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TESTIMONY

August 12, 2026

THE MIDTOWN TAX INCREMENT FINANCING PROPOSAL

By David Stokes

Testimony Before the City of Saint Louis Tax Increment Financing Commission

TO THE HONORABLE MEMBERS OF THIS COMMISSION

Thank you for the opportunity to testify today. My name is David Stokes, 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 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) and its application as part of the Midtown TIF proposal being considered today.

This proposal would authorize a $39 million TIF district in the Midtown area of the City of St. Louis. The forces behind the TIF proposal include the midtown area's commercial and artistic associations. The backers are claiming that because the redirected taxes will go toward "public" items such as infrastructure improvements for sidewalks, crosswalks, and streets, this is a responsible use of TIF. They are wrong.

This proposal is an excellent opportunity for this commission to reconsider the constant subsidy approach. The tax subsidy is proposed for a desirable location in a central part of an economically vibrant area containing many popular theatres and a major university. Redevelopment and growth can go forward in this area without taxpayer subsidies.

THE TIF PROCESS

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 eligibility standards for a designation of "blight" or another appropriate designation. 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 falls far short of reasonable standards for policy debate. The "but for," "blighting," and other tests that are supposed to be subject to independent analysis have become a biased process. How else to explain why I cannot find one project in the St. Louis region that failed these tests and that urban planners found to be undeserving of taxpayer assistance? Taxpayer dollars pay back the lawyers and planners who work arm-in-arm with the cities, 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 jeopardize the entire deal by saying the development would likely happen even without taxpayer assistance?

THE MIDTOWN TIF PROPOSAL

If the TIF commission approves it, up to $39 million in future increases in property, sales, and earnings taxes within the boundaries of the Midtown TIF district will be redirected away from City Hall. The funds will be given to the TIF district itself to privately allocate towards the projects that it chooses. The St. Louis School District, the city itself, and other taxing districts will still collect what they do now, plus a portion of increased taxes over the next 23 years. But most of the increased revenues will go toward projects chosen by the leadership of the TIF district.

Before you agree that this sounds fair, please do a mental exercise with me. What if the residents of the wealthiest neighborhoods in St. Louis city, let's say the area roughly surrounded by Lindell, Skinker, the Forest Park Parkway/Waterman, and Kingshighway, put together their own TIF district. Those residents could make the same argument. The city and the other taxing districts can keep what they get now, we just want the increased revenues for the next two decades to come under our control, not the control of the various elected boards and officials. We promise to spend it on better sidewalks, private security, public art along Lindell, and more. It's only fair that we get to keep the increased revenue for our own community. Who are you to oppose this request?

I would hope that you would look at a request by the owners of the beautiful mansions along Lindell to keep their own taxes for their own, preferred purposes to be a ridiculous proposal. We pay taxes (at least we should) for public purposes and in a manner determined by elected officials who are responsible to voters. The request by the backers of the Midtown TIF proposal—including the Kranzberg Arts Foundation, Grand Center Inc., and the Locust Central Business District—is every bit as absurd as the theoretical example I gave for Lindell Boulevard.

THE EFFECTS OF TIF IN SAINT LOUIS

TIF has had the following effects on the Saint Louis region:

1. It has increased government management of the economy, further empowering planners and bureaucrats instead of economic best practices and market factors to decide where businesses locate.
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. This issue is particularly evident in the Midtown TIF proposal.
4. It has transferred the cost and the risk of profit-making enterprises from private organizations and their 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 TIF 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.[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 immediate city at the expense of everyone else. In this TIF decision, the City of Saint Louis is making tax choices that will negatively affect entities such as the community college and zoo-museum districts, which serve everyone in the City of Saint Louis and St. Louis County.

ECONOMIC RESEARCH

The EWGCOG study is not the only one to find that TIF fails at job creation and economic development. A study conducted for the Show-Me Institute on the use of TIF in Missouri found no evidence that TIF systematically promoted economic growth in St. Louis or Kansas City.[2] Another 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):

> 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]

More generally, economists Alan Peters and Peter Fisher studied all tax incentives closely and concluded that they work about ten percent of the time and are simply a waste of money the other 90 percent.[5] Considering that the Midtown TIF proposal is not even attempting to grow the overall economy with this plan, we can be confident it will *not* be in that ten percent.

The one thing TIF succeeds at is imposing new costs on other taxing districts 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 when they harm other taxing districts. Cities can easily recover any lost (or, more accurately, forgone) property taxes through the substantial sales or earnings taxes that a new development garners.

Other types of taxing districts, like school, community college, fire, library, or museum districts, depend (in most cases) entirely on property taxes and cannot replace the lost revenue.[6] 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 TIF or other tax subsidies.

The research also strongly suggests that local earnings taxes are more harmful than local property taxes to economic growth. By hollowing out the property tax base—presumably in order to keep the earnings taxes of companies that request subsidies—the city is moving in the wrong direction.

CONCLUSION

As the EWGCOG and various academic researchers have documented, TIF is a failed policy that has harmed the Saint Louis region. It has hurt our economy and other taxing districts without achieving any of its stated goals. Despite widespread 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 those of comparable metropolitan areas.[7] It is time for the city to remove itself from its purported role in economic development and allow markets, entrepreneurs, and customers to take over.

Investments in the infrastructure serving the theatres and restaurants along Grand may well be necessary and beneficial. More police in North St. Louis may also be a good investment. A new firehouse in South St. Louis may be a good investment. We elect people to make these decisions and be accountable to voters for the outcomes. Turning the entire process over to a private group is not the proper direction for government in the City of St. Louis. Furthermore, if the Midtown area is allowed to keep its future taxes for its own use as directed by local appointees, what would prevent every other neighborhood in St. Louis from requesting the exact same thing?

NOTES

1. 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. View online here: http://www.ewgateway.org/dirr/datafiles/2012update.xls.
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 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. Peters, Alan, and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association," Vol. 70, No. 1, Winter 2004.
6. The author is aware that not every one of these districts applies in the City of Saint Louis.
7. Research compiled by the Brookings Institute. View online here: http://www.brookings.edu/research/interactives/metromonitor#overall.

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