



# TESTIMONY

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## SENATE BILL 874: ALLOWS SCHOOL DISTRICTS TO REMOVE CERTAIN PROPERTY FROM TAX-INCREMENT FINANCING DISTRICTS

*By Corianna Baier, David Stokes, and Elias Tsapelas*

### Testimony Before the Missouri Senate Ways and Means Committee

Thank you for the opportunity to testify. My name is Aaron Hedlund. I am the chief economist at 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. I'm here to present information compiled by my colleagues at the Institute, Corianna Baier, senior policy analyst, David Stokes, director of municipal policy; and Elias Tsapelas, senior policy analyst. The ideas presented here are our own and are offered in consideration of proposals that will affect tax-increment financing (TIF) in Missouri. SB 874 allows school districts to exclude real property from a proposed TIF redevelopment area if it is determined that the redevelopment area will have an adverse effect on the school district.

In simpler terms, this bill gives school districts the option to opt out of TIF subsidies within their district. **The reforms in this bill would be a positive public policy change for Missouri.**

The use of TIF has ballooned in Missouri in recent years, with 413 project reports submitted to the Missouri Department of Revenue in 2020.<sup>1</sup> In theory, establishing a TIF district involves serious and impartial deliberation and calculus to determine (1) whether the proposal under consideration would happen “but for” the taxpayer assistance, and (2) if the area where the project would take place meets the standards for a designation of “blight” or “conservation” (or another appropriate designation), making it eligible for subsidies.

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In reality, the process is often a sham. 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. 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?

This proliferation of TIF has had many effects on Missouri and its cities:

1. It has increased government management of the economy, further empowering planners and bureaucrats (rather than economic best practices) to determine where businesses locate.
2. It has made subsidies a permanent fixture of development in our community.
3. It has failed at one of its main purposes: economic growth. When the East-West Gateway Council of Governments examined this issue several years ago, it concluded that TIF and transportation development districts in the St. Louis region have created jobs 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.
4. It has authorized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else.

It is that last problem that SB 874 could help counteract. Under current law, school districts can be significantly impacted by local TIF decisions, yet they have little or no say in the overall approval process. Many school districts in Missouri receive the majority of their total funding from local property taxes, which are the primary dollars that TIF deals divert away. This issue is most pronounced when TIF is used for a project with a residential component. Residential developments can add dozens of new families

to the school district and thereby increase the number of students attending school, yet TIF can mean the district doesn't receive any increase in tax dollars to fund the cost of educating them for up to 23 years. It should be clear why school districts should have a greater role in the TIF approval process.

School districts aren't the only taxing districts that lose out on tax revenue when TIF is implemented, nor are they the only entities with a limited say in the overall process. TIF diverts tax revenue away public safety, other emergency services, and public health agencies as well. Overlooking this imbalance can have disastrous effects, especially when TIF is used for projects in areas with a smaller tax base.

In early 2020, a developer proposed a residential-only TIF in Boonville, a mid-Missouri town with a population of less than 10,000. The proposal was a new subdivision on unused farmland with 400 new homes. It wasn't long before the Boonville R-1 school district realized how much financial harm the deal would do to the area's schools. Because the proposed subdivision was on unused farmland, the district made just a few thousand dollars per year from current taxes. But an additional 400 new homes would likely increase the tax collected from the area to more than \$1 million per year. If a TIF redevelopment plan was approved for this area, the developer would receive all those gains in tax revenue. It's also important to note that the entire Boonville School District has approximately 1,500 students. So, it's not unreasonable to assume that 400 new houses could bring a meaningful number of students into the district, but without the funding to pay for them. A similar issue would arise for public safety and other services provided in Boonville that are funded through property taxes: the increase in population would likely require more public safety and other spending, but tax revenue for that spending would instead be diverted to the developer.

Fortunately for Boonville citizens, the school district recognized the potentially disastrous situation and spoke out against the TIF plan, successfully redirecting the city council toward a plan that would not harm local schools. Of course, other school districts across Missouri have spoken out against the harms of TIF overuse too, but most haven't seen success like Boonville. In particular, the Kansas City school district has consistently fought for TIF reforms.

SB 874 would represent progress toward recognizing the various entities that are harmed by TIF. More taxes should be exempt from TIF, or at least their taxing entities should be given a greater voice in opposing its adverse impacts. While there is much more that should be done to limit the negative effects that this economic development incentive can have on Missourians, passage of Senate Bill 874 would be a good step forward for Missouri.

## ENDNOTES

1. Missouri Department of Revenue. [https://dor.mo.gov/pdf/2020\\_TIF\\_annual\\_report.pdf](https://dor.mo.gov/pdf/2020_TIF_annual_report.pdf)
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.



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