



# TESTIMONY

February 12, 2019

## SENATE BILL 108: TAX-INCREMENT FINANCING REFORM

*By Patrick Tuohey*

Testimony Before the Missouri Senate Ways and Means Committee

### TO THE HONORABLE MEMBERS OF THIS COMMITTEE

My name is Patrick Tuohey, and 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 and local policy. The ideas presented here are my own. The purpose of this testimony is to briefly discuss research that the Show-Me Institute has published regarding the need to reform the use of tax-increment financing (TIF) in our state and, in particular, the need to limit the circumstances under which municipalities are able to employ TIF.

TIF was designed as a tool for cities to encourage development in areas that suffered from blight, or to promote conservation. For this reason, two requirements must be met before a project can be approved for TIF. The first requirement is that the designated property must be classified as either a “blighted,” “conservation,”

or “economic development” area. The second requirement is that incentives may only go toward projects that would not occur if incentives weren’t offered. This is known as the “but-for” test, as it is intended to demonstrate that but for taxpayer assistance, the project would not move forward.

Despite its original purpose of incentivizing development in economically distressed areas, as practiced in Missouri, TIF is often used in areas that are already economically vibrant. The Show-Me Institute published two essays examining the use of TIF in Kansas City<sup>1</sup> and St. Louis<sup>2</sup> and found that the vast majority of TIF placement, both by the number and dollar value of projects, occurred in wealthier and trendy parts of town such as the crossroads district in Kansas City and the Central West End in St. Louis.

Part of this is due to the fact that blight can be so easily found. According to Steve Potter, head of the Mid-Continent Public Library, “Every

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piece of property can be declared blight under the statute,” including, Potter observed, the Governor’s Mansion in Jefferson City.<sup>3</sup> The proposal before this committee, Senate Bill 108, tightens the restrictions on TIF by disallowing its use for conservation or economic activity and by removing some of the common loopholes used for a finding of blight.

The second requirement for the use of TIF is the but-for analysis, often conducted by the applying developer, which demonstrates that without the subsidy the project would not move forward. Often, all that is provided to satisfy this condition is an affidavit from the developer attesting that the project would not move forward without the subsidy. SB 108 requires that but-for analysis be conducted by a third-party. This change is an improvement over the present method.

## TIF STUDIES

California, the first state to adopt TIF policies in 1962, was the first state to end them in 2012. Cities and states around the nation have been looking at how they administer TIF in the face of many studies concluding that the benefit is not worth the investment. A recent study of economic development incentives in Saint Louis conducted for the Saint Louis Development Corporation<sup>4</sup> concluded, among other things, that:

- Development incentives have little to no positive economic development benefits. The \$709 million Saint Louis has spent on TIF and TA (tax abatements) over the past 15 years have not created jobs, revitalized neighborhoods, or increased long-term tax revenues.
- Rather than TIF and TA being used in economically depressed areas, they are used mostly in neighborhoods with strong housing markets. In fact, nearly two-thirds are used in just three neighborhoods in the central corridor.
- The level and quality of reporting on incentives is so poor that officials and the public “cannot readily determine what may or may not be deemed a project worthy of consideration for a City tax incentive.”

A study of TIF use in Kansas City and Saint Louis conducted for the Show-Me Institute by William T. Lester of the University of North Carolina-Chapel Hill<sup>5</sup> found that

*Overall, the analysis conducted in this study finds no support for the claim that TIF generated tangible economic development benefits in either Kansas City or Saint Louis.*

Supporters of TIF often point to the structures created after a TIF award as evidence of its effectiveness. While these are compelling anecdotes, they are nothing more than logical fallacies. Studies in Missouri and elsewhere show that in the aggregate, areas without TIF grow as fast as areas with TIF projects. But perhaps most damning to the economic development subsidy regime was a study conducted by the W.E. Upjohn Institute for Employment Research release in 2018.<sup>6</sup> It concludes, “For at least 75 percent of incented firms, the firm would have made a similar location/expansion/retention decision without the incentive.” These subsidies are not the catalysts supporters claim them to be.

The downside of TIF is very real, however. The incremental taxes diverted back to developers to offset their costs are taxes that would have been used to fund school districts, libraries, counties, and mental health funds. To the degree TIF is used to build housing developments or large retail locations, the taxing jurisdictions who lose funds are the very ones to see increased costs due to the projects themselves.

There are many opportunities to reform TIF by redefining blight to make sure that areas suffering real economic hardships benefit foremost. SB 108 contains reforms that would be a positive change for our state. More reforms are needed, but this proposal is a step in the right direction.

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*Patrick Tuohy is the director of municipal policy at the Show-Me Institute*

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## NOTES

1. <https://showmeinstitute.org/publication/subsidies/urban-neglect-kansas-city%E2%80%99s-misuse-tax-increment-financing>
2. <https://showmeinstitute.org/publication/subsidies/tax-increment-financing-saint-louis>
3. <http://www.bizjournals.com/kansascity/print-edition/2012/07/13/kansas-city-commission-endorses.html>
4. [https://nextstl.com/wp-content/uploads/St.-Louis-City-Economic-Incentives-Report\\_FINAL-May-2016-1.pdf](https://nextstl.com/wp-content/uploads/St.-Louis-City-Economic-Incentives-Report_FINAL-May-2016-1.pdf)
5. <https://showmeinstitute.org/publication/subsidies/does-tax-increment-financing-pass-test-missouri>
6. [https://research.upjohn.org/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1307&context=up\\_workingpapers](https://research.upjohn.org/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1307&context=up_workingpapers)



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