REPORT

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A FREE-MARKET GUIDE FOR MISSOURI CITIES, TOWNS, AND VILLAGES

PART TWO: TAXATION

By David Stokes

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

Show-Me Institute
Where Liberty Comes First

KEY TAKEAWAYS

- Missouri municipalities are over-reliant on sales taxes and—in our two largest cities—harmful local income taxes.
- There are several lesser-used municipal tax options, including local gas taxes, sales-tax pooling, and (within limitations) land taxes, whose use should be expanded.
- Municipalities are too generous with various tax subsidies and with the allowance of special taxing districts that serve no legitimate governmental purpose.

INTRODUCTION

This is part two in a series titled "A Free-Market Guide for Missouri Municipalities." Part one covered the structure and organization of municipal government itself, including the reasons for incorporation, how cities compete with each other through a menu of taxes and services, and the question of whether to hire a city manager.

Part two focuses on municipal taxation. Missouri municipalities have an unsound reliance on sales and (in two cities) income taxes for revenue. Property taxes and, where appropriate, user fees, should be a larger part of the municipal revenue mix. The analysis of the various municipal revenue options and their proper use is the focus of this part of the guide.

Subsequent parts will be released on planning and zoning, transportation and public works, public safety, parks and recreation, public health, and other policy areas relevant to cities, towns, and villages. The overall project is organized by content area and is intended to serve as a resource for municipal officials, taxpayer activists, and interested citizens.

Each part of this guide will combine current examples, historical knowledge, political realities, and academic studies on the management of municipalities in our state. This part, which concerns municipal taxation, is particularly reliant on the wide universe of tax policy studies.

As noted in part one of this series, the adoption of free market–oriented public policies by governments has the capacity to dramatically improve lives around the world. If Missouri's cities, towns, and villages adopt many of the policies discussed in this series, that too, could have a very positive effect on the people of Missouri, including creating a path for people in our state to improve their quality of life.

As a reminder, I use the term *free market–oriented policies* throughout this project in a broad sense. It encompasses policies that create a more optimal tax system for economic growth (the focus of this part of the project), save taxpayers money by sharing or outsourcing services, deliver higher-quality public services through competition or privatization, and expand opportunity by reducing barriers to employment and entrepreneurship.

Also, in these guides, the term *municipality* will refer to all three recognized types of incorporated communities: cities, towns, and villages. When *city, town,* or *village* is used, it generally refers to individual examples of each, or to laws and policies specific to that type of incorporated community. *Town* is less clearly defined in Missouri law than the other two, so that term will not be used in a specific sense. Habit, simplicity, and a desire to vary the terminology will result in using *city* as shorthand for all types of municipalities in certain instances.

MUNICIPAL TAX POLICY OVERVIEW

What is the most effective method to fund municipal government? Local government revenues around the United States come from five primary sources: property taxes, sales taxes, income taxes, user fees, and funds from other governments. Many but not all municipalities impose a property tax. Similarly, most but not all impose various sales taxes. The Missouri municipalities that do not impose any sales taxes are exclusively residential and do not have any retail businesses to tax,[1] although that is changing as people shop from home more and those municipalities may impose use taxes.

Nationwide, property taxes are the primary source of local tax revenue in 40 states for cities and counties. Sales taxes are the primary source in eight states, and income taxes are the primary source in just two states: Kentucky and Ohio.[2]

Perhaps surprisingly, Missouri municipalities depend less on property taxes than do cities in any other state. According to an analysis of local government revenues by the Pew Foundation, Missouri cities (and counties in the dataset Pew uses) use property taxes to make up just 20 percent of overall revenues.[3] That ranks 50th in the nation. Cities (and again, counties) in Missouri use sales taxes to make up 53 percent of local revenues. That is the third-highest percentage in the nation.

The local income tax data are tricky. Missouri ranks eighth in local government funding by income taxes. That unfortunate ranking is high despite the fact that only two cities in Missouri have a local income tax. However, they are the two largest cities (the City of St. Louis[*] and Kansas City), and the earnings tax (as it is called) is their largest source of local revenues. While the information from the Pew Foundation includes counties, it is very similar to older but exclusively municipal 2007 data from the Missouri Municipal League (MML) that documented that property taxes made up just 16 percent of municipal revenues and sales taxes 50 percent for municipalities overall.[4]

The low reliance on property taxes is related to Missouri's high reliance on special taxing districts (SDs). Missouri had 1,927 SDs as of the 2022 Census of Governments, the fifth most in the nation. Those SDs are primarily funded by property taxes, as is the case with school districts, whereas in other states school districts are often a division of municipal governments. Because schools are expensive and there is a practical limit to how high sales tax rates can go, municipalities in states with fewer SDs and broader municipal service provision tend to make greater use of property taxation.

The main point from these numbers is that municipalities in Missouri are primarily funded by sales taxes, with property taxes being an important secondary base. As recent economic shocks in America have revealed, sales (and income) taxes are more susceptible to rapid change, while property taxes are more stable. It would benefit Missouri municipalities overall to rely slightly more on property taxes and slightly less on sales taxes (and not at all on income taxes).[5] A law passed by the Missouri Legislature in 2023 and amended in 2024 allows counties to freeze the property taxes, including municipal property taxes, of senior citizens within their boundaries. This law, which many counties are in the process of adopting and which will impact cities within those counties whether those cities like it or not, is moving our local tax system in the wrong direction.

Relying on user fees instead of general taxes for services where appropriate is also strongly encouraged, as discussed in the section on user fees below.

PROPERTY TAXES

Property taxes are the primary tax supporting local government in Missouri but not, as described above, municipalities. School, fire, library and other types of independent local governments rely almost entirely on property taxes, at least for their locally sourced funding. Counties, like municipalities, depend on both property and sales taxes.

Property taxes are unpopular with the general public,[6] but they deserve a greater share of municipal revenue sourcing in Missouri. When properly constructed (fair assessments, modest rates, local spending aims), the property tax system impacts economic growth less than other taxes[7] and funds the local services that taxpayers need and use (see Table 1 for a summary of studies comparing tax impacts on growth). More broadly, as discussed in part one of this series, the property tax system allows property owners (mostly homeowners) to act as a mobile consumer of government taxes and services.

Charles Tiebout did the groundbreaking work in this area. Tiebout contended that residential mobility created a competitive environment for local government, and that the resulting competition kept local government spending and provision of services efficient.[8] If government services are better and overall taxes lower in Lee's Summit than in nearby Blue Springs, it is easy enough for a Jackson County family to make that move without drastically changing their lives. Hence, according to Tiebout, the invisible hand of competition constantly adjusts municipal government, as people "vote with their feet" as measured by population changes. Tiebout's theory has

[*]Hereafter referred to simply as St. Louis. For all municipalities that share names with counties or other governments the reader should presume the author is referring to the municipality unless stated otherwise.

Table 1: **Which Taxes Damage Growth the Most**

Study	Johansson et al. (2008)	Arnold et al. (2011)	Acosta-Ormacechea, Sola, & Yoo (2019)	Şen & Kaya (2023)
Worst	Corporate income tax	Corporate income tax	Personal income tax	Corporate income tax
2nd Worst	Personal income tax	Personal income tax	Corporate income tax	Personal income tax
3rd Worst	Consumption tax	Consumption tax	Consumption tax	Consumption tax
Least Bad	Property tax	Property tax	Property tax	Property tax

Source: https://x.com/cremieuxrecueil.

been demonstrated by other economists, in particular Wallace Oates, as a realistic and effective model of local government choice.[9] Tiebout's ideas are particularly applicable in areas with many municipalities, like St. Louis County, and, perhaps even more importantly, many school districts, like the entire state.[†] The theory only works in a system substantially funded by property taxes that connect the choice of where to live, the level of taxes, and the services received.

Municipalities have long been able to levy property taxes; sales taxes are a more recent tax. For property taxes, municipalities typically have a general fund, a debt service fund, and then various dedicated funds approved by voters. Each fund has its own separate tax rate. The general fund can, as its name applies, be used for many different purposes. Dedicated funds are passed by the voters to provide for a specific service exclusively, and then general taxes cannot also be used for that service. The purpose behind dedicated funds is more political than economic—voters like approving things when they know exactly where the money is going. Allowed dedicated municipal property tax funds include parks, health, hospitals, streets, community bands, and a few more. The general property tax gives the municipality flexibility in addressing needs as they arise and change, but dedicated taxes are more likely to be supported by voters. For example, "more than 75 percent of local and state transportation financing measures are successful at the ballot box," according to a transportation industry group.[10] Striking the right balance between general and dedicated property taxes is key. Municipalities want flexibility, but voters understandably want assurances that money will go where they approved it to go. A review of the annual Missouri State Auditor Property Tax Report indicates that an overwhelming number of municipalities primarily use the general fund and supplement it with dedicated taxes, which is encouraging from a policy perspective.

The laws regarding property assessment and taxation are established by the state and administered by counties, so there is not much that individual cities can do to advance better policies in that regard. But there is a little wiggle room, and that is where I shall focus.

Land taxation is nothing more complicated than a property tax on the value of the land only. The rationale behind land taxation for most modern economists is that because the supply of land is fixed and immobile, taxes on land do not distort the tax base like other taxes may. Furthermore, a tax on the land but not the improvements (or a much lower tax rate on the improvements) incentivizes economic development of the land. Unfortunately, the Missouri Constitution generally does not allow land taxation. Article X, Sections 3 and 4 of the Missouri Constitution, state that taxes "shall be uniform within the same class or subclass of subject." In short, this provision means that property taxes must be based on the value of the buildings on the property as well as the value of the land at the same tax rate.

Land taxation is rare in the United States outside of Pennsylvania, but Pittsburgh implemented a land tax system in the early 1980s with successful results.[11] In Harrisburg, which also adopted land-value taxes in this period, the number of vacant buildings declined from 4,200 in 1982 to 500 by 1997. Land value taxes were

[†] Missouri has 518 school districts, which is ninth most among the states.

working in Pennsylvania, but political difficulties saw them phased out in many places around 2000.

Despite legal and political obstacles, Kansas City had actually imposed and collected a land tax until it was unfortunately phased out by the city in 2012.[12] The tax is still on the books, but the rates are set to zero. Until it was replaced by a higher sales tax in 2012, the land tax was used to help fund parks and roads in Kansas City. There were three taxes set: a land tax to support parks, a land tax to support trafficways (i.e., roads), and a tax based on the frontage for property along Kansas City's beautiful boulevard system. The rates were modest; the taxes funded a portion and not the entirety of the park and road systems.

How was Kansas City allowed to impose this tax that seems to conflict with the Missouri Constitution? That is unknown to this author. The two most likely reasons that this tax was allowed to continue for decades are: (1) it was declared a special assessment, not a general tax, and as such was allowed; or (2) inertia allowed it to continue with judicial acquiescence or favoritism toward city government.

However the Kansas City land tax was allowed, the leaders of Kansas City should consider reinstituting it to the extent allowed by law while reducing the increased sales tax that replaced it. (Remember, the tax wasn't eliminated, it was set to a rate of zero. It can presumably be reinstated with voter approval.) Other municipalities should consider adopting the same system Kansas City had. The more the property tax can be based on the value of the land, the better it will establish a growth-oriented tax system for municipalities. A quick perusal of the number of surface parking lots in downtown St. Louis and Kansas City can help one visualize how a property tax system that focuses on buildings instead of land will have less than optimal outcomes. The author is opposed to neither cars nor parking, but a small number of parking garages providing the necessary parking resources in valuable downtown areas appears preferable to large amounts of land taken up by parking lots.

One convoluted but legal method of land taxation involves tax abatement and SD programs, which have their own series of concerns that will be discussed later in this guide. Both Special Business Districts (SBDs) and Chapter 353 Urban Redevelopment plans (another type of subsidy) are authorized under state law to tax only the value of the land and not the improvements (i.e. homes, offices, etc.) as part of their programs within district boundaries. For example, in 2025, Chesterfield approved its Downtown Chesterfield SBD. From 2025 until 2029, the SBD will only levy its property tax on the value of the land within the district. Starting in 2030, it will levy the tax on the land and the improvements.[13] (Generally, the value and resulting taxes on improvements is much higher than the value of the land only.) Similarly, under a 353 plan, owners continue to pay property taxes on the value of the land at the start of the program, but not the improvements.[14] In theory, a municipality could create citywide SDs to tax land only. As much as I support changes to property taxation to allow for land taxes, the potential benefits from this would likely be far outweighed by the economic harms from the proliferation of special districts, subsidies, and abatements.

Personal Property Taxes

The opposite end of land taxes is the personal property tax. Personal property is easily moveable (unlike land) and taxes can be avoided. Just look at how many cars owned by Missouri residents are registered in Illinois or Kansas to avoid the personal property tax.[‡] Missouri makes more extensive use of personal property taxes than most other states.[15] Cars, boats, factory equipment, office equipment, livestock, farm equipment, grain, and more items are subject to personal property taxes. Missouri law, however, gives some discretion to allow municipalities to avoid or limit such taxation.

Municipalities do not have to tax personal property in the first place. Independence and Rolla are two large Missouri cities that have a property tax but do not tax personal property at all. The rate on the regular property tax in those cities is probably slightly higher to make up for it, but the more property taxes can be based on the value of fixed land and immobile buildings—and the less on cars and boats—the better it will be for the city.[§] In St. Louis County with its variable rate property tax system,

[‡] That exact number, since it is a crime, it unknown. But it is not uncommon.
[§] See the previous section on land taxation.

any municipality can move its personal property tax rate to zero any year it chooses to. Offsetting that with higher rates on other types of property would require voter approval. Bridgeton and Lakeshire are two municipalities in St. Louis County that have set their personal property rates to zero. The process may be more complicated for cities outside of St. Louis County that have been imposing a personal property tax.

One especially harmful personal property tax is the tax on business and factory equipment. Economists Christophe Chamley and Kenneth Judd argued for low taxation rates on capital income to encourage investment, and their arguments apply to this issue.[16] As Chamley and Judd have described it, "Rational workers would rather have the extra machines to work with rather than a transfer from a tax on capital. . . ."[17] In other words, employees are better off working on machines than they would be receiving welfare payments from a tax on machines.

What can cities do about this? The Missouri Legislature authorized St. Louis in RSMo §92.043 to impose lower property tax rates on manufacturing equipment than on other types of taxable property. The very similar RSMo §92.040 allows both St. Louis and Kansas City to reduce their tax rates on business personal property, although only St. Louis has chosen to do so. Many cities within St. Louis County also do not impose their municipal property taxes on manufacturing equipment.[**]

Kansas City should mimic St. Louis's rate structure of a lower property tax on manufacturing equipment. Other municipalities should be as aggressive as possible in lowering both their personal property tax and the manufacturing property tax. Property taxation should be based on land and buildings, not movable assets such as business equipment, cars, boats, or livestock.

SALES TAXES

Sales taxes are common for a variety of reasons. They are popular with economists because they do not directly discourage work or penalize investments. They can fund government in a convenient manner with low compliance costs and without (at least at modest tax levels) incentivizing people to significantly alter their behavior to avoid the tax. They are popular because they give consumers at least some choices: if you want to pay less tax, then buy less stuff, or at least less expensive stuff. Finally, they are popular with politicians because they are easier than other taxes to convince voters to pass, usually by stressing how much visiting shoppers will pay for your vital municipal services.[18] The last reason is less laudable than the others.

There are several drawbacks to sales taxes. They are less stable than other forms of taxes,[19] as municipal experiences during the recent pandemic demonstrated. They are considered by some to be regressive because lower income people spend a higher percentage of their income on taxable goods. Finally, the perceived ease in convincing voters to pass them results in officials proposing them for inappropriate purposes, such as a "translational research sales tax" (whatever that meant) since selling the idea to voters doesn't require the same level of argument as convincing a voter to raise their own property taxes might.[††]

Missouri ranks third in the nation in funding for municipalities (and counties) by sales taxes.[20] Only Arkansas and Oklahoma make greater use of sales taxes for local government. The dependence of Missouri cities on sales taxes is likely understated by the two sources cited, the recent Pew report and the older MML study. The Pew report includes counties, which rely more on property taxes than cities do, so the report understates the municipal dependency. The MML report referred to earlier gives a 50 percent figure for things explicitly called sales taxes, but if you add in things that act, look, and compute like sales taxes, it is much higher than 50 percent. If you add in the revenue totals from that 2007 MML report for use taxes (which are sales taxes on out-of-state purchases and which were much less commonly imposed by municipalities in 2007 than they are now), utility taxes (which are simply a sales tax on utility bills; they predate general sales taxes and are hence treated differently), hotel taxes, cigarette taxes, and the municipal share of state gas tax money (which is just a sales tax on gas, albeit one computed by gallon instead of by price), you get to

[**] I can find no legal authority for the ability of St. Louis County municipalities to not charge the tax, and it is possible it is just considered under the generic "personal property" listing and thereby actually taxed in some towns.

[††] Although when Jackson County decided in 2013 to propose that "translational research sales tax" to support private medical research facilities in Kansas City, it was overwhelmingly defeated by voters.

a municipal funding percentage of 77.5 percent by sales taxation.[21] While that report is old, a recent Show-Me Institute analysis of taxes and spending in Missouri's 20 largest cities confirmed that budget reliance on sales taxes routinely tops 70 percent.[22] Wildwood, for example—the 18th-largest city in the state—is 94 percent funded by sales, use, and utility taxes. That level of dependency on a revenue source that can vary widely in changing economic conditions is not advisable.

There are six different sales taxes available to municipalities outside of St. Louis County and six within St. Louis County, although the six options are different. This does not include sales taxes levied at the county level or by special taxing districts, nor does it include select sales taxes on certain goods, including cigarettes, hotel rooms, restaurant meals, and utility bills. Municipalities (other than in St. Louis County) can levy a general sales tax and then additional sales taxes to specifically fund parks and stormwater needs, fire departments, economic development, capital improvements, and transportation services.

The primary difference within St. Louis County is that municipalities there are not allowed to impose a transportation sales tax; that is imposed at the county level. Municipalities are allowed an additional ¼ to ½ cent general sales tax on top of the standard 1 cent tax. Municipalities in St. Louis County have figured out a way around the lack of a transportation sales tax by creating transportation development districts (TDDs) with their own transportation sales taxes that are, technically, independent of the city to varying degrees.

All of these sales taxes except the economic development sales tax are appropriate taxes for municipal government because they fund (should voters agree) appropriate functions of local government. The economic development tax, however, is nothing more than a vehicle for corporate welfare and should be eliminated by any municipality that has enacted it. With the economic development sales tax, a board is created to determine which private development projects receive funding from the collected taxes. An audit of the use of the economic development sales tax in Kansas City determined that:

1. There was a lack of oversight in how recipients of the funds used the money.
2. Recipients routinely failed to file the required financial and expenditure reports.
3. Inactive projects tied up the budgeted funds without producing the promised economic activity.[23]

This sales tax is inherently subject to the flaws of all such tax subsidies, which will be discussed in more depth later in this report.

The transportation sales taxes could also be arranged in a more effective manner (more on this shortly), but transportation is obviously a legitimate function of all levels of government.

The primary sales tax reform needed in Missouri is to address the creative abuse of sales taxes for corporate welfare by little-known taxing entities like TDDs and community improvement districts (CIDs). These districts are usually independent of municipal government, although cities often play an active role in their creation. The flaws in these districts will be discussed in another part of this overall project.

Sales taxes can be an effective way to fund municipalities. However, municipalities are overly reliant on them as a revenue source. Despite the political complications that may arise, municipalities should attempt to reduce their reliance on sales taxes and increase their use of the more stable source of property taxation,[24] and they should rely more on user fees where appropriate. Missouri municipalities do not need to eliminate various sales taxes to make this tax adjustment. It is allowable, though rare, for cities to reduce existing sales taxes. For example, a municipality could lower its general sales tax from one percent to one half percent.[25] In St. Louis County, where the one-percent general sales tax is mandated, municipalities that have the additional quarter-cent general sales tax could eliminate that tax,[26] as St. Ann did in 2014.

The one sales tax that cities should eliminate (if already enacted) or refuse to enact in the first place is the harmful economic development sales tax. Finally, cities should be far more careful about approving TDDs and CIDs, which can significantly raise the overall sales tax burden without providing any legitimate public services.

Sales Tax Pooling and Incentives

St. Louis County has a pooled sales tax system. "A" cities, also known as "point-of-sale" cities, keep most (the exact amount varies) of their one-percent general sales tax revenue and contribute some of it to a pool. "B," or "pool" cities, place all of their general sales tax revenue into the pool. "A/B" cities are "A" cities that annexed or merged with "B" territory, and as a result have parts of their municipality under different categories. The total sales tax pool fund is regularly distributed out to the pool cities (and St. Louis County) according to a secretive formula incomprehensible to all but the world's most powerful supercomputers and a few employees in the St. Louis County Department of Planning.[‡‡] Municipal sales taxes for capital improvements and the optional increased general sales tax may also be pooled according to a plan similar to the main general sales tax pool, but that is not required for every city. The other sales taxes allowed for St. Louis County municipalities are not pooled. With its large number of small municipalities and the widely varying retail sales tax bases among them, St. Louis County is uniquely well suited to the pool system, but that is not to say it should only be implemented there.

There are benefits to sales tax pooling, and its expansion should be considered beyond St. Louis County. One of those benefits is a reduction in the use of tax incentives. The metropolitan St. Louis planning agency, the East-West Gateway Council of Governments, conducted and sponsored a series of studies of tax-increment financing (TIF) in the region. (An explanation of how TIF operates is in the appendix.) In one of the studies, which was released in 2009, researchers tallied the TIF projects enacted and considered the sales tax pool status for each TIF location. The study stated:

> A total of 86 TIFs were approved by the 35 municipalities. . . . Of the implemented projects, 71 percent were in "A" or "A/B" municipalities.… Overall, 26 of the 86 projects (30 percent) were in pool jurisdictions.[27]

When you consider that pool jurisdictions have always made up a majority of cities within St. Louis County (the exact totals have changed over time), the fact that only 30 percent of the TIF arrangements in the county were in pool cities (at the time of this study) is striking. (In "A/B" cities with parts of the city in different systems, the TIF arrangements are almost always in the "A" portion of the city.) The use of sales tax pooling helps reduce the municipal incentives for certain tax subsidies—especially TIF—and that is a good thing for reasons to be discussed in the section on tax subsidies.

Within St. Louis County, at least eight cities, including Jennings and Ferguson, have switched from being "point-of-sale" cities to being "pool" cities over the years. These changes should be further encouraged. Pool cities benefit as much from office buildings or factories as they would from retail centers, and thereby rely on subsidies for retail less frequently.[§§] Instead of focusing on the increase in retail sales taxes, pool cities can allow a local economy to grow naturally based on a municipality's own comparative advantages. As one study on taxes and land use in California described the situation:

> Moreover, a survey of city managers indicates that the quest for retail development and sales tax revenues is a prime motivation for land-use decisions. Although such "fiscalization" of land-use policy is unlikely to markedly affect retail location, the **California evidence suggests that the property tax has comparative merits in its ability to create incentives for more balanced development.** [emphasis added][28]

The downside to sales tax pooling is that it allows cities with very limited retail to still rely on sales taxes as their primary revenue source instead of property taxes. The expansion of use taxes (which are applied based on where people live and not where they shop) is making this point less salient each year, but care should be taken to not allow sales tax pools to prop up municipalities that would otherwise be forced by residents to consider other options, including mergers or disincorporation.

In light of all these considerations, expanding sales tax pooling options to municipalities beyond St. Louis County deserves strong consideration.

‡‡ This is a slight exaggeration.

§§ But pool cities still use subsidies for retail sometimes, as University City did with a recent Costco development.

Local Gas Taxes

Local gas taxes are a little-used option for funding roads for municipalities. According to our research, only seven municipalities have enacted local gas taxes (see Table 2). Not surprisingly, several of these cities are located along major highways and serve as frequent gasoline-stopping places. In the same way that Prussia was called "an army with a country," Foristell and Matthews could be considered truck stops with their own cities.

Table 2: **Missouri Municipal Fuel Tax Revenues**

Jurisdiction	Rate (Cent(s) per gallon)	Fuel	Revenue (2022)	Revenue (2023)
Foristell	1.0	Gasoline and diesel	$204,215	$237,300
Matthews	1.0	Gasoline and diesel	$609,183	$661,895
Peculiar	1.0	Gasoline and diesel	$138,404	$190,279
Charleston	2.0	Diesel	$315,609	$265,309
Concordia	1.0	Gasoline and diesel	$77,859	$82,055
Knob Noster	0.5	Gasoline and diesel	$87,377	$99,166
Pierce City	1.0	Gasoline and diesel	$8,664	$8,783

Source: Information compiled by Show-Me Institute.

Local gas taxes require a 60 percent threshold for voter approval. The funds raised by the tax can only be spent on roads within the city. Obviously, getting 60 percent of the vote for any new tax is difficult, and is likely one reason local gas taxes are so rare. Foristell, for example, needed multiple attempts before voters approved the gas tax.

Funding roads with user taxes like a gas tax is good public policy.[29] While the gas tax may not be as direct a user fee as a toll, a toll system is not an appropriate option for local roads that serve your neighborhoods and local commercial areas (simply for logistical reasons). When you pay for roads with unrelated taxes, such as a property tax, a general transportation sales tax, or, worst of all, a targeted TDD sales tax (which sounds like a transportation tax but is commonly a form of corporate welfare), you subsidize increased driving by lowering the relative cost of driving.

As electric vehicles become more common, adjustments to the gas tax system will have to be made.[30] But in the short term, more cities should consider adopting the types of very low gas taxes the cities in Table 2 have adopted in order to fund local roads. While not every municipality can raise hundreds of thousands of dollars a year, it is a worthy option for consideration in any municipality with a gas station. Similarly, the state should consider lowering the threshold for voter approval of local gas taxes to the standard 50 percent plus one.

Other Sales Taxes

Other sales taxes available to cities include use, utility, marijuana, telephone, hotel, and cigarette taxes (Many of these are commonly referred to as excise taxes.) Any imposition or increase in these taxes must be approved by local voters. A use tax in simple terms is a sales tax on goods purchased outside of Missouri or online that are for use in Missouri. A utility tax is most easily understood as a sales tax on your various utility bills. Based on reporting from the MML, many cities have enacted utility taxes, but the exact number is unfortunately unknown. Marijuana and cigarette taxes are local taxes on those particular products. In 2002, after a long court fight between the cellular industry and various cities, municipalities won the right to subject cell phones to the same taxes imposed on telephone land lines.[31]

All of these different taxes can be beneficial to municipal governments for various reasons, including broadening the tax base, leveling the playing field for different types of businesses, and addressing certain costs to society produced by certain products (e.g. marijuana). In recent years, hundreds of municipalities have passed use taxes and taxes on marijuana as societal changes have increased the amount of online shopping and the sale of recreational marijuana has been legalized (though not, as of yet, online marijuana sales).

Municipal cigarette taxes in Missouri are forbidden by state law, although cities that had local taxes in place before 1993 were grandfathered in.[32] St. Louis has a cigarette tax, for instance. It raised $1,477,802 in revenue in 2021.[33] (There are no local alcohol taxes in Missouri, although municipalities can impose a special license fee for businesses selling alcohol.)

In the seven cities that operate their own health departments, using the cigarette or marijuana tax funds to address various costs imposed on society by those products (which is the federal and state model)[34] by funding local health initiatives is a good policy choice.[***] For most municipalities—which do not have health departments—using these taxes to support the general fund and helping to keep overall tax rates low is the recommended long-term use of the revenues.[35] The worst choice is to promise voters that these special funds will be entirely dedicated to something entirely unrelated to the tax, such as when Arnold guaranteed voters it would use its new marijuana tax to pay off bonds from the city's recreation center.[36] That choice removes municipal flexibility with the funds while not addressing any of the costs imposed by the product being taxed.

Many municipalities in Missouri have an extra tax on hotel rooms. Some cities, including Kansas City and Springfield, have expanded the definition of the tax to include short-term rental units. Both of these cities had voters approve this change in 2023. As with the other excise taxes discussed here, expanding the tax base and equalizing the treatment of businesses are beneficial changes. Hotel and other tourism taxes are often viewed as inelastic, meaning that increases in price have a limited impact on demand for the good or service. There is academic work that supports the idea that increased hotel tax revenue does not harm the tourism industry, including studies of hotel taxes in Hawaii[37] and Florida.[38] However, a study from Georgia determined that a 2015 hotel tax increase there reduced hotel room rentals in the state.[39] Considering that Missouri is more like Georgia than it is like Hawaii, perhaps municipalities should take note and try to avoid raising the hotel tax too high. For example, Hazelwood has an avaricious 21.863 percent total sales tax on hotel rooms simply because it was grandfathered in before caps were placed on the tax. It can take advantage of unsuspecting travelers because it is adjacent to the St. Louis airport.

Local hotel taxes are often dedicated to specific functions, like tourism promotion and funding convention centers. They are also pooled in some parts of Missouri, including St. Louis and Lake of the Ozarks. While the hotel tax pooling is often arranged at the county level, it includes the municipalities within those areas (meaning cities are limited in imposing municipal hotel taxes on top of the regional pooled tax rate). Branson has a hotel tax dedicated in part to tourism promotion and is part of a regional pool with an extra sales tax also used to promote tourism. Figuring out the sales taxes owed by hotels on various goods they sell or rent in Branson is a complicated process. The Missouri Department of Revenue explains it like this:

> For example, a Branson hotel may have a gift shop that also sells snacks and bottled soda. In this example, the hotel will have to collect and remit tax at three different rates.
>
> - It will collect and remit tax on charges for rooms at a rate that excludes the 1% Branson/Lakes Area Tourism Enhancement District Sales Tax.
> - The gift shop sales will include the 1% Branson/Lakes Area Tourism Enhancement District Sales Tax.
> - The tax collected on charges for the snacks and sodas would be at a third rate, excluding both the 1% Branson/Lakes Area Tourism Enhancement District Sales Tax and the 3% of the state tax exempt pursuant to Section 144.014, RSMO.[40]

Despite the complexity of Branson's system, hotel tax pooling for tourism-related costs is a program worth trying and deserves more study by economists.

One of the goals of directing all hotel taxes to tourism is to take politics out of the funding equation and have the taxes go directly to the tourism board (or whatever it may be called). That is preferred by the hospitality industry, as it ensures all of the taxes go directly to the intended use instead of being collected and spent elsewhere by politicians. That is understandable, and taxes should

[***] Those seven cities are: St. Louis, Kansas City, Joplin, Independence, Columbia, Springfield, and St. Joseph. The latter three operate their department in combination with their county government. These cities operate comprehensive public health agencies. Other cities have departments they call "health" departments, but they are not comprehensive public health agencies.

be spent on what the voters approve them for, but it is fundamentally undemocratic to remove the ability of elected officials to direct the spending of tax dollars, as some tourism officials have previously advocated for.[41] Tourism taxes, whether pooled or not and whether directed to tourism promotion or not, should still be subject to appropriation and oversight by elected officials, who can be held accountable by taxpayers.

USER FEES

A definition of a user fee is provided in the definitions section provided in the attached appendix. Joplin has a similar definition with examples on its website. Joplin states:

> The City of Joplin provides services to specific users. These users are charged fees for such services **as building permits, business licenses, recreation fees, airport fees and cemetery fees**. The fee is intended to cover the cost of the specific service, alleviating the need to utilize general taxes to support activities of specific users users [emphasis added].[42]

This is an excellent summary. User fees play an important role in funding municipalities, and every attempt should be made to maximize their use where applicable. If something is a classic public good it is non-rivalrous—my use of the service does not impact your use of the service—and non-excludable—it isn't possible (or at least practical) to exclude someone from the service anyway. Nobody wants their village to fence in the village green to collect entrance fees at one entrance point. (For an expanded explanation, please see the appendix.)

Public goods, such as police, should be paid for by taxes. The examples listed by Joplin above are not public goods, and they should be funded by user fees in order to ensure that the costs are borne to the largest extent possible by the users of the services instead of by general taxpayers.[43] Other common local services that can and should be paid for by user fees (if provided by the municipality in the first place) include trash pickup, animal control (e.g., adoption and spaying and neutering fees), public parking facilities, and municipal utilities.

Not every service funded by user fees needs to be *entirely* funded by the fees. There are circumstances where it is appropriate for user fees to cover a portion of the cost. As will be discussed further in a future installment in this series that addresses parks, a public pool that can be funded by user fees will often be in a park that is funded by taxes. It is common and normal that some of the services for the pool, like a shared parking lot, would then be funded by taxes instead of fees.

Similarly, there are circumstances where larger up-front or capital costs to a municipal project may be funded with taxes, but the operating costs of the project would be funded with user fees.

In some instances, such as trash pickup, the differences between taxes and user fees are generally minor. That is because in most places in Missouri trash pickup is required and the fees are fixed per house. A more direct user fee would be to vary the amount of the fee based on the amount of trash generated. One study found that cities that instituted "pay as you throw" user fee systems saw a substantial reduction in the quantity of trash and an increase in recycling.[44] Outside of bulk trash pickup, I am unaware of any "pay-as-you-throw" funding systems in Missouri municipalities. Independence has a monthly "Drop-off depot" event where fees are charged by the size of the vehicle dropping off the bulk items, which comes close. Interestingly, Independence also has no municipal trash service (either in-house or by contract), and all residents arrange their own trash pickup with private waste haulers.

LOCAL INCOME TAXES

The right to impose a local income tax (called an earnings tax) in Missouri is limited to St. Louis and Kansas City. Prior to the passage of Proposition A in 2010, other cities had the right to impose an earnings tax, but none had done so. Proposition A restricts the earnings tax to St. Louis and Kansas City permanently and requires a quinquennial vote by residents of those cities to approve the continuation of that tax.

Municipal income taxes are common in Pennsylvania, Ohio, and, to a lesser extent, Kentucky and Michigan. States where local income taxes are common but not generally levied by cities include Kansas and Iowa (by school districts) and Maryland and Indiana (by counties). Missouri is similar to several other states, including New York (2 cities), Delaware (1), Alabama (4), West Virginia (4), and California (1), where a small number of usually larger cities are authorized to levy local income taxes.

Local income taxes are harmful for cities. Such taxes encourage movement of population, labor, and capital away from the cities that impose them to surrounding communities that don't.[45] This effect has been documented by numerous studies.[46] Despite the evidence against earnings taxes, they remain popular with voters and local officials in both Kansas City and St. Louis. After all, who wouldn't want to tax non-residents to help pay for the public services enjoyed by the residents? The short-term political gains have to this point trumped the long-term benefits of eliminating the earnings tax.[47] Local earnings taxes are like witch-burnings: highly popular with the resident populace but nevertheless terrible public policy.

The earnings tax is set at one percent of income in each city. All residents, businesses, and commuters who work within the cities must pay it. St. Louis has an additional income tax, the payroll expense tax, which is a half-percent tax on wages paid by the employers within the city.

Because of the pandemic, St. Louis changed its rules regarding nonresident workers to include income from employees who worked from their home outside of the city for businesses within the city. St. Louis required the earnings and payroll taxes to be paid on that income, which was contrary to the plain reading of the state law allowing earnings taxes. Kansas City did not change its interpretation of its ordinances. Unsurprisingly, a lawsuit was brought against St. Louis by taxpayers seeking refunds of taxes paid as a result of the city's new interpretation of the law. In 2024, the Missouri Court of Appeals affirmed a lower court's ruling that St. Louis's earnings tax did not apply when employees were not physically working within the city limits of St. Louis's. Accordingly, St. Louis has stopped collecting the earnings tax on remote workers and is refunding taxes for prior periods that were improperly collected and for which refunds have been claimed.[48]

If Saint Louis and Kansas City want to create a better environment for economic growth in the long term, they should phase out their earnings and payroll taxes. The substantial increase in working from home during and after the pandemic is one more reason to move away from depending on earnings taxes.[49] Nobody says it will be easy to replace a substantial part of those budgets, but if Saint Louis and Kansas City were to phase out their earnings taxes over a 10-year period (or longer), they could replace the lost income tax revenue by: [†††]

- Substantially reducing various tax subsidies;
- Increasing other, less economically harmful taxes, such as gas or land and property taxes;
- Sharing services with other governments;
- Privatizing certain services and assets, such as their municipal water departments;
- Consideration of taxation of entities previously not taxed, such as property taxes on nonprofit entities;
- Streamlining the budget; and
- Reforming pensions

The long-term benefits from ending the earnings and payroll taxes to our two largest cities would be significant.

SPECIAL TAXING DISTRICTS

Missouri has thousands of special taxing districts (SDs). These range from the well known, such as school districts, to the obscure, such as street light districts. We have 1,927 of them—fifth most among the 50 states—according to the most recent data from the U.S. Census of Governments.[50] Many of those SDs are independently operated with their own elected officials (such as school districts) or appointed boards. They generally rely on their property tax authority for revenue, but some are also authorized to levy sales taxes. This guide is not focused on those types of fully independent districts, but rather on

[†††] Some of these, such as nonprofit taxation, would require changes to state or local law.

SDs that municipalities can create or approve. These are rapidly proliferating around Missouri and include CIDs, TDDs, and neighborhood improvement districts (NIDs). What do I mean by rapidly proliferating? There are 269 TDDs in Missouri as of 2024; there were only 125 as of 2010. There are 631 CIDs in Missouri as of 2024; there were just 118 as of 2010.[51] (NIDs are not as common, then or now.) Not every TDD or CID is harmful. The Lake Ozark Community Bridge TDD and the Isle Del Sol Causeway CID, both in the Lake of the Ozarks region, have successfully funded and operated important transportation improvements for the area without relying on the general taxpayer. Other, cross-county TDDs have enabled regional road improvements. But overall, municipalities employ SDs as another tool for corporate welfare.[52]

Municipalities do not have total control over the creation of all these SDs. TDDs, in particular, may be established outside of municipal authority. However, municipalities do have full authority over the creation of some SDs, and they have substantial influence over the creation and management of others (compared to say, a school district, which a municipality has no control over.) Municipalities rarely use that authority and influence to oppose new CIDs, TDDs, or NIDs.

The Missouri State Auditor's Office and other local oversight agencies have routinely flagged CIDs, TDDs, and other SDs within municipalities for many troubling practices.[53] 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 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, stricter financial reporting rules, and other limits on SDs.[54] The Kansas City Auditor's Office also released an audit documenting many of these same problems with CIDs within Kansas City and stressing the problems with how SDs are frequently layered on top of each other.[55]

SDs often fund primarily private assets with public dollars. Usually, those public dollars come from sales taxes imposed within SDs. For example, many CIDs in Kansas City—43 out of 74 (as of 2021)[56]—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, according to analysis by researchers at the Show-Me Institute:

> 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."[57]

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.[58] 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 2021 Kansas City CID audit documents,[59] 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.

We need statewide changes to SD laws in Missouri to compel better financial accounting, public transparency, and local government oversight, and to give voters an active role in decisions regarding establishment of such districts. Even with these possible adjustments, SDs will generally constitute corporate welfare to developers and private interests. Municipalities throughout Missouri are better off severely limiting their enactment and usage.

MUNICIPAL TAX SUBSIDIES

Municipalities in Missouri dramatically overuse tax subsidies of all types. These subsidies include SDs discussed above, and TIF, but there are other options at the local level. Usually, such tax subsidies involve some type of full or partial property tax abatement, an allowance to keep certain taxes that would otherwise be paid, or sales tax exemptions. (Please see the appendix for an explanation of TIF.)

In a short listing of cities that make significant use of TIF, the anti-tax subsidy organization Good Jobs First included both St. Louis and Kansas City as two of just four cities that "have a large number of TIFs."[60] The group further lists Missouri as one of 12 states with more than 450 TIF districts (most, but not all, TIF projects are enacted by municipalities).

The academic research on the failures and harms of attempting to drive economic development through tax subsidies is overwhelming. What follows is just a small sample of the research. 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.[61] 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."[62] 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 that 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.[63]

TIF is far from the only type of tax subsidy available to municipalities. Along with the various SDs and economic development sales taxes discussed previously, municipalities have multiple options for property tax abatement programs,[64] additional sales tax abatement programs,[65] and the ability to create ostensibly independent taxing districts (port authorities[66] and land clearance for redevelopment authorities[67]) through which tax subsidies can be implemented.

Economists Alan Peters and Peter Fisher studied tax incentives closely and concluded that they work about 10 percent of the time and are simply a waste of money the other 90 percent.[68] They added that economic development officials often attribute all new employment and economic growth to tax subsidies, a claim which the author of this guide can personally attest to hearing economic development officials make.

Tax subsidies and incentives don't just harm cities because of unsound economic ideas. Moberly was victimized by a tax incentive scam related to the proposed Mamtek factory there.[69] Independence had to make up the TIF subsidy shortfalls with general revenue when its Bass Pro development did not generate the sales taxes expected. A CID in Lake Lotawana went bankrupt due to mismanagement.

Saint Louis has been using tax incentives such as Enterprise Zones (EZs), TIF, property tax abatements, and other subsidies as key urban redevelopment tools for over half a century. How has it worked out? Colin Gordon, in his 2008 book *Mapping Decline*, documents the decline of Saint Louis. The book's research is exhaustive. The dominant theme of the book is the use of urban renewal tools and tax subsidies—and their absolute, total failure. From his conclusion:

> The overarching irony, in Saint Louis and elsewhere, is that efforts to save the city from such practices and patterns almost always made things worse. In setting after setting, both the diagnosis (blight) and its prescription (urban renewal) were shaped by—and compromised by—the same assumptions and expectations and prejudices that had created the condition in the first place.[70]

What most people seem to ignore, however, is that EZs, TIFs, SDs, tax abatements, and other subsidies do not work. They do not succeed in growing the local municipal economy, be it urban, suburban, or rural. The panoply of subsidies that come into play when a large area is declared blighted can have a number of adverse side effects. They shrink the local tax base, introduce more cronyism and favoritism into the economy, encourage more government planning of the economy, and increase the chances of eminent domain abuse. As a famous Swedish economist once said, “It is not by planting trees or subsidizing tree planting in a desert created by politicians that the government can promote . . . industry, but by refraining from measures that create a desert environment.”[‡‡‡]

The lack of evidence of successful subsidies for municipalities in Missouri is despite the fact that the subsidy game is arranged in favor of municipalities. Municipalities are often empowered by state law to make decisions on tax subsidies that impact other taxing districts more than the municipality itself. For instance, with TIF, the subsidy consists of 100 percent of the incremental increase in property taxes and 50 percent of the increase in sales or earnings taxes. As you will recall, municipalities in Missouri depend on property taxes less than cities in any other state. So, it is an easy decision for cities to approve TIF subsidies (or other property tax abatement projects) that give up all the property taxes that other taxing bodies, such as school or library districts, rely upon, while keeping a much larger percentage of the sales taxes involved with the subsidy that the municipality relies upon. If a new retail center opens up on a previously green field, keeping half of the sales taxes generated may still be a lot of money for the city, leaving the other taxing districts to figure out how to service the new development without any expansion of the property tax revenues (and in some instances, an actual decline in the revenues) that they depend upon. This can lead to claims by municipalities that a subsidy is succeeding, based on city finances, although its own residents are no better off because other taxing districts that serve them have been made worse off financially.

Missouri municipalities that want to cut taxes should do so for all businesses and residents, not give special deals to some chosen parties. St. Charles County in 2022 and Clay County in 2023 both reduced taxes for everyone in very recent times. While it was longer ago, the Mehlville Fire District also cut property taxes across the board in 2007.[71] Such examples should be followed.

St. Ann is the only Missouri municipality the author is aware of that has followed the example set by St. Charles and Clay counties, even just in part. In 2014, the city eliminated its optional one quarter-cent general sales tax and reduced its economic development sales tax from one half-cent to one quarter-cent. According to city officials, this was as part of an arrangement with Menards to open a store in the city.[72] Even though the Menards store was part of a larger development that included other state and local tax subsidies, St. Ann officials nonetheless deserve credit for directing some of the tax changes negotiated with Menards to be citywide tax reductions that would benefit the entire city, not just that one store.[73]

Missouri cities are well advised to eliminate their economic development offices, significantly reduce the granting of tax incentives and subsidies, and reduce their role in planning their local economies. Local politicians and economic development officials are not capable of successfully conjuring economic prosperity, despite their claims to the contrary. They are quite capable, however, of rewarding contributors and entrenched interests at the expense of outsiders, new businesses, and new ideas.

CONCLUSION

Most municipalities, including most large cities, around the country do not impose local income taxes. Yet, those cities provide services just as well as Kansas City and Saint Louis. Nobody says it will be easy to replace the earnings taxes in Kansas City and St. Louis, but it should nonetheless be done (over time) in order to grow the economies of those cities to benefit everyone. At the very least, the two cities should attempt to become less dependent on the earnings tax and resist efforts to make themselves more dependent on it, as has unfortunately happened with the recent senior citizen property tax freezes.[§§§]

[‡‡‡] Assar Lindbeck, long-time chair of the Nobel Prize in Economics selection committee.

[§§§] As an independent city, St. Louis imposed the senior property tax freeze on itself, and can repeal it if it chooses to. Kansas City had the senior property tax freeze imposed on it by Jackson, Clay, and Platte counties, though I am not aware of any attempt by the city to oppose those moves.

Taken together, the research discussed above suggests that municipalities should fund themselves locally with a three-legged stool of sales taxes, property taxes, and user fees. (The stool analogy is particularly appropriate when one recalls that the fictional Missouri town of Blaine proudly held itself out as the "stool capital of the United States" in the comedy film *Waiting for Guffman*, but I digress.) Currently, the stool is slightly off-kilter, with a longer leg for sales taxes than is ideal for municipalities generally. (The "ideal" ratio varies from city to town to village; a city with a popular shopping mall is understandably going to rely more on sales taxes than other communities might.) But, overall, it would be preferable for many municipalities to attempt to shift their revenue sources slightly to rely more on property taxes and less on sales taxes.

Municipalities have had several significant new revenue options made available to them in recent years: the expansion (through court decisions) of use tax authority and telephone taxes, and the authorization (by statewide referendum) of marijuana taxes. Then there was the enormous, one-time increase in federal funding for municipalities during the pandemic. Saint Louis alone received almost a half-billion dollars from the federal government in COVID-related economic stimulus funds which, as of early 2025, still have not been entirely spent.[74]

Managing a municipality may present many difficulties, but revenue options aren't one of them. The goal, however, should never be to maximize city revenue. The goal should be to fund the necessary functions of municipal government in a manner that is conducive to overall prosperity and long-term economic growth. The author hopes the analysis and recommendations in this paper will help municipalities achieve that aim.

David Stokes is the director of municipal policy at the Show-Me Institute

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GLOSSARY OF RELEVANT TERMS

Enterprise Zone (EZ): The Missouri Enterprise Zone Program was created in 1982 to allow local governments the option to provide tax abatement for companies locating or expanding in a designated blighted area defined as an "enterprise zone." The local property tax abatement could be combined with a state tax credit based on the amount of private investment and the jobs created. It was later replaced with the Enhanced Enterprise Zone program. Many other states have similar programs, and the federal government currently offers a similar Opportunity Zone program. (*Source:* Missouri Department of Economic Development.)

Public Good: In the economic sense, a public good is something that is non-rivalrous and non-excludable. Non-rivalrous means that my use of something does not impact your use of the same thing. Non-excludable means that it is difficult (or undesirable) to prevent someone from using something in the first place. Fresh air is often cited as the most obvious public good. The consideration of public goods is an important part of local government policy debates in several key areas. At the most basic level, local government services that are generally public goods would *usually* be funded by general taxes, while local government services that are not generally public goods would *usually* be funded (at least partly) by user fees. Just because something may not be considered a public good in an economic sense does not mean government shouldn't ensure that service is provided. There are several common municipal services that are not generally considered public goods in an economic sense, including public transit in larger cities. (*Source:* Wikipedia.)

Tax-Increment Financing (TIF): TIF is an economic development tool whereby the developer of a property gets to keep 100 percent of the increase in property taxes and half of the increase in sales or earnings taxes to put toward authorized costs of the redevelopment.

Tax Pooling: A practice whereby cities (and sometimes other taxing districts) share tax revenues in a nonstandard manner and distribute funds to the participating governments under an agreed-upon formula for various uses. There are several tourism-related tax pooling systems in Missouri, but the St. Louis County general sales tax pool is the largest example.

User Fee: According to the Tax Foundation, "A user fee is a charge imposed by the government for the primary purpose of covering the cost of providing a service, directly raising funds from the people who benefit from the particular public good or service being provided. A user fee is not a tax, though some taxes may be labeled as user fees or closely resemble them." (*Source:* Tax Foundation website, accessed January 5, 2024.)

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