



TESTIMONY

September 21, 2021

PARAGON STAR DEVELOPMENT

By David Stokes

**Testimony Before the Lee's Summit City Council at the Public Hearing for the
Paragon Star Neighborhood Improvement District**

TO THE HONORABLE MEMBERS OF THE COUNCIL:

My name is David Stokes. I am the Director of Municipal Policy at the Show-Me Institute. The Show-Me Institute is a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented herein are my own and summarize research regarding the use of local tax incentives, tax subsidies, and special taxing districts in Missouri.

Missouri has seen an explosion of new special taxing districts (SDs) during the past decade. These districts are primarily used as vehicles to focus public tax dollars toward private purposes. They include the use of tax-increment financing (TIF), Chapter 100 bonds, transportation development districts (TDDs), neighborhood improvement districts

(NIDs), community improvement districts (CIDs), and others. Lee's Summit has made extensive use of these tax subsidies and incentives in recent years, and the Paragon Star development up for discussion tonight includes a TIF, a CID, and, if passed by this council, a NID.

The Missouri state auditor's office and other local oversight agencies have routinely flagged SDs for many troubling practices.¹ These issues include failure to use competitive bidding, board member conflicts of interest, failure to perform or provide necessary financial reports, not notifying shoppers of the added taxes as required by law, and improperly collecting sales taxes from businesses outside of the districts.² State auditors of both parties have called for much greater oversight and transparency, along with other limits on SDs.³

The Kansas City auditor's office also recently released an audit

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documenting many of these same problems with CIDs within Kansas City.⁴ One major problem the Kansas City auditor focused on was the issue of layering tax subsidies alongside CIDs. Thirty-six CIDs in Kansas City operate in combination with other tax subsidies, especially TIFs and TDDs. In fact, six CIDs function in combination with three or more other tax subsidy programs.⁵ In Waldo, for example, multiple CIDs are layered on top of one another, creating high taxes for shoppers that benefit business owners, not the general public.

Economic subsidies are not Christmas presents to be gifted one after the other. If a development cannot succeed without multiple subsidy programs, it is not the job of the taxpayers to ensure it goes forward anyway.

ECONOMIC RESEARCH

In study after study, in Missouri and across the country, researchers find that TIF fails to deliver on its promises.

First, multiple studies in Missouri and elsewhere have concluded that TIF does not increase investment or create jobs. In fact, the very corporation that oversees TIF in St. Louis commissioned a study in 2016 that found:

Development incentives have little or no positive economic development benefits. The \$709 million St. Louis has spent on TIF and tax abatements over the past 15 years have not created jobs, revitalized neighborhoods, or increased long-term tax revenues.⁶

Rather than TIF and tax abatements being used in economically depressed areas, they are used mostly in neighborhoods with strong housing markets.

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.”⁷

Prior to that study, in 2011 the East–West Gateway Council of Governments concluded that TIFs and TDDs have increased the job base in Saint Louis at the

abysmal rate of one retail job for every \$370,000 of taxpayer subsidies.⁸ Subsequent studies by the Brookings Institution,⁹ the Upjohn Institute for Employment Research,¹⁰ the University of North Carolina–Chapel Hill,¹¹ and a study published by the Show-Me Institute study of TIF in Missouri¹² have demonstrated time and again that TIF does not spur investment or create jobs. This is just a sampling of the numerous studies that find economic development incentives fail at growing a local or state economy.

TAXATION WITHOUT REPRESENTATION

One of the major problems with SDs is that they may be created and impose taxes without a vote of the people. As you know, many SDs may be formed simply by commercial landowners and developers. Many CIDs in Kansas City—43 out of 74 to be precise¹³—consist of nothing more than one parcel of property and have sales taxes imposed on the public for the private benefit of that one property owner. That is not sound public policy. These private benefits for uses such as parking lots or landscaping for retail developments are paid for by tax dollars rather than private investment, and the benefits accrue almost entirely to the private party. In short, STD laws allow a single landowner or developer to completely control all aspects of TDDs and CIDs.¹⁴

NIDs (one of which is being considered tonight) often get less attention than other tax incentive programs. NIDs are very similar to CIDs and TDDs, but they are not legally separate entities from the cities in which they operate. Also, NIDs typically generate revenue through special tax assessments instead of standard property taxes, which is a minor difference. Whatever their similarities or differences with other SDs, NIDs have a history of abuse and failure in Missouri. In Greene County, outside of Springfield, multiple NID project failures led to tax liens, court fights, and property ownership disputes. According to reports, “The developments gone sour have left a bad taste in [Greene] county’s mouth, according to Smith, who said officials are not seeking any NID deals in the foreseeable future.”¹⁵

OVERUSE OF SUBSIDIES AND INCENTIVES

According to the Lee's Summit city website, the city currently has 10 TIF agreements, eight TDDs, and six CIDs.¹⁶ The city has also used NIDs, although how many are in use at this time is not clear. The city's use of other subsidies such as Chapter 100 or Chapter 353 bonds is also unclear. What is clear, though, is that Lee's Summit is making extensive use of tax subsidies and special taxing districts. (I am aware that some of the SDs have been established by the courts, and not technically by the city.) Why developers in Lee's Summit should get special deals and taxpayers should be subjected to surreptitious special taxes rarely approved by voters is beyond me. Furthermore, it is even more clear that this strategy of tax subsidies, incentives, etc. does not lead to real economic growth. As Fisher and Peters wrote¹⁷:

[G]iven a typical incentive package that represents about a 30 percent cut in state and local taxes, the new "consensus" elasticity implies that only about 1 in 10 new jobs in the average community will actually be attributable to the incentives, even if incentives are provided for all new jobs. Thus, the best case is that incentives work about 10 percent of the time and are simply a waste of money the other 90 percent.

In their experience, it is not unusual for public officials to attribute all new employment to incentive programs.

At a minimum, incentive programs increase private profits by putting improper tax subsidies into projects that were likely going to happen anyway (despite what the developers may say when chasing the subsidies) and by allowing new, special taxes to fund things that until recently were funded by private businesses (e.g., parking lots). At worst, incentive programs involve local government in economic central planning, cronyism, and corporate welfare. These things do not benefit the citizens of any community, including prosperous ones such as Lee's Summit.

I encourage this council to reconsider the use of the NID for this project. With the original TIF; a revised, larger TIF; a CID; and more all already being established to subsidize the very complicated Paragon Star plan,

the addition of the NID may seem to be a foregone conclusion. However, I hope that the information about the economic failures and consistent management problems that routinely accompany the overuse of tax incentives, tax subsidies, and special taxing districts will convince you to rethink the use of such subsidies in Lee's Summit.

Thank you for the opportunity to address this council.

NOTES

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4. Kansas City Auditor, Performance Audit of Community Improvement Districts, April 2021.
5. Ibid., page 5.
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8. East-West Gateway Council of Governments, "An Assessment of the Effectiveness and Fiscal Impacts of the Use of Development Incentives in the St. Louis Region," January 2011, <http://www.ewgateway.org/wp-content/uploads/2017/08/TIFFinalRpt.pdf>
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13. Kansas City Auditor, Performance Audit of Community Improvement Districts, April 2021, page 5.
14. Renz, Graham and Tuohey, Patrick, “Overgrown and Noxious: The Abuse of Special Taxing Districts in Missouri”, Show-Me Institute Report, June 2019, <https://showmeinstitute.org/wp-content/uploads/2019/06/20190401%20-%20Abuse%20of%20Special%20Taxing%20Districts%20-%20Tuohey-Renz>.
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16. City of Lee’s Summit website, <https://cityofls.net/finance-budget-taxes>
17. Peters, A., and Fisher, P., “The Failures of Economic Development Incentives,” Journal of the American Planning Association, Winter 2004, Vol. 70, No. 1, page 32.



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