-
Lee's Summit	99,357	**10**	10.06	$ 166,431,340.00	$ 314,250	-	1,936	-	-	7	1	2
Blue Springs	55,829	**9**	16.12	$ 71,163,889	$ 249,770	1,579	1,436	-	864	9	-	-
Belton	23,642	**6**	25.38	$ 145,399,551	$ 205,691	-	-	-	-	5	1	-
Sikeston	16,023	**6**	37.45	$ 17,005,362	$ 124,359	420	577	155	105	4	2	-
St. Charles	71,028	**6**	8.45	$ 108,350,000	$ 257,238	-	-	-	-	6	-	-
Cape Girardeau	40,559	**5**	12.33	$ 10,877,339	$ 168,059	-	-	-	-	3	-	2
Liberty	32,100	**5**	15.58	$ 68,231,092	$ 261,936	1,917	1,933	35	35	5	-	-
Osage Beach	4,666	**5**	107.16	$ 86,461,542	$ 306,203	300	1,015	-	8	5	-	-
Brentwood	7,966	**4**	50.21	$ 65,250,000	$ 249,383	28	2,130	50	40	2	-	2
Grain Valley	14,526	**4**	27.54	$ 23,837,396	$ 270,842	383	370	90	90	4	-	-
Jefferson City	42,708	**4**	9.37	$ 47,285,781	$ 189,126	-	-	-	-	4	-	-

Table 2

City TIF Use by Number of TIF Projects per 100,000 People

City	Population	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Number of Designations: Blight	Number of Designations: Economic Development	Number of Designations: Conservation
Village of Sunrise Beach	542	1	**184.50**	$ 7,350,000	$ 367,174	50	120	-	-	1	-	-
Leadington	598	1	**167.22**	$ 17,343,500	$ 83,828	150	-	75	-	-	-	1
Lake Ozark	1,828	3	**164.11**	$ 267,430,055	$ 300,982	5,446	355	25	-	3	-	-
Strafford	2,460	3	**121.95**	$ 28,438,742	$ 223,099	90	35	-	-	2	1	-
Osage Beach	4,666	5	**107.16**	$ 86,461,542	$ 306,203	300	1,015	-	8	5	-	-
Miner	934	1	**107.07**	$ 2,100,000	$ 117,532	-	27	-	-	1	-	-
Sugar Creek	3,260	3	**92.02**	$ 71,865,881	$ 124,783	1,126	36	10	10	3	-	-
Country Club Hills	1,246	1	**80.26**	$ 225,000	$ 42,448	-	-	-	-	1	-	-
Ironton	1,389	1	**71.99**	$ 13,641,500	$ 81,285	100	6	80	80	-	-	1
Riverside	3,505	2	**57.06**	$ 92,544,500	$ 307,763	12,714	4,327	-	-	2	-	-
Brentwood	7,966	4	**50.21**	$ 65,250,000	$ 249,383	28	2,130	50	40	2	-	2
Ste. Genevieve	4,416	2	**45.29**	$ 30,298,750	$ 132,200	220	100	100	-	1	-	1
North Kansas City	4,571	2	**43.75**	$ 163,639,752	$ 189,889	-	-	-	-	1	-	1
Rock Hill	4,620	2	**43.29**	$ 12,060,000	$ 264,164	-	-	-	-	2	-	-
Moline Acres	2,346	1	**42.63**	$ 2,500,000	$ 79,465	75	-	-	-	1	-	-

Source: Missouri Department of Revenue, 2020 Annual TIF Report

Table 3

City TIF Use by Anticipated TIF Reimbursable Project Costs

City	Population	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Number of Designations: Blight	Number of Designations: Economic Development	Number of Designations: Conservation
Kansas City	495,327	78	15.75	**$ 3,041,746,813**	$ 201,278	54,842	51,542	21,405	4,694	37	6	35
St. Louis	300,576	125	41.59	**$ 1,358,592,449**	$ 159,005	72,391	21,892	-	-	125	-	-
Independence	116,672	16	13.71	**$ 280,133,520**	$ 164,638	4,543	3,663	98	28	15	-	1
Lake Ozark	1,828	3	164.11	**$ 267,430,055**	$ 300,982	5,446	355	25	-	3	-	-
Branson	11,630	3	25.80	**$ 208,284,048**	$ 179,724	206	3,698	1,199	3,643	3	-	-
St. Joseph	74,875	14	18.70	**$ 169,643,466**	$ 119,703	5,584	4,972	1,881	1,222	14	-	-
Lee's Summit	99,357	10	10.06	**$ 166,431,340**	$ 314,250	-	1,936	-	-	7	1	2
North Kansas City	4,571	2	43.75	**$ 163,639,752**	$ 189,889	-	-	-	-	1	-	1
Belton	23,642	6	25.38	**$ 145,399,551**	$ 205,691	-	-	-	-	5	1	-
St. Charles	71,028	6	8.45	**$ 108,350,000**	$ 257,238	-	-	-	-	6	-	-
Riverside	3,505	2	57.06	**$ 92,544,500**	$ 307,763	12,714	4,327	-	-	2	-	-
Osage Beach	4,666	5	107.16	**$ 86,461,542**	$ 306,203	300	1,015	-	8	5	-	-
Joplin	50,925	3	5.89	**$ 72,867,767**	$ 133,355	2,196	657	-	297	2	-	1
Sugar Creek	3,260	3	92.02	**$ 71,865,881**	$ 124,783	1,126	36	10	10	3	-	-
Blue Springs	55,829	9	16.12	**$ 71,163,889**	$ 249,770	1,579	1,436	-	864	9	-	-

Source: Missouri Department of Revenue, 2020 Annual TIF Report

Northside Regeneration (352-126) in St. Louis, which was approved in 2009. This project, still under construction, projected 22,245 new jobs and has delivered 413 new jobs to date. Alternatively, the Shoal Creek Road project in Kansas City did not report any projected new jobs but claims to have delivered 5,608. More projects in the 2020 report resemble the former example because, as previously noted, less than 40 percent of projects have delivered on their projected new jobs to date.

Missouri also has a State Supplemental Tax Increment Financing (State TIF) program through which an applicant may receive up to 50 percent of new state sales tax revenue or up to 50 percent of new state income tax revenue for up to 15 years (or 23 by special request).[14] As stated on Missouri's Department of Economic Development website, "when local tax increment financing leaves a gap for a redevelopment project, a municipality can apply for a portion of the new state tax revenues created by the project to be disbursed to cover the financing gap for eligible redevelopment costs on the project."[15] To be eligible, a redevelopment project must meet numerous requirements that are more specific than those for a local TIF agreement and must be approved by state administrators, and the funds then must be appropriated by the legislature.[16] Perhaps because the process is more difficult, the state TIF program is much less popular than the local TIF program in Missouri. There are 16 projects for which the state has TIF obligations listed in the fiscal year 2022 Governor's Budget Request, and Missouri appropriated $32.53 million for State TIF projects in 2020.[17] A few of these projects include (as named and described in the budget request):

- St. Louis City Convention Hotel: construction of a 1,083-room convention headquarters hotel complex
- Old Post Office in Kansas City: renovation of old post office building and other development on south side of Pershing Road to house IRS Service Center
- Branson Landing: redevelopment of 208-acre riverfront area in downtown Branson
- Eastern Jackson County Bass Pro: construction of Bass Pro Outdoor World store, lodging, and complimentary retail and dining establishments in a 400-acre undeveloped parcel south of I-70 and west of I-435.

SHOW-ME INSTITUTE TIF RESEARCH

Due in part to Missouri localities' extensive use of TIF, the Show-Me Institute has published studies on tax-increment financing in the past. Byrne (2012) provides an overview of TIF and explains how TIF impacts local jurisdictions.[18] Table 4 summarizes the other studies on TIF. These publications are useful resources for additional information.

OTHER STATES' USE OF TIF

As previously mentioned, 48 other states and the District of Columbia use some sort of TIF.[23] Arizona is the only state without a TIF statute. The widespread use of TIF may be one reason why Missouri seems to be in an endless cycle of economic development incentives—other states are offering economic development incentives, so Missouri offers them in order to compete. Generally, TIF works similarly across the country, though specifics like the name of the program, the maximum length of TIF arrangements, and the types of designation can differ. While Missouri allows for three types of TIF designations (blight, economic development, and conservation), Minnesota, for example, allows TIF for economic development, housing, redevelopment, renewal and renovation, soil condition, and hazardous waste substance subdivisions.[24] Kentucky creates TIF districts that can last for 30 years, with blight, a "but-for" test, a feasibility study, and a cost–benefit analysis as requirements for creation.[25] Tax increment financing districts in Kansas, which can last up to 20 years, require a feasibility study and a cost–benefit analysis and must be approved by the city, school board or district, and the county and state in some cases.[26]

Several empirical studies have examined the effects of TIF on economic activity in various areas across the country. David Merriman (2018) highlighted many of them in his report, and overall, results are mixed.[27] In some cases, TIF seems to have had the desired effect of encouraging development. For example, Michael Overton and Robert L. Bland (2014) found that in Dallas, a $1 increase in public expenditures with TIF results in a 20-cent increase in private investment in the surrounding area during a recession.[28] In an analysis of Chicago, Brent C. Smith (2009) found that commercial property values appreciate faster in TIF districts.[29] On the other hand, many studies that have evaluated TIF have gotten neutral or negative results, indicating that TIF may not always have the desired effects. For example, individual studies that looked at Florida, Illinois, Iowa, California, and Indiana found that TIF did not have a significant effect on employment.[30] Many have also found that TIF does not increase surrounding property values.[31] Other states seem to face the same questions and uncertainties as Missouri: Is TIF actually effective as an economic development tool?

California is a notable case because not only was it the first state to significantly use TIF, but it has also recently become the first state to actively reduce its use of TIF. In the late 1990s, California was running recurrent annual deficits and the legislature wasn't able to raise the state taxes necessary to fund education obligations. Instead, the state began taking money from local governments, which included redirecting property tax revenues away from redevelopment agencies (RDAs, California's term for a TIF district). When that was no longer an option, the state's only choice was a permanent dissolution of redevelopment agencies to redirect property taxes away from RDAs to more urgent needs. While this has been a complicated process, California's departure from TIF use may be seen as a "cautionary tale about property tax revenues."[32]

Table 4
TIF Studies by the Show-Me Institute

Study	Sample	Years of Data	Findings	Policy Recommendations
"TIF for Tat: The Relationship Between Political Contributions and Tax-Increment Financing Awards" Tuohey, Tsapelas, and Tuttle (2018)[19]	1,614 political contributions of at least $1,000 to local and statewide political candidates and political action committees.	2002–2018	The number of donations made to the campaigns of public officials who have decision-making power for TIF awards appears to increase in the election cycle in which developers apply for a TIF and then fall off in the election cycles afterward.	Increase transparency and accountability in TIF programs.
"Does Tax-Increment Financing Pass the 'But-For' Test in Missouri?" Lester and El-Khattabi (2017)[20]			Finds no support for the claim that TIF generated tangible economic development benefits in Kansas City or St. Louis City. The level of economic activity in block groups with TIF projects was not discernibly greater than the levels of similar areas where TIF projects were not designated.	Modify the TIF approval process to promote transparency and accountability, perhaps by including a cost–benefit analysis or strengthening legislative requirements.
"Tax-Increment Financing in St. Louis" Tuohey, Highsmith, and Tuttle (2017)[21]	TIF awards in the city of St. Louis	2005–2014	Rather than serving as a tool to spur investment in blighted and economically depressed areas, TIF has been used to subsidize development in parts of St. Louis that are already economically vibrant.	"But-for" tests should be guided by strict, objective requirements. An independent and impartial review panel that determines whether a TIF subsidy is money well spent would improve accountability.
"Urban Neglect: Kansas City's Misuse of Tax Increment Financing" Tuohey and Rathbone (2014)[22]	Kansas City, Jackson County		In Kansas City, TIF projects appear more often in well-off areas of the city, suggesting that they are not being used as a tool for economic development.	TIF commissions should use stricter standards in evaluating applications. The calculation of tax valuation should be revised so other tax jurisdictions don't suffer revenue losses. TIF commissions should be independent of the political process.

PROBLEMS AND REFORMS

Economic development incentives, and TIF specifically, present many problems for the states and cities that use them. Missouri and Missouri cities are no exception, and this paper has alluded to some of these problems. Steps can be taken to reform TIF to ensure it is a tool that serves the public interest and not private developers and doesn't deprive taxing districts of taxpayer dollars. Below are a few of these problems and proposed reforms to address them. These reforms, taken individually or in conjunction, could significantly reduce the use of TIF and therefore the problems associated with this development tool.

Ease of Entry

The definitions for blight, conservation area, and economic development area as set forth in Missouri statute are broad.[33] It is also much too easy for developers to technically satisfy the "but-for" analysis (evidence that the development wouldn't happen but for the development incentives) and cost–benefit analysis requirements. Commissioners use these analyses to determine the need for the project, but these analyses are often done by the developer, who has a vested interest in the development passing the "but-for" test and showing more benefits than costs. The ease with which the "but-for" analysis and cost–benefit analysis can be satisfied, along with the definitions of key terms, make it too easy to qualify for TIF.[34] This may be the reason TIF projects are approved in affluent cities or areas, like the Central West End in St. Louis. The amount and magnitude of TIF projects also suggests that it may be too easy to receive this government handout. According to the 2020 TIF Annual Report, and shown in Table 3, the 78 projects in Kansas City have over $3 billion in anticipated TIF reimbursable costs and the 125 projects in St. Louis have almost $1.4 billion. This ease of entry leads to the use of TIF in areas that are not truly in need of economic development incentives and unnecessarily diverts millions of tax dollars from other taxing jurisdictions such as school districts.

Reform: Tighten definitions and testing requirements for TIF qualification

Legislation passed in 2021 includes some provisions that make qualifying for TIF more difficult.[35] This bill mandates that the description of the factors that qualify the area for the blight, conservation, or economic development area designations be included in "a study prepared by a land use planner, urban planner, licensed architect, licensed commercial real estate appraiser, or licensed attorney."[36] This new legislation also specifies that retail areas (as defined in the bill) cannot receive TIF funding unless financing is used exclusively to fund retail infrastructure projects or the area is designated as a blighted or conservation area (note that this leaves out economic development areas). Though these are small changes, they are steps in the right direction.

Missouri lawmakers should continue to tighten qualifications for receiving TIF. The bar to qualify for millions of tax dollars should be a high one. Not only should definitions be made stricter (particularly the definition of blight), but "but-for" and cost–benefit analyses should be conducted by economists or other qualified, third-party individuals without ties to the city or the developer. Accurate, thorough, and unbiased analyses should determine the allocation of tax dollars that would otherwise go to other community improvements or public services, and that's not necessarily the current situation.

Tax Competition

Tax competition is when jurisdictions make themselves more attractive to businesses by lowering tax rates relative to competing jurisdictions. While competition between states and cities is a natural part of the market, economic development incentives skew market competition and can result in unnecessary and wasteful spending.

Kansas City exemplifies the problems of tax competition. The city has become a playground for developers using economic development incentives to take advantage of and intensify competition between Missouri and Kansas.[37] The two states use incentives to compete for new developments and business retention, trying to outdo the neighboring state and the other half of the metropolitan area. In 5 years, $217 million in state subsidies were used to lure 3,289 jobs across state lines to Kansas and 2,824 jobs to Missouri.[38] With Kansas winning a net of 465 jobs, that comes out to over $465,000 in subsidies per net job, a very steep price for taxpayers. Most of these jobs already existed in the area, so the larger Kansas City region gained almost nothing from this incentive war. A similar thing occurs in the St. Louis region, with the plethora of small municipalities in the area competing for developments.[39]

Giving out subsidies in this competitive manner is often characterized as a "race to the bottom." The subsidies handed out often offset any benefit from "winning" the development, especially when the development simply moves from one part of a metropolitan area to another.

The competition between two areas leads to the use of more tax incentives, which leads to more competition, in a vicious circle of giving away tax dollars and getting little in return.

Reform: Encourage agreements or "truces" between neighboring areas

It would be advantageous for Missouri and neighboring states and for Missouri municipalities to agree not to compete for businesses by way of economic development incentives. Neither party would offer economic incentives, tax dollars would be saved, and businesses would make location decisions based on other factors. New research suggests that interstate compacts, for example, would encourage more economic growth than subsidies.[40] Whether by way of formal or informal agreement, following through with the agreement is the most important (and most difficult) part. Missouri and Kansas have attempted a "border war truce" —but while it has been beneficial, it hasn't been as effective as many had hoped.[41] In a similar vein, St. Louis City and St. Louis County merged some of their economic development efforts into the St. Louis Economic Development Partnership in 2013, though both jurisdictions still have their own economic development agencies. One of the reasons for this new, broader agency was to reduce competition and company poaching between the city and county.[42] Whether this new agency has been successful in this endeavor is difficult to determine, but the recognition of tax competition and action against it is encouraging. Lawmakers in other states have also shown interest in agreement-type reforms.[43] This reform could stop the "race to the bottom" in which Missouri and many Missouri municipalities seem to be competing.

Overlapping Districts

An example of overlapping districts is seen in Figure 1, where the property in the TIF district pays property taxes that go to a county, a city, and a school district. All of these districts will be affected by the TIF arrangement, specifically by receiving the original amount of property tax revenues for the life of the TIF.

The roles these multiple districts play in the approval of TIF is problematic. Throughout Missouri, a TIF arrangement can be proposed by either a city or a county. The resulting city TIF commissions, the most common TIF commission setup, consist of 11 people (6 from the city, 2 from school districts, 2 from the county, and 1 from other taxing districts). A municipality that is a county or a city not in a county (notably, the City of St. Louis) has a TIF Commission of 9 people (6 from the county, 2 from school districts, and 1 from other taxing districts).[44] In all cases, the locality that proposed the TIF has the most representatives and therefore the most power on the TIF commission. With fewer representatives, other districts in the TIF may not get their voices heard; a TIF may pass if it is deemed advantageous for the city or county taxing district even if it is harmful for the other districts. This is a particular issue for the city TIF commissions, which are a much more commonly used format and process.

TIF can be disastrous for the taxing districts with less representation, particularly school districts if the TIF agreement includes a residential component. Residential TIF projects often increase the number of children in the school district while not increasing the local funds allocated to the school district to educate these children. For years, school districts can educate more children from the developed property without receiving their fair share of property tax revenue from that property. But even without a residential component (which most TIF projects do not have) the ability of a municipal TIF commission to engineer a TIF agreement without the support of other taxing districts (by a 6–5 vote, for example) is extremely troubling. For example, the city of Shrewsbury approved TIF for a project in the Affton school district. Most Shrewsbury residents live in the Webster Groves school district. The TIF agreement negatively impacted tax revenues for the Affton schools, but the large majority of Affton school district residents don't live in Shrewsbury and could not express their opinion of the proposal by voting.

Reform: Make TIF commissions more representative

TIF commissions should be representative of all areas that will be affected by the TIF project. One way to make this happen is to have the members represent and make decisions regarding a larger area through a county TIF commission. A change to the TIF commission setup several years ago in the St. Louis area is an example of this.

Beginning in 2008, localities within St. Louis County, St. Charles County, and Jefferson County have submitted to a 12-person county TIF commission rather than a city TIF commission.[45] Cass County has been added to this list of counties with a county TIF commission rather than a city TIF commission as a result of legislation passed in 2021.[46] The county TIF commission has 6 people from the county, 2 from school districts, 3 from the city, and 1 from other taxing districts.[§] This change to a county TIF commission reflects an attempt to address the problem of overlapping districts and tax competition (discussed above) by providing broader representation. The idea is that county commissions will make decisions based on what is best for the whole county, taking more of a bird's-eye view of the project and the overlapping districts. Their view of the projects will be (hopefully) less tainted by any sense of "winning" the development and can assess the pros and cons of a proposal more accurately and objectively. County commissions would also help curtail competition for redevelopment projects among municipalities. Finally, county representatives and appointees on the TIF commission would be answerable to all voters affected by the TIF in a way that city representatives often are not. Missouri could benefit from the broader representation that county-wide TIF commissions would provide, as they would see the bigger picture and make decisions that are best for the county and even the larger region.

Prior to 2016, the county TIF commissions could still, however, be overruled by city councils by a majority vote in the instances where the county TIF commission rejected a proposal. This happened in Shrewsbury, a city in St. Louis County, in 2013. The St. Louis County Tax Increment Finance Commission voted against a subsidy package for a Walmart Supercenter in Shrewsbury, but the Shrewsbury Board of Alderman overrode the recommendation.[47] In 2016, additional state legislation limited the ability of cities to override the county TIF commissions. Now, the council must override the decision with a two-thirds majority vote and if the project is approved through this process, the developer can only use the increment funds received to pay for certain redevelopment project costs.[48] That change has since proven very beneficial to taxpayers.[49]

§ When the county is creating the TIF commission, city commissioners are appointed by cities within the county that have TIF districts.

Changing city TIF commissions to county TIF commissions is a realistic, effective way of eliminating the problems of underrepresentation, but there are a few other changes that could be made to work toward the same goal. Legislators could give a greater voice to taxing districts by decreasing the number of city appointees and increasing the number of school, fire, and other district appointees. This would even out the representation among the districts. Another alternative is to provide an opt-out option for taxing districts that are not in favor of the TIF. This way, a district that is not in favor of the TIF would not lose out on tax dollars because of it.

"Self-Financing" Development Tool

Policymakers and the public often view TIF as a "self-financing" tool because the TIF bonds are funded by the tax increment.[50] As a result, the municipality still has access to the amount of revenue collected during the base year and doesn't have to issue general revenue bonds or raise taxes for this new development. Proponents also claim the municipality does not bear the financial risk of the development failing because the purchasers of the TIF bonds bear that risk. This claim rests on the assumption that the development and all surrounding development only happened because of the TIF and would not have happened otherwise, which is easy to assert but is not substantiated by most studies.[51]

TIF developments seem a lot less "self-financing" when you consider that development may have occurred in or around this area without a subsidy. Recall that TIF agreements can be in place for 23 years and property tax revenue is not increasing from the development, inflation, or outside growth during this time. Taxing districts forgo revenue from the TIF development during this time, but also from other developments that could have taken place in this area. If this development, or another development, would have taken place without the TIF, the taxing jurisdictions are unjustifiably losing out on this tax revenue, essentially "paying" for the TIF.

There have been situations where cities have literally paid for TIF. The TIF district anchored by Bass Pro Shop in Independence, Missouri is an example of this. Generally, financing for TIF can be done with debt bonds, where the increment is used to make bond payments, or with a "pay as you go" method where the TIF account accumulates the amount of the increment each year.[52] This project was funded with bonds issued by the city. When the project failed to meet sales tax revenue projections, the city council authorized $3.5 million from its general fund to cover the shortfall in the bond payment.[53] The city was not required to do this, as the bonds were not guaranteed, but the council wanted to "ensure the city's strong financial credit rating."[54] Not only did other taxing districts give up tax revenue, but the city paid additional funds to support the struggling project. In cases like these (though rare, they are not unheard of in Missouri), TIF certainly cannot be viewed as a "self-financing" development tool.

Reform: Place caps or limits on TIF projects

TIF is not the "self-financing" tool that policymakers may make it out to be. For the sake of the financial stability of taxing districts and localities, it appears wise to put some sort of limit or cap on the amount of TIF projects or reimbursable dollars that a locality can approve. Each TIF agreement takes funds away from taxing districts and creates the chance that a bailout will be needed from the locality. Caps or limits on the use of TIF would limit the potential negative financial effects. Localities could individually set their caps relative to geographical size of the city, or property values, for example. This reform would protect the taxing districts and localities and also the taxpayers because fewer of their tax dollars would go to developers or failing projects.

Determining Success

It is difficult to assess whether a given TIF project has been successful. A completed development may mean success for the developer, but TIF is meant to spur economic development in the area surrounding the development as well. Once the development that received TIF is finished, we must look around and see if other development has occurred. The difficult questions are: Would other economic development have occurred if TIF had not been given? Did the advantages the subsidy gave the new development help it drive out existing competitors that had been paying taxes, as happened with the Ballpark Village project in downtown St. Louis?[55] If the economic development would have occurred naturally, then TIF is "just a subsidy to the developer, an unnecessary shrinkage of overlapping jurisdictional revenue, and a distortion of market forces. It is also a way to provide the redevelopment agency with unjustified revenues."[56]

Determining success has proved difficult. As previously mentioned, results of studies on TIF are mixed, with many finding that TIF does not produce the desired increases in economic development.[57]

Reform: Require a post-TIF economic analysis

An effort should be taken to determine if TIF is an efficient use of hundreds of millions of dollars. An analysis after the development and TIF have been completed should be done to determine whether TIF achieved the overall goal of economic development in the larger area. The analysis should look for economic growth in the county, metropolitan statistical area, or region to determine success, not just the development or the block containing the development. Perhaps an analysis should be done immediately after the life of the TIF agreement and 10 years after the life of the TIF agreement, as economic development surrounding the TIF district can take time. It is important for taxpayers and local lawmakers to see whether TIF is having the desired effects. It is especially important that these analyses are done by economists, or at the very least, an outside party. These analyses should not be done by anyone associated with the developer or the municipality, as they both have an incentive to show a positive outcome. Analyses of past TIF agreements would be great evidential tools for commission members and lawmakers that will make decisions on TIF in the future.

CONCLUSION

Tax-increment financing is a popular economic development tool both nationally and in Missouri. Missouri's use of TIF has become widespread, with hundreds of TIF projects of various sizes taking place throughout the state. With mounting evidence that TIF is ineffective at increasing economic development in the larger region, it is time for Missouri state and local lawmakers to reconsider the value of the program, or at least the way it is administered. One option would be to eliminate TIF altogether in the state, but less drastic steps could also benefit Missourians. Increasing qualification requirements, legitimizing pre- and post-TIF economic analyses, encouraging "truces," and broadening the geographic reach and representation of TIF commissions would help redirect TIF toward its intended purpose and reduce the waste of taxpayer dollars on subsidies.

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Appendix: Data from 2020 Missouri TIF Report

City	Population (2019)	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Designations: Blight	Designations: Economic Development	Designations: Conservation
Arnold	21,091	1	4.74	$ 18,500,000	$ 207,573	150	268	300	300	-	1	-
Aurora	7,447	1	13.43	$ 770,000	$ 103,444	30	7	-	-	1	-	-
Ballwin	30,082	1	3.32	$ -	$ 361,174	-	326	-	-	-	-	1
Belton	23,642	6	25.38	$ 145,399,551	$ 205,691	-	-	-	-	5	1	-
Blue Springs	55,829	9	16.12	$ 71,163,889	$ 249,770	1,579	1,436	-	864	9	-	-
Bonne Terre	7,118	1	14.05	$ 11,510,000	$ 156,462	500	207	200	200	1	-	-
Branson	11,630	3	25.80	$ 208,284,048	$ 179,724	206	3,698	1,199	3,643	3	-	-
Brentwood	7,966	4	50.21	$ 65,250,000	$ 249,383	28	2,130	50	40	2	-	2
Bridgeton	11,520	2	17.36	$ -	$ 228,457	800	800	800	550	2	-	-
Camdenton	4,145	1	24.13	$ 33,847,678	$ 276,195	800	-	-	-	1	-	-
Cameron	9,649	3	31.09	$ 5,504,319	$ 156,801	-	-	-	-	3	-	-
Cape Girardeau	40,559	5	12.33	$ 10,877,339	$ 168,059	-	-	-	-	3	-	2
Charleston	5,468	1	18.29	$ -	$ 70,435	95	61	50	25	1	-	-
Columbia	123,195	3	2.44	$ 7,049,949	$ 233,452	109	100	23	23	-	-	3
Country Club Hills	1,246	1	80.26	$ 225,000	$ 42,448	-	-	-	-	1	-	-
Crestwood	11,834	1	8.45	$ 15,000,000	$ 290,417	100	-	-	-	1	-	-
Dellwood	4,997	1	20.01	$ 4,050,000	$ 92,205	72	90	-	-	1	-	-
Desloge	4,882	1	20.48	$ 18,695,797	$ 124,010	-	-	210	210	1	-	-
Eureka	10,946	1	9.14	$ 35,000,000	$ 333,907	300	-	-	-	1	-	-
Farmington	19,113	2	10.46	$ 21,100,000	$ 167,439	-	802	-	277	1	-	1
Ferguson	20,525	1	4.87	$ 12,500,000	$ 100,099	-	-	-	-	-	-	1
Fulton	12,596	1	7.94	$ 7,082,000	$ 159,554	45	175	-	-	1	-	-
Grain Valley	14,526	4	27.54	$ 23,837,396	$ 270,842	383	370	90	90	4	-	-
Harrisonville	10,078	2	19.85	$ 22,846,709	$ 218,471	364	242	30	30	2	-	-
Hazelwood	25,117	2	7.96	$ 34,029,000	$ 140,992	4,000	502	-	-	2	-	-
Herculaneum	4,138	1	24.17	$ 37,000,000	$ 199,820	-	-	-	-	1	-	-
Higginsville	4,609	1	21.70	$ 1,626,880	$ 142,508	4	2	-	-	1	-	-
Hollister	4,592	1	21.78	$ 5,605,000	$ 197,328	165	135	-	-	1	-	-
Independence	116,672	16	13.71	$ 280,133,520	$ 164,638	4,543	3,663	98	28	15	-	1
Ironton	1,389	1	71.99	$ 13,641,500	$ 81,285	100	6	80	80	-	-	1
Jackson	14,836	1	6.74	$ 33,000,000	$ 204,118	875	750	-	-	1	-	-
Jefferson City	42,708	4	9.37	$ 47,285,781	$ 189,126	-	-	-	-	4	-	-
Jennings	14,575	3	20.58	$ 27,304,421	$ 49,942	295	120	25	25	-	3	-
Joplin	50,925	3	5.89	$ 72,867,767	$ 133,355	2,196	657	-	297	2	-	1

Appendix: Data from 2020 Missouri TIF (continued)

City	Population (2019)	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Designations: Blight	Designations: Economic Development	Designations: Conservation
Kansas City	495,327	78	15.75	$ 3,041,746,813	$ 201,278	54,842	51,542	21,405	4,694	37	6	35
Kearney	10,858	2	18.42	$ 13,828,752	$ 322,978	322	328	50	50	2	-	-
Kirksville	17,602	3	17.04	$ 7,053,736	$ 112,984	237	319	588	859	3	-	-
Lake Ozark	1,828	3	164.11	$ 267,430,055	$ 300,982	5,446	355	25	-	3	-	-
Leadington	598	1	167.22	$ 17,343,500	$ 83,828	150	-	75	-	-	-	1
Lee's Summit	99,357	10	10.06	$ 166,431,340.00	$ 314,250	-	1,936	-	-	7	1	2
Liberty	32,100	5	15.58	$ 68,231,092	$ 261,936	1,917	1,933	35	35	5	-	-
Madison County	12,088	1	8.27	$ 15,200,000	$ 105,489	500	480	-	-	1	-	-
Manchester	18,073	1	5.53	$ 37,500,000	$ 312,764	-	-	-	845	-	-	1
Maplewood	8,092	3	37.07	$ 18,519,000	$ 239,250	-	288	277	344	3	-	-
Maryland Heights	26,956	2	7.42	$ 55,200,000	$ 219,899	1,005	-	-	-	2	-	-
Maryville	11,599	1	8.62	$ 1,950,000	$ 164,577	-	-	-	-	1	-	-
Miner	934	1	107.07	$ 2,100,000	$ 117,532	-	27	-	-	1	-	-
Moline Acres	2,346	1	42.63	$ 2,500,000	$ 79,465	75	-	-	-	1	-	-
Monett	9,124	2	21.92	$ -	$ 109,472	110	519	-	519	2	-	-
Moscow Mills	3,496	1	28.60	$ 23,500,000	$ 249,241	2,540	-	-	-	-	1	-
Neosho	12,054	1	8.30	$ -	$ 133,939	-	326	-	326	1	-	-
Normandy	4,838	1	20.67	$ 600,000	$ 72,143	-	-	-	-	1	-	-
North Kansas City	4,571	2	43.75	$ 163,639,752	$ 189,889	-	-	-	-	1	-	1
Olivette	7,822	1	12.78	$ 17,900,000	$ 420,511	-	-	-	-	1	-	-
Osage Beach	4,666	5	107.16	$ 86,461,542	$ 306,203	300	1,015	-	8	5	-	-
Pagedale	3,291	1	30.39	$ 6,100,143	$ 41,442	253	205	-	-	1	-	-
Parkville	7,162	1	13.96	$ -	$ 498,425	3	3	-	-	1	-	-
Perry County	19,136	1	5.23	$ 12,427,250	$ 162,589	500	451	200	200	1	-	-
Perryville	8,496	2	23.54	$ 60,404,250	$ 162,902	300	130	100	50	1	-	1
Platte City	4,955	1	20.18	$ 6,488,282	$ 293,319	78	-	-	-	1	-	-
Poplar Bluff	16,937	1	5.90	$ 35,000,000	$ 123,398	-	408	-	50	1	-	-
Raymore	22,194	3	13.52	$ 17,440,939	$ 293,576	345	558	-	-	2	-	1
Richmond Heights	8,801	3	34.09	$ 32,779,859	$ 340,102	780	727	-	-	3	-	-
Riverside	3,505	2	57.06	$ 92,544,500	$ 307,763	12,714	4,327	-	-	2	-	-
Rock Hill	4,620	2	43.29	$ 12,060,000	$ 264,164	-	-	-	-	2	-	-
Rolla	20,431	2	9.79	$ 3,300,000	$ 164,027	365	350	-	-	2	-	-
Sedalia	21,629	2	9.25	$ 5,374,530	$ 114,578	18	176	-	-	1	-	1
Shrewsbury	6,091	1	16.42	$ 15,000,000	$ 247,554	-	-	-	-	1	-	-
Sikeston	16,023	6	37.45	$ 17,005,362	$ 124,359	420	577	155	105	4	2	-
Smithville	10,795	1	9.26	$ 8,835,156	$ 302,438	114	20	-	-	1	-	-
Springfield	167,882	3	1.79	$ 36,135,016	$ 179,273	335	528	10	293	3	-	-
St. Charles	71,028	6	8.45	$ 108,350,000	$ 257,238	-	-	-	-	6	-	-

Appendix: Data from 2020 Missouri TIF (continued)

City	Population (2019)	Number of Projects	Number of TIFs per 100,000 people	Total Anticipated TIF Reimbursable Project Costs	Typical Home Value	Number of New Jobs: Projected	Number of New Jobs: Actual to Date	Number of Retained Jobs: Projected	Number of Retained Jobs: Actual to Date	Designations: Blight	Designations: Economic Development	Designations: Conservation
St. Clair	4,712	1	21.22	$ 26,500,000	$ 154,828	-	-	-	-	1	-	-
St. John	6,338	1	15.78	$ 4,985,000	$ 110,582	175	230	-	-	1	-	-
St. Joseph	74,875	14	18.70	$ 169,643,466	$ 119,703	5,584	4,972	1,881	1,222	14	-	-
St. Louis	300,576	125	41.59	$ 1,358,592,449	$ 159,005	72,391	21,892	-	-	125	-	-
St. Robert	6,275	2	31.87	$ 6,625,000	$ 174,184	175	175	175	175	2	-	-
Ste. Genevieve	4,416	2	45.29	$ 30,298,750	$ 132,200	220	100	100	-	1	-	1
Strafford	2,460	3	121.95	$ 28,438,742	$ 223,099	90	35	-	-	2	1	-
Sugar Creek	3,260	3	92.02	$ 71,865,881	$ 124,783	1,126	36	10	10	3	-	-
Village of Sunrise Beach	542	1	184.50	$ 7,350,000	$ 367,174	50	120	-	-	1	-	-
Warrensburg	20,418	1	4.90	$ 2,575,000	$ 201,346	189	82	189	70	1	-	-
Warrenton	8,396	1	11.91	$ 6,000,000	$ 194,089	54	59	15	15	1	-	-
Washington	14,081	3	21.31	$ 26,095,935	$ 229,391	25	322	224	322	2	-	1
Wentzville	41,784	1	2.39	$ 892,015	$ 310,294	-	-	-	175	-	-	1
West Plains	12,304	3	24.38	$ 23,245,385	$ 140,998	851	811	30	30	3	-	-

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