TESTIMONY

April 9, 2013

TAX INCREMENT FINANCING REFORM

By David Stokes

Testimony Before the Missouri House of Representatives Economic Development Committee regarding HB 914

Missouri needs TIF reform. House Bill 914 is an important step in that direction.

To the Honorable Members of This Committee:

Ladies and gentlemen, 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).

Missouri needs TIF reform. House Bill 914 is an important step in that direction. The combination of a very large number of local governments and the inclusion of sales taxation in Missouri TIF law has been a dangerous mixture. By one measure, Missouri local governments use TIF more than all but two other states.[1] Missouri's many cities have readily engaged TIF in order to increase the sales taxes they collect, while leaving other taxing districts, such as school districts — who depend more on property taxation — holding the empty bag. Originally intended (perhaps farcically) as a treatment for "blight," TIF has been aggressively used throughout Missouri's wealthier areas. The constant quest by cities to give away more tax incentives in exchange for new sales tax dollars has had a dramatic impact on Missouri.

Tax Increment Financing in Missouri has had the following effects:

1. It has increased government management of the economy, further empowering planners and bureaucrats to decide where businesses locate instead of economic best practices.
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.

David Stokes is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.

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."

5. It has failed at its main purpose: economic growth. In Saint Louis, the East-West Gateway Council of Governments (EWGCOG) concluded that TIFs and TDDs have created jobs 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 incentivized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else.

The East-West Gateway study is not the only study that has 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 from Illinois found that economic growth was stronger in cities that did NOT use TIF than in cities that did use TIF. From the study[4] (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.**

House Bill 914 intends to limit the size of any one project incentive in Missouri to $3 million, and the total incentives any one company receives to $15 million. These are very reasonable changes to make. This bill would still allow TIF to be implemented in truly blighted areas which may need assistance. It would still allow TIF to be implemented in areas where the public investment, such as new public infrastructure, perhaps justifies the TIF. It would, in fact, not eliminate any one project. However, it would place much-needed caps on the constant expansion of TIF in our state, and that would greatly benefit Missouri.

More TIF reforms are needed, including establishing county-level TIF commissions, greater use of sales tax pooling, and removing the municipal TIF override authority. Furthermore, while on its face, the wording of the bill appears simple and clear, I am concerned that creative lawyers will come up with ways around the limitations that appear to be established. In this regard, I suggest that the definition of "anchor tenant" be clarified to include all related parties or affiliates of the anchor tenant and that the bill makes clear that the square footage limitation is based only on the building space and does not include property outside such space. I hope and trust that the other wording of this bill has been carefully considered to prevent, as much as possible, clever ways around its very worthy aims. If not, I hope this committee can tighten the language to ensure that the excellent goals of this bill do not become the latest Maginot Line of TIF reform.

Those concerns aside, this bill is good legislation that will benefit Missourians. It is time for Missouri to reduce government's purported role in economic development and allow markets, entrepreneurs, and customers to make those choices. This bill helps to do that. HB 914 contains necessary reforms and would be a positive change for our state.

NOTES

[1] That measure is TIF bond sales by state, 2005 to 2010. Reported by O'Toole, Randal. "Crony Capitalism and Social Engineering: The Case Against TIF." Cato Institute Policy Study No. 676, May 2011, page 12.

[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, page 18.

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

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

It is time for Missouri to reduce government's purported role in economic development and allow markets, entrepreneurs, and customers to make those choices.

SHOW-ME INSTITUTE
WHERE LIBERTY COMES FIRST

4512 West Pine Blvd. I Saint Louis, MO 63108 I 314-454-0647 I www.showmeinstitute.org