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TESTIMONY

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THE CHESTERFIELD MALL TIF PROPOSAL

Saint Louis County and Chesterfield TIF Policy

By David Stokes

Testimony before the Chesterfield City Council

TO THE HONORABLE MEMBERS OF THIS COUNCIL

Ladies and gentlemen, thank you for the opportunity to testify today. My name is David Stokes. I am the director of municipal policy 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 my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has published and reviewed 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 Chesterfield is considering beyond opposition to the use of an astronomical $300 million in taxpayer subsidies as a part of this plan.

In theory, establishing a TIF district involves serious and impartial deliberation and calculus to determine whether the proposal under consideration 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 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. This proposal includes $23 million in TIF funds for administrative and legal costs: *$23 million*. Everyone involved in the process (planners, architects, lawyers, financiers, 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 without taxpayer assistance?

Furthermore, in this particular case, some of the project work has already begun. How can anyone claim the project would not happen if not for the TIF when parts of the project have started before the TIF is approved?

For this specific Chesterfield regional TIF proposal, the urban planners and the financiers say that the area is blighted and needs the $300 million in TIF subsidies to succeed. But it should be kept in mind that these statements—which have been stressed in prior commission hearings and city meetings—were not coming from independent voices, but rather from entities working for or with the developers and city.

The citizens and leadership of Chesterfield have chosen not to have a municipal property tax. They have chosen to primarily fund their local city services with sales taxes (including the gross receipts tax on utilities). Chesterfield has every right to do that, and I have no criticism of it. What Chesterfield should not have a right to do is then decide to fund major city projects with property taxes that are entirely taken from other local governments, which is precisely what this massive proposal would do. Our state constitution, statutes, and local voters have authorized and approved property taxes for Parkway and Rockwood school district, St. Louis County, Monarch Fire Protection District, the Zoo-Museum District, the Special School District, and other entities. For Chesterfield to seize that money and use it as it determines is best may be legal, but what is legal is not always what is right. Furthermore, I would propose that diverting $300 million dollars of taxpayer money (intended for other taxing districts) to "blighted" land in the middle of one of Missouri's most prosperous cities is not what TIF was originally about, either in purpose, scale, or scope. Instead of taking tax dollars intended for the St. Louis County library and then giving a portion of that money back to the library to build a library expansion in Chesterfield (which is a part of this proposal), we should let the library board raise and spend its own tax dollars as it sees fit and as approved by state law and local taxpayers. The idea that Chesterfield knows best how to spend other entities' tax dollars is preposterous, just as the members of this council would think it was insane if the members of the Library district board started telling the city how to operate its police department.

As I have stated many times before this commission and others, TIF has had the following effects on the St. Louis region:

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 led to the abuse of eminent domain for private purposes.

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 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.[1] 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 own municipalities at the expense of everyone else. In this TIF decision, the city of Chesterfield would be 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.[2] 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."[3] 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:

> 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.*[4] [italics added]

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 can only wish we were so lucky. 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. Supporters of this TIF proposal this council is considering claim that it is primarily for infrastructure, and there is truth to that. But, amazingly enough, state and local governments, developers, and private utilities have managed to build "infrastructure" in our communities for a century without seizing the authorized tax revenues of other governments. Stating that this proposed TIF will be used primarily for "infrastructure" on the assumption that everyone will nod their heads in agreement is absurd. We properly pay for roads with gas taxes, water based on how much water we use, and electricity through our electric bills because connecting the use of something to its cost helps lead to better decision making all around. Alaska wanted to build the "Bridge to Nowhere" only so long as the federal government was paying for it, not if the state was responsible for funding it. Paying for parking garages (at least $37 million of this package is for parking garages) in Chesterfield with property taxes taken from the Community College District and others is ridiculous. Parking operations should be funded by those who have risk in the decision in order to be sure the parking facility is truly needed. None of that is the case with this entire TIF proposal.

It is not hard to see why some Chesterfield 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 economic development 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 appear to benefit your city.[5] If it harms all the other taxing districts, such as the Parkway school district, that is not Chesterfield's problem. If Parkway has to raise property taxes (which it eventually will) to serve the families brought into the area by the development who are not paying taxes to the school district, that is not Chesterfield's concern. Most of the residents of the Parkway school district do not live or vote in Chesterfield. Parkway and Rockwood school districts have analyzed this proposal and have determined that they will face a shortfall of $220 million in taxes based on what they will need to educate the children of the families who will move into the more than 3,000 new residential units that are a part of the development. Who do you think will make up that $220 million shortfall? Current residents and taxpayers will, either through service cuts within the district or, more likely in my opinion, higher property taxes on those taxpayers not within the TIF district. (To be clear, taxpayers in the TIF district will also pay the higher taxes; that money just won't go to the school district.)

According to a paper for the Show-Me Institute from Washburn University Professor Paul Byrne, problems arise when there is an asymmetry between what different governments give up and receive through the enactment of various proposals. The differences in tax bases can result in inefficient development plans.[6] 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 through real-world observation. Byrne's paper is particularly applicable to this TIF proposal, as Chesterfield would be forgoing zero future property taxes (since it has no property tax) while compelling other taxing districts to entirely forgo their future taxes.

I urge this city council to recognize that the constant quest for tax incentives is actively harming the economic base of our region. By passing this TIF proposal, Chesterfield might gain in the short term, but it would do so at the expense of the schools, the county, and several other taxing districts. More importantly, it will just continue the downward spiral of incentive-based developments that shrink our region's overall tax base and require higher taxes on those who aren't getting similar special deals.

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. I 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. There is no evidence anywhere that allowing Chesterfield (or any city) to take tax dollars intended for other taxing districts would lead to improved public spending. 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.

The proposal before this commission for TIF for this proposed development in Chesterfield is an unnecessary, harmful, and wasteful use of tax dollars. It is my hope that the members of the city council will reject this TIF.

NOTES

1. 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.

2. 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.

3. 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.

4. 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.

5. As seen only through short-run sales tax collection increases.

6. Bryne, Paul. "Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions," Show-Me Institute policy study No. 32, April 2012.

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