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TESTIMONY

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THE USE OF TAX INCREMENT FINANCING IN THE CITY OF SAINT LOUIS

By David Stokes

Testimony Before the Tax Increment Financing Commission of the City of Saint Louis

To the Honorable Members of the Commission:

Thank you for the opportunity to testify today. My name is David Stokes and I am a policy analyst 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 that the Show-Me Institute has reviewed and conducted regarding Tax Increment Financing (TIF).

A major new project proposed for the Central West End will include many new residential options and a new grocery store. According to the St. Louis Post-Dispatch, the developer is asking for \$10 million in public assistance. Saint Louis crossed the rubicon of authorizing TIF far too frequently many years ago. (There are currently 124 TIFs within the city.¹) But this is an excellent opportunity to reconsider that approach. There is nothing about this project that should involve public assistance. The project is proposed

for an enviable location in a wealthy part of an economically vibrant area. The idea that a new development at the corner of Euclid and West Pine needs public subsidy is preposterous. Redevelopment can go forward in this area without subsidies. The fact that many new developments have a subsidy is a testament to the ease of getting them, not the necessity of them.

In theory, establishing a TIF district involves serious and impartial deliberation and calculus. A city intends to revitalize a part of its community, but first it must go through a complicated process designed to test whether certain tax incentives are allowed. The city contracts with urban planners who independently determine if the proposal could happen “but for” the taxpayer assistance, and also if the area meets the standards for a designation of “blight” (or another appropriate designation), making it eligible for subsidies. A developer is then brought into the process and, with the assistance of the government and the taxpayers, produces an economic growth engine that provides jobs, a revitalized community, and (eventually)

an expanded tax base.

In reality, the process is a bad joke. The “but for,” “blighting,” and other tests that are supposed to be subject to independent analysis are a rigged game. How else to explain why I cannot find one project in the state of Missouri that failed these tests and urban planners found to be inappropriate for taxpayer assistance? Not one. The lawyers and planners who work arm-in-arm with the cities are all paid back by taxpayer dollars, shielding the process from hard decisions and risk. Everyone involved in the process (planners, architects, lawyers, and developers) makes money if the project goes forward. Who among them is going to be foolish enough to jeopardize the entire deal by saying it — or something close to it — would likely happen even without the taxpayer assistance?

In this particular case, one of the major reasons listed for the blight designation is the decrease of the property’s assessed valuation in recent years. Of course, the owners of the property — the ones seeking the blight designation and TIF — are the same people who tore down the prior building on the lot and caused the decrease in assessed valuation. You are about to give tax dollars to pay for someone to fill up a ditch that they chose to dig in the first place.

Tax Increment Financing has had the following effects on the Saint Louis region:

- 1) It has increased government management of the economy, further empowering planners and bureaucrats to decide where businesses locate instead of economic best practices and market factors.
- 2) It has sparked 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 (EWGCOG) concluded that TIFs and Transportation Development Districts (TDDs) have created jobs in our community at the rate of one retail job for every \$370,000 in taxpayer subsidies.² 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 immediate city at the expense of everyone else. In this TIF decision, the city of Saint Louis is making tax choices that will negatively impact entities such as the community college and zoo-museum districts, which serve everyone in Saint Louis City and County.

The East-West Gateway study is not the only study that found that TIF fails at job creation and economic development. 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 in Illinois found that economic growth was stronger in cities that did NOT use TIF than in cities that did. From the study (emphasis added):⁴

“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.”

The only thing TIF succeeds at doing is imposing new costs on other taxing districts

Recently, both Crestwood and Florissant have rejected TIF proposals in their cities. Yet, in Florissant at least, the project is going forward without a TIF.

without allowing them to grow their tax base to pay for those costs. Cities aggressively seek TIF because cities are the only entities with the incentives to maximize their use, even while harming other taxing districts. Cities can easily recover any lost, or, more accurately, forgone property taxes via the substantial sales or earnings taxes that a new development garners. The local school, fire, library, museum, or other types of taxing districts depend (in most cases) entirely on property taxes and cannot replace the lost revenue.⁵ And, because any new development will increase service requirements to at least some of those entities, expenses for these entities will increase and create pressure to raise taxes on those people and businesses not covered by the TIF. The current Mills Property proposal has a substantial residential component. How will taxing districts that depend entirely on property taxes serve those residents when their tax base is frozen?

As the East-West Gateway Council of Governments has documented, TIF has failed the Saint Louis region. It has harmed our economy and other taxing districts without achieving any of its ostensible goals. Despite enormous use of TIF over the past few decades, the population of Saint Louis is still shrinking and the economy is not growing as fast as comparable cities.⁶ It is time for the city to remove itself from its purported role in economic development and allow markets, entrepreneurs, and customers to make those choices. Recently, both Crestwood and Florissant have rejected TIF proposals in their cities. Yet, in Florissant at least, the project is going forward without a TIF.⁷ The City of Saint Louis should strongly consider joining that club.

At a minimum, the city should greatly improve the transparency and public openness of the TIF process. It is incomprehensible that in 2012 the relevant TIF documents are not posted online for the public to review and study. It is beyond incomprehensible that copies of those documents also are not available for people to take home.⁸ The technology to do this is so cheap and simple that the lack of public availability of these documents could be viewed as a deliberate attempt to impede public involvement in these decisions. That has to change.

NOTES

¹ Information from East-West Gateway Council of Governments data files from 2007-11. View online here: <http://www.ewgateway.org/dirr/datafiles/2012update.xls>.

² East-West Gateway Council of Governments, "An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region," Final Report, January 2011: 18.

³ Swenson, David, and Liesl Easthington. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" Department of Economics, Iowa State University, April 2002: 11.

⁴ Dye, Richard, and David Merriman. "The Effects of Tax Increment Financing on Economic Development." *Journal of Urban Economics*, Volume 47, Issue 2, March 2000: 306-328.

⁵ The author is aware that the city school district is one of the only such districts in the state authorized to impose an education sales tax.

⁶ Research compiled by the Brookings Institute. View online here: <http://www.brookings.edu/research/interactives/metromonitor#overall>

⁷ Developers are still seeking a smaller subsidy in the form of a TDD from the court.

⁸ The author of this testimony was only allowed to review the relevant TIF project documents under supervision by a city employee at the offices of the TIF Commission.

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