



TESTIMONY

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HOUSE BILL 536 AND SPECIAL TAXING DISTRICTS

By David Stokes

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Special Committee on Tax Reform

TO THE HONORABLE MEMBERS OF THIS COMMITTEE

My name is David Stokes. I am the Director of Municipal Policy at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own and summarize research regarding special taxing districts (SDs) in Missouri.

Missouri has seen an explosion of new taxing districts during the past decade. These districts are primarily used to redirect public tax dollars toward private purposes. They include the use of tax-increment financing (TIF), Chapter 100 bonds, transportation development districts (TDDs), community improvement districts (CIDs), and many other programs. House Bill (HB) 536 proposes changes to state laws governing

CIDs and TDDs that will provide an important check on their rapid and destructive growth in Missouri.

The Missouri state auditor's office and other local oversight agencies have routinely flagged CIDs, TDDs, and other special taxing districts for many troubling practices.¹ These issues include failure to use competitive bidding, board member conflicts of interest, failure to produce or provide necessary financial reports, failure to notify shoppers of the added taxes as required by law, and improperly collecting sales taxes from businesses outside of the districts. State auditors of both parties have called for much greater oversight, more transparency, and other limits on special taxing districts.² The Kansas City auditor's office also recently released an audit documenting many of these same problems with CIDs within Kansas City.³

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The changes proposed in HB 536 would limit the expansion of CIDs and TDDs by requiring unanimous agreement on the relevant city council, county commission, or transportation authority with responsibility to approve the particular SD.

SDs often fund primarily private assets with public dollars. Usually, those public dollars come from sales taxes imposed within the SDs. For example, many CIDs in Kansas City—43 out of 74 to be precise⁴—consist of nothing more than one parcel of property and impose sales taxes on the public for the private benefit of that one property owner. These private benefits, for uses such as parking lots or landscaping for retail developments, are paid for by tax dollars rather than through private investment, and the benefits accrue almost entirely to the private party. This means that “the majority of . . . CID tax collection and spending is the result of one group or entity—developers and landowners—imposing taxes on another group—ordinary consumers—who are unaware of the tax and have no say in how the funds are collected or distributed.”⁵ That is not sound public policy.

Another major problem with SDs is a lack of transparency. The state auditor’s office has issued reports documenting deficiencies in the operation, management, and accountability for the expenditure of public dollars by these districts throughout Missouri.⁶ SDs frequently fail to comply with state laws in a number of areas, including the transparency of the special taxes, the bidding process for use of the public dollars, and the annual reporting on how the money is spent. As the recent Kansas City CID audit documents,⁷ in 2021 over half of the CIDs in Kansas City failed to submit a budget on time, and 47 percent failed to provide an annual financial report on time (or at all) in 2019. The provision in this law that would compel publication of financial information would be a positive policy change for Missouri.

There are beneficial SDs in Missouri. In the Lake of the Ozarks region, the Community Bridge TDD and the Isle Del Sol causeway CID are both excellent examples of their beneficial uses, but these are the exceptions.

More common are the many problems with SDs throughout Missouri. Those problems may be most prevalent in our largest cities, but they are not limited to them. The reforms proposed by HB 536 to slow down the expansion of SDs in Missouri by requiring unanimous agreement at the local level for their authorization would improve the reasons and justification for SDs in the first place, which would benefit everyone in our state.

NOTES

1. Missouri State Auditor, “Community Improvement Districts,” Report No. 2018-056, August 2018.
2. Missouri State Auditor, “Lake Lotawana Community Improvement District,” Report No. 2012-133, October 2012.
3. Kansas City Auditor, “Performance Audit of Community Improvement Districts,” April 2021.
4. *Ibid.*, page 5.
5. Renz, Graham and Tuohey, Patrick, “Overgrown and Noxious: The Abuse of Special Taxing Districts in Missouri.” Show-Me Institute Report, June 2019, page 13.
6. Missouri State Auditor, “Transportation Development Districts,” Report No. 2017-020, April 2017.
7. Kansas City Auditor, page 8.



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