An Assessment of the Effectiveness and Fiscal Impacts of the Use of Local Development Incentives in the St. Louis Region

Interim Report

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Creating Solutions Across Jurisdictional Boundaries

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Executive Summary

Local governments in the St. Louis region have made extensive use of public financial incentives to compete for tax-generating businesses. In some areas, most new development is, in effect, publicly subsidized through foregone taxes in the form of abatements, tax increment financing, and related mechanisms. In addition, the creation of new taxing districts such as transportation development districts, special business districts and others has imposed new taxes to pay for private development. While the short-term effects of these incentives are usually positive for the local government or private sponsor, the overall impact on regional growth and the financial viability of local governments is less clear.

In response to concerns about the long-term effects on the economic health of the region and the fiscal well being of local governments, the East-West Gateway Board of Directors (made up of the region's local elected officials) took the following action:

> *…authorize the staff to undertake a study of the effectiveness of local development incentives to help determine potential actions by the Board. The study should include an inventory of the amount of previous incentives granted by local government and the resulting economic activity from the projects financed through incentives. The study should also determine the effect of local development incentives on the ability of local governments to finance essential public services and the degree to which the extensive use of incentives contributes to economic and racial disparities in the region.*

A full inventory and assessment of local development incentives is a massive effort, made much more difficult by lack of essential data, unreliability of self-reported information, and the general lack of transparency and accountability in the use of these incentives. Differing record-keeping and reporting practices in Missouri and Illinois also complicates the work. Nevertheless, sufficient data exist to support reasonably reliable conclusions about the essential elements of the Board's request.

This report documents a work in progress. The overall study consists of several elements:

- A complete inventory of the use of development incentives
- An accounting of local and regional economic effects of incentives
- An assessment of the state of local government finances and the effects of incentives
- Interviews with experts and stakeholders to solicit policy recommendations
- Conclusions and legislative recommendations

This report documents the use of more than $2 billion of public incentives for private development region wide during the last 15 years. This sum primarily reflects only two types of incentives: tax increment financing and special taxing districts (transportation development districts in Missouri and business development districts in Illinois). Data to quantify other forms of local tax abatements is not complete or reliable enough to include in this interim report, but those abatements could easily double the total of public incentives described above. Similarly, this report does not include the value of state tax incentives, which are also substantial. As the

research continues, the value of these additional local and state incentives will be quantified.

The report also contains a preliminary analysis of the economic impact of development incentives. Direct measurement of those impacts is limited by poor data, so the report describes some broad measures of regional economic growth related to incentives and the state of local government finances.

Based on the work done to-date, we have reached five basic conclusions:

1. There has been massive public investment in private development in the last 15 years across the St. Louis region; about 80% of that investment includes retail development. Conservatively, there has been over $2.5 billion in public money committed in two programs alone: tax increment financing and various, but quite similar, forms of development districts. When other local tax abatements are included the total may double.

2. Across all incentive programs, the provisions for uniform reporting of revenues, expenditures, and outcomes (jobs, personal income, increases in assessed value, etc.) are remarkably weak, particularly considering the involvement of public funds. Even where some reporting requirements exist, there is no meaningful penalty for failure to report, and the state agencies that have the responsibility for maintaining reports have inadequate resources to discharge those responsibilities. Further, there is no mechanism to require a private project sponsor to deliver economic outcomes, or to allow the taxpayers to recoup the value of local tax incentives if those outcomes don't happen (sometimes known as "clawback" requirements). Those accountability provisions apply to certain state subsidies like the Missouri Quality Jobs Act, but are absent for local incentives.

3. There should be a complete database of public expenditures and outcomes for all publicly supported development projects. Because of the lack of widely available information, elected officials and the public cannot possibly make reasoned decisions about the expenditure of tax dollars to produce economic growth. Without that information, it is not possible to know whether local governments are getting value for those expenditures, and because there is no accountability for outcomes, the public can not recover those expenditures in the event that outcomes are not achieved.

4. Broad measures of regional economic outcomes strongly suggest that massive tax expenditures to promote development have not resulted in real growth. While there are certainly short-term localized benefits in the use of incentives, regional effects are more elusive. Development incentives have primarily acted to redistribute spending and taxes. While distribution effects might yield broader economic benefits when used to redevelop economically distressed communities, when incentives are used in healthy and prosperous communities the regional effect may be to destabilize the fiscal health of neighboring areas. This conclusion particularly applies to retail development. While there is ample justification for tax expenditures on retail development in underserved areas, overall there seems little economic basis to support public expenditures for private retail development. Despite massive public investment, the number of retail jobs has

increased only slightly and, in real dollars, retail sales or per capita spending have not increased in years.

5. Focusing development incentives on expanding retail sales is a losing economic development strategy for the region. The future of sales taxes as a principal source of revenue for local governments should come into question for several reasons: its inherent volatility; the likelihood of a long-term restructuring of retail trade; increasing level of sales taxes discourages spending and local sales in favor of non-taxed internet sales; and, the motivation this tax source provides to focus scarce tax dollars on incentivizing a type of development that appears to yield very limited regional economic benefit. As local governments come under increasing fiscal stress, the impacts of billions of dollars in foregone revenue will become increasingly apparent.

I. Introduction

Local governments in the St. Louis region have made extensive use of public financial incentives to compete for tax-generating businesses. While the short-term effects of these incentives are usually positive for the local government or private sponsor, the overall impact on regional growth and the financial viability of local governments is less clear. As the fiscal position of local governments continues to erode, budgets are cut and services are reduced, potentially making the area less attractive for growth. These conditions are leading the Board of Directors of the East-West Gateway Council of Governments (made up of the region's local elected officials) to rethink the wisdom of the principal local economic development strategy – offering tax incentive and abatements to the private sector to pay for "public" improvements relating to private development.

In January 2008, meeting as a committee on the whole on regional tax reform, the Board voted to:

> *…authorize the staff to undertake a study of the effectiveness of local development incentives to help determine potential actions by the Board. The study should include an inventory of the amount of previous incentives granted by local government and the resulting economic activity from the projects financed through incentives. The study should also determine the effect of local development incentives on the ability of local governments to finance essential public services and the degree to which the extensive use of incentives contributes to economic and racial disparities in the region.*

The research project authorized by the Board addresses three principal questions:

1. How much has the region "spent" on development incentives?
2. What effect has the use of incentives had on local governments' ability to finance essential public services?
3. Has there been a distributional effect with regard to race and income?

To assist in developing the methodology for this research, the staff called on the expertise of Metropolitan Research Exchange[1] members to help develop an understanding of local development incentives used in the bi-state area and how best to quantify and document those incentives. EWG staff also consulted individually with a range of experts, including over 90 municipal officials, academics, leaders from regional organizations, developers and development consultants, to gain an understanding of how the use of incentives affects the various stakeholders.

The first nine months of the research has focused on two tasks that are ongoing - assembling an inventory of development incentives and building a database of municipal finances that includes

[1] The St. Louis Metropolitan Research Exchange is a group of scholars from local universities who specialize in urban research.

key revenue and expenditure information from each of the 195 municipalities in the eight county EWG region.[2] This report focuses on the inventory of spending on local development incentives and the economic activity resulting from projects using incentives. The final report will include more analysis of the effects of development incentives on municipal finance.

Throughout this report data may be described as "partial" or "preliminary." The inventory of development incentives and documentation of municipal finances has been made far more difficult by the lack of complete and reliable central sources for these data. (Appendix A lists data sources used for this report.) While there are legislative requirements for reporting of information, the reporting is sometimes absent and is often inconsistent. In most cases, there is no meaningful penalty for failure to report data, so that accurate reporting of financial data often depends on the sophistication and good will of the reporting entity. Moreover, the specific information requested varies by incentive type. Despite the incomplete nature of data reported herein, there are some clear trends that lead to some reasonably strong conclusions that are reported in the final chapter.

The preliminary inventory of development incentives EWG has built combines data from the Missouri Department of Economic Development, the Missouri and Illinois departments of revenues, the Illinois Department of Community and Economic Opportunity, the Missouri State Auditor's Office, the Illinois Office of the Comptroller, county property records, and municipal financial reports. Where data are incomplete, the report makes conservative estimates. In some cases (for example, property tax abatements) the data collected is so incomplete that they are not included in this interim report. Similarly, compilation of consistent, comparable local government financial records is challenging, and strong conclusions about the impact of development incentives on the ability of local governments to finance essential public services is not yet possible, except on an anecdotal basis.

This report begins with a description of the programs covered in this document, including a discussion of how data were collected. It continues with an overview of how much has been "spent" or "committed" on TIF and on special taxing districts in Missouri and Illinois, including a discussion of transparency issues across all incentive types.

Next, the report addresses evidence about economic impacts of development incentives. Because of inadequate reporting, and the lack of sufficient time to develop appropriate analytical methods (which will be done as part of the final report on this project) it is not possible at this time to directly measure the economic impact of specific projects. Yet, the report includes some strong evidence, drawn from regional economic trends, which allows reasonable conclusions about regional economic outcomes of the local investment in development incentives.

The report concludes with a discussion of some key policy issues that are raised by the research in-progress. Given some of the more obvious conclusions, like the wholly inadequate reporting of public expenditures and use of tax monies (both current and future), recommendations are made concerning possible immediate legislative initiatives related to local development incentives.

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[2] Collection of data on municipal finance has been challenging. A description of the effort, which is ongoing, is contained in Appendix C.

II. Description of Local Development Incentives

What follows is a general description of the principal local development incentives that are the subject of this report. Each incentive program is described as well as the sources of information used to quantify the amount spent for each incentive and the reliability of those data. While described separately, these tools are not mutually exclusive; in fact, projects often use multiple state and local incentives. More comprehensive definitions and statutory citations for each are contained in Appendix B.

A. Tax Increment Financing

Tax Increment Financing (TIF) is an economic development tool that uses future increases in taxes to finance current improvements. When redevelopment or new construction occurs within a TIF district, property values and tax assessments go up, resulting in increased property taxes. During the development period, the property tax base is frozen at the predevelopment level. Property taxes continue to be paid, and continue to go to local taxing districts – schools, municipalities, counties, etc., but taxes derived from increases in assessed values (the tax increment) go into a special allocation fund, either to pay off the debt on the project, or to finance future improvements.[3] In Missouri, 50% of the increase in sales, utility and income tax may also be directed to the special allocation fund.

In an effort to create an inventory of TIF districts in the St. Louis Region, EWG staff used many sources including state, county and municipal reports as well as conversations with individuals. Each source has its limitations in terms of coverage, detail and completeness.

Missouri TIF Data and Sources

Data were first collected from a database of annual reports filed with the Missouri Department of Economic Development (DED) from 1999 to 2007. DED estimates that 80 percent of municipalities comply with this reporting requirement statewide but it appears the reporting rate may be lower for municipalities in the St. Louis region. For those municipalities that do report, there are varying degrees of completeness and accuracy. Some municipalities filed reports one year but not the following year – EWG recorded data from the reports received most recently.[4]

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[3] This report uses the terms "directed", "diverted" and "foregone" revenue when taxes are paid into a special allocation fund that is used to reimburse development costs or pay off debt rather than going to taxing districts. Some will argue that the revenue is entirely new (and extra) because the development would not have occurred if not for the use of the incentive. Since it is new/extra it is not a diversion, the argument goes. However, as the analysis described later in this document shows, there is little evidence that the use of incentives creates more economic activity or more tax revenue. Hence, when taxes are redirected to a private purpose they are "diverted" or "foregone".

[4] Reports were due to DED on November 15, 2008 but the most recent report received by EWG for most districts were from the previous year (2007). 2008 reports were obtained from DED for six districts. For the final report EWG will include data from additional 2008 reports if available.

Information in the DED reports includes the amount of "Payments in Lieu of Taxes" (PILOTs)[5] and "Economic Activity Taxes" (EATs)[6] diverted to-date, estimated number of jobs created and retained (promised and actual), and total amount of anticipated TIF reimbursable costs and anticipated total project costs. Unfortunately, these reports are often incomplete or not filed and, as there is no penalty for poor reporting or non-reporting, there is little remedy available to DED.

To supplement the DED database, EWG identified other potential sources for TIF data. County property tax records are a reliable source for PILOTs and the change in the assessed value of TIF properties. Data on properties included in TIF districts were obtained from two counties, St. Charles and St. Louis. When the amount of PILOTs reported by the counties differed from that reported in the DED database, the county numbers were used. The assessors were able to provide annual reports dating back to the beginning of the TIF districts through 2007 (for St. Charles County) and 2008 (for St. Louis County). Data were also obtained from the St. Louis City Comptroller on the special allocation funds for TIF districts since their inception through 2008. The remaining two counties will be contacted to further supplement the database.

The use of the county data resulted in more accurate totals for the amount of PILOTs that have been directed to TIF districts. The use of St. Louis city's funds data provides more up-to-date data on PILOTs and EATs diverted for TIF districts, but there did not appear to be any large discrepancies from what was reported to DED. Based on the work in two counties, St. Charles and St. Louis, it is possible to make some useful observations about the completeness of the DED database by comparing the various data sources. Examples of the sometimes significant discrepancies:

- 147 TIF projects were reported to DED in at least 1 year from 1999 to 2007.
- EWG identified 40[7] additional TIF districts and at least $158 million in tax revenues that have not been reported to the state.
- St. Charles County
  - Two (17%) of the districts with PILOTs of $535,541 were not included in the DED database.
  - Three (25%) districts reported by both DED and the County reported higher PILOT amounts in the DED database with a difference of $2,663,126.
  - The other seven districts (58%) that reported to both reported lower PILOTs amounts in the DED database with a difference of $10,582,028.

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[5] There are two kinds of PILOTs in a TIF project: (1) Payments made in the amount of incremental property taxes that go toward paying off TIF eligible expenses (2) Payments made from a TIF special allocation fund to regular taxing districts in the amount of, or a portion of the amount, that would normally be received from property tax revenues if a property was not in a TIF district.

[6] Economic Activity Taxes are payments made in the amount of incremental sales, gross utility receipts, and income taxes that go toward paying off TIF-eligible expenses.

[7] Thirty-seven were identified through the two counties' assessors, and three additional districts were identified through municipalities.

- St. Louis County
  - 35 (40%) of the districts with PILOTs of $38,210,528 were not included in the DED database.
  - 19 (22%) districts were listed in the DED database with no amount or "0" entered for PILOTs to-date. According to County property tax records, PILOTs in the amount of $50,519,801 have been made to these districts.
  - Three districts reported by both DED and the County reported higher PILOTs amounts in the DED database with a difference of $3,520,421.
  - The other 21 districts (24%) that reported to both reported lower PILOTs amounts in the DED database with a difference of $57,732,358.
  - An additional nine districts were listed in one or both of the databases but no data on PILOTs were provided. Seven of these districts have been deleted from EWG database due to the confirmation that they were dissolved with no tax dollars being diverted or being directed back to the regular taxing districts.

County property tax records only partially fill the data gaps that are apparent in the DED database. Several other sources were examined to determine if a more complete database could be assembled.

Data were obtained directly from a sample of eight municipalities including 16 TIF districts. Comprehensive Annual Financial Reports (CAFRs) were obtained and reviewed for the last 15 years. The reports provided varying levels of detail on the accounting of TIF districts. The amounts of bonds and notes issued for TIF financing are usually referenced in the text or notes portions of the reports and a special allocation fund or TIF district fund is usually accounted for in the special funds portion of the reports.

The two main problems with obtaining data from the municipal financial reports are (1) complete financial reports can be difficult to obtain, and (2) the reports contain differing levels of detail about revenue sources. Although municipalities are required to file financial reports with the State Auditor's Office, many do not comply. Furthermore, some municipal reports do not provide the detail (itemized tax revenue sources, i.e., listing sales, property and utility taxes individually) that is needed to analyze the use of TIF.

Redevelopment plans that are required before a TIF district is approved are another potential source for useful data, although they too are sometimes incomplete. The Missouri TIF Act requires that anticipated TIF reimbursable costs and total costs are to be included in these plans, but they are not always enumerated as required. Some, but not all, plans also estimate the number of jobs that will be created.

Data on EATs (such as sales taxes) and project outcomes are two of the most difficult elements to track. The Missouri Department of Revenue (MO DOR) was contacted regarding sales tax diverted to TIF districts but the agency does not track TIF districts, except for those in St. Louis County.[8] MO DOR collects tax dollars from businesses and distributes them to municipalities who are responsible for diverting them to the correct funds, including the special allocation funds

[8] MO DOR handles sales tax for St. Louis County differently since there is a shared sales tax pool.

for TIF districts. Utility tax data appear to only be recorded at the municipal level as well. Municipalities typically do not attempt to divert utility taxes to TIF due to the difficulty in determining the tax increment.

Other than the DED database, no source has been identified for data that measure the direct economic impact of TIF supported projects. Useful information could include the number of jobs created and retained, the level of salary and benefits for new jobs, the amount of private investment leveraged by the use of TIF as well as any positive or negative secondary effects of the development on the host community, overlying taxing districts or on surrounding communities.

Illinois TIF Data and Sources

The Office of the Comptroller could, in theory, be a principal source of data on Illinois TIF districts. Municipalities are required to file a report annually with the agency on any active TIF districts. These reports are in hard copy only, housed in Chicago.

The compliance rate for reporting to the Comptroller's office was only 58% in 2006. Staff at the Office of the Comptroller explained that many of the reports that are filed are missing information and some municipalities file reports other than the state's standard form – resulting in inconsistent data being reported. Because of the low rate of compliance and the potential inconsistencies the Illinois municipal TIF reports were not obtained for this report

The Illinois Department of Revenue (IL DOR) provides a TIF district table in the annual *Illinois Property Tax Statistics* report. County clerks file a report annually with IL DOR and the agency compiles the information in the publicly available document. The data were available on the agency website from 1999 to 2006 and obtained via email back to 1980. No TIF districts were reported in the three Illinois counties prior to 1986.

The data appear to be reliable based on verification by one county clerk with regard to the amount of public money going to TIF districts. There are two potential limitations of these data. First, IL DOR notes, "in cases where there are multiple (property tax) rates in the TIF district, an average rate was calculated." This could result in a slightly different amount shown as diverted than actually occurred, but the difference should not be significant.

Additionally, like Missouri, taxing districts can work out agreements prior to the TIF district being approved so that an affected taxing district receives "Payments In Lieu of Taxes" or PILOTs. Any surplus funds at the end of the year are also supposed to be disbursed to regular taxing districts. If an agreement to make PILOTs or payment of surplus revenues were made, those amounts would still be included in the diverted taxes amount.

A sample of municipalities was contacted for further data. Some were forthcoming in providing the data while others were less so. Municipalities should be a reliable source of data regarding PILOTs or surplus payments as well as the revenues and expenditures for the TIF districts since they make deposits into the special allocation fund of the TIF district. The redevelopment plans

should also include information on committed dollars, but these plans are often incomplete and do not include this critical piece of information.

The data from IL DOR is the only information included in the database, in part due to potential confusion that would be caused by using multiple data sources. This confusion is caused by lack of uniformity in identifying TIF districts. In Illinois, TIF districts are often referred to only by number, which makes it difficult to match up data sources that refer to the districts by an anchor tenant, by street name or another reference.

B. Special Taxing Districts

Special taxing districts are an increasingly popular incentive, perhaps because of a less complex approval process, because they do not directly affect overlying taxing jurisdictions and because they produce new revenue (at least for the host property owner or developer), rather than diverting existing revenue. Three types of special taxing districts for development/redevelopment have been authorized in Missouri and two in Illinois. This study includes, for Missouri, transportation development districts (TDD), and for Illinois, special service areas (SSA) and business development districts (BDD). There are two other types of special taxing districts in Missouri: special business districts (SBD) and neighborhood improvement districts (NID) that were not included in the study due to the lack of a centralized data source and the belief that the amount collected in these districts is relatively small. Community Improvement Districts (CIDs) were not included because these mainly pay for operating costs (security, trash collection, etc.) rather than function as a private development incentive.

Missouri Transportation Development Districts (TDD)

A TDD raises funds through additional sales tax, property tax or special assessment. It may also impose a toll or fee for use of the new project within the district. The funds are then used to pay for transportation-related improvements (parking lots, highway interchanges, signalized intersections, etc.).[9] The typical practice is for a district to issue bonds backed by the anticipated stream of future revenue. Although legislation first authorized the use of TDDs in 1990, no districts were created until 1997, when the statute was revised to allow real property owners to create a district if there were no registered voters residing in the district.

TDD Data and Sources

Data on TDDs were obtained from the Missouri State Auditor's Office (SAO) annual reports on the districts. The SAO reports that 77% of districts adhere to the required reporting. The Auditor's reports provide some overall data on all districts, including the total project costs, the total anticipated revenues, the estimated life of the TDD and whether or not a TDD is within a TIF district. The annual reports also provide summaries of audits of a sampling of TDDs throughout the state.

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[9] Authorizing legislation describes a variety of permissible projects. (See Appendix B for citation.)

The districts have the same reporting requirement as other political subdivisions – to file an annual financial report with the Auditor's office. These hard copy documents, retained at the Auditor's Office, may be referenced for more detailed information on the districts, but the same reporting problems that affect all such tax incentives are relevant – no reporting for some, and incomplete reporting for others.

Although most TDDs collect a sales tax, MO DOR does not have any records of TDDs.[10] The authorizing legislation calls for the sales tax to be collected by businesses and submitted to the manager of the TDD directly. The manager of the TDD is either the municipality or a private firm (the more common practice). If managed by a private firm the sales tax never passes through a government agency. The firm Development Dynamics manages the finances for many of the TDDs and much of the data regarding TDDs is on the firm's website.

Because businesses pay the TDD tax proceeds to a different agency than the other sales taxes they collect, businesses sometimes do not even recognize that they are in a TDD. The collecting agency has to contact businesses in order to collect the tax (whether or not the business actually collected the additional sales tax from customers). In 2008 legislation was passed requiring businesses in a TDD to post a notice of the additional sales tax imposed by the TDD near the cash register. Compliance with this legislation is not universal.

It has not yet been determined how useful county property tax records will be for data on TDDs. The districts appear to be financed mainly by sales taxes. Based on the experience with the other incentives, it appears that the municipality or private firm that handles the management of the TDD will be the best source for accurate data and information. The decentralized data sources complicate the aggregation of useful data and make it difficult to analyze the extent and impact of TDDs.

Illinois Special Service Areas (SSA)

SSAs can be created by local governments, allowing the government to levy a special tax on properties within a defined geography to fund special services or improvements within that defined area. SSAs were started in 1970 and are largely used to support retail districts, particularly central business districts and infrastructure in newly developing areas.

SSA Data and Sources

The data included in this report on SSAs is from the IL DOR. The same Illinois *Property Tax Statistics* report that records the amount of funding extended to TIFs also contains information on SSAs. The data is obtained from county clerk records. IL DOR officials note that only those SSAs that reported to the agency are included in the database. EWG plans to gain a better understanding of the use of SSAs in the St. Louis region for future analysis.

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[10] Under a special arrangement, DOR handles the sales tax for one TDD in Missouri but it is not in the St. Louis region.

Illinois Business Development Districts (BDD)

Municipalities in Illinois were given the ability to set up BDDs in 2005. The tool is very flexible, allowing districts to collect up to a 1 % additional sales tax and hotel tax to fund any project that benefits the district.

BDD Data and Sources

For this report the data on BDDs was obtained from the IL DOR website. The additional sales tax is administered by IL DOR and is therefore considered reliable data. The disbursement information is available online on a monthly basis back to 2005. The municipalities collect the additional hotel tax directly. The data were not compiled for this report. It appears that hotel tax data as well as any additional information about the districts will need to be collected at the municipal or district-by-district level.

C. Property Tax Abatements

Three programs in Missouri and one in Illinois allow for property taxes to be abated for the purpose of stimulating development. In Missouri, Chapter 353 redevelopment corporations, Chapter 100 industrial revenue bonds (referenced by the provisions of the Missouri statutes), and enhanced enterprise zones allow for tax abatement. Enterprise zones in Illinois also allow for abatement, as do several other incentive programs. Most often when a business receives a property tax abatement, the assessed value of the property is frozen at a base level before the property is improved. The property owner continues to pay taxes on that base value but does not have to pay tax on the increased value of the property for a given number of years. After a certain number of years, the level of abatement may be reduced or eliminated, and the property owner pays a portion of taxes on the incremental value of the property. Sometimes abatement is also applied to personal property.

Missouri Chapter 353 Urban Redevelopment Corporation

Under Chapter 353, a municipality or county may create an "urban redevelopment corporation" for the purpose of developing a blighted property. The redevelopment corporation must submit a redevelopment plan, which is approved by the city or county government, that states the terms of the tax abatement. Increased assessed value of the property is fully exempt from property taxes for a period of 10 years, and are taxed at 50% of their value for the next 15 years. The redevelopment corporation must continue to pay taxes equal to those paid on the property before redevelopment.

Missouri Chapter 100 Industrial Development Bonds

Under this program, municipalities are authorized to issue Industrial Development Bonds (IDBs) to finance industrial development projects for private entities. A requirement for issuing these bonds is that the local government must take ownership of the property. The bonds can be taxable or tax-exempt. If tax-exempt, they can be issued at lower interest rates than typically can be financed through conventional means. The local government leases the property back to the

company with bond proceeds used to purchase and construct the project. The company has an unconditional obligation to pay principal and interest on the bonds. Whether or not the bonds are tax exempt, the real and personal property taxes financed through the revenue bonds are abated for the life of the bonds. Missouri law permits up to 100% abatement of real and personal property taxes for 20 years. Companies can also apply for a certification of a sales tax exemption on building materials.

Missouri Enhanced Enterprise Zone (EEZ)

EEZs are set up to stimulate job creation for new or expanding companies in distressed areas. Zones are limited to "high poverty" areas with high unemployment, are blighted and are generally distressed as defined in the statute. In the St. Louis region there are two zones in St. Louis County and one in St. Louis City. Fifty percent abatement on real property taxes is provided for a minimum of 10 years to businesses locating in the zone that meet guidelines specified by the zone. At the zone's discretion, the abatement can be approved for up to 25 years at 100 percent. State tax credits may also be issued for up to five years if a company meets certain minimum employment and investment guidelines.

Illinois Enterprise Zone (EZ)

The Illinois Enterprise Zone Act was passed in 1982 to stimulate economic growth and neighborhood revitalization in distressed areas. Eighty-eight zones were originally created by 1993 and seven additional zones were later approved. Six zones were created in the St. Louis region. When a business is located within (or relocates to) an EZ there are several incentives available depending on the particular zone, the amount of investment, and the number of jobs affected. Common incentives are property tax abatement, sales tax exemption on building materials and, for large investors, a sales tax exemption on personal property for the manufacturing process or a pollution control facility. Each EZ has a local administrator who coordinates state and local incentives in the EZ.

Abatement Data and Sources

Total amount of public dollars going to private entities through property tax abatement programs (or foregone by regular taxing entities) are not contained in this report due to the difficulty in obtaining reliable data. The long history of the use of the incentives, complexity and inconsistency in record keeping, questionable validity of the data, and the uncertain commitment of tax revenue in the future all contribute to the difficulty of producing reasonable estimates of the amount spent through these incentives.

Chapter 353 and 100 are two of the longest-lasting incentive programs in Missouri. Records of some of the older abatements have been discarded or lost, making it challenging, if not impossible, to track the historical use of abatements. Additionally, some parcels, mostly in St. Louis City, have received multiple rounds of tax abatement, further complicating an analysis of the cumulative cost of abatements. Furthermore, properties can change ownership and the abatement carries over to the new owner; making it more difficult to track the public dollars spent.

How records are kept (or not kept) on properties that are abated is an important issue. In Missouri, Industrial Development Authorities are required to report limited information on Chapter 100's to DED, and counties are required to report limited information on Chapter 353's and Enterprise Zones to the State Tax Commission. In Illinois, county property tax records on abated properties are compiled by the IL DOR. The reporting appears to be incomplete. Furthermore, for Chapter 100 projects, municipalities technically own the properties causing them to be recorded in the assessor's files as city property/ tax-exempt property. St. Louis City Assessor's office appears to only keep a record of the current status of parcels; providing no means to calculate the entire amount of incentive provided to a company.

Most importantly, the validity of the current assessment of the properties that receive tax abatement is questionable. It is commonly believed that county assessors do not regularly reassess abated property since property tax bills are sent out on the base value only or no tax bill is issued at all. Furthermore, the appraised and assessed values reported to the State Tax Commission appear to be very low based on the knowledge of the number and size of deals that have been approved since their inception. Without reliable historical annual data, quantitative analysis of the use of abatements is not possible.

D. State Incentives

State incentives also play a role in financing development in both states. The incentives from different levels of government are often layered to provide a customized package for a particular project. It has also been noted that it appears some businesses pursue a state incentive that itself requires an accompanying local incentive; therefore a business obtains both.

No substantial effort has been undertaken for this report to obtain information on state incentives used in the region. The Joint Committee on Tax Policy in the Missouri General Assembly is currently conducting a study of state incentives. Future research will incorporate the Joint Committee's work and will include analysis of state incentives in the region.

III. The Cost of Economic Development Incentives

How much has the region "spent" on development incentives? This section reports partial and preliminary estimates on the amounts collected and committed through different incentive programs and discusses the limitations of these data. Estimates are conservative in the aggregate, since data collected from the reporting agencies and verified through multiple sources suggests that the reported tax expenditure totals very likely only reflect 80-90% of the actual amounts.

A. Overview

Making conservative assumptions, about $2.5 billion in actual or foregone local taxes has been spent in two major categories of incentives, tax increment financing and special development districts. Because of limitations of time and quality of data, the cost of tax abatements has not been calculated, but rough estimates suggest that abatements could account for an equal amount.

Table 1 shows preliminary estimates for the eight-county EWG region of (a) the amount collected to date on tax increment financing and special taxing districts and (b) the amount of public dollars committed through each incentive tool. Although the table accounts for only a portion of the types of incentive programs available in the bi-state region, the total amount of public financing collected to-date has been over $1 billion. The second column, "total public commitment," provides a more complete view of the total amount of funding – over $2 billion - that will not be available to fund other taxing districts like schools, municipalities, counties, etc.

The aggregate numbers provided in Table 1 are conservative for at least two reasons. First, the table only includes data on projects that have been reported or identified in the first phase of this research. An estimated 20% of TIF projects in Missouri[11], and more than 20% of TDD projects in Missouri are not reported to state agencies, as required by legislation. Neither state has enforcement mechanisms that are sufficient to improve reporting.

Second, when totals reflecting the entire total public commitment are not available, "taxes collected to-date" is used as a proxy. For instance, the three Illinois counties covered in this report have directed $455 million to TIF projects to-date. Since the total amount of committed dollars through TIF has not been obtained, historic data is used as a floor for the amount committed – a minimum amount that has already been spent. If future commitments were known the total would be much higher.

On the other hand, there are two factors that might cause the estimates for individual projects to be overstated. Sometimes there are agreements made to reimburse regular taxing entities for lost tax revenues. For example, agreements might be made with the project sponsor to make payments to affected school districts equivalent to a portion of the incremental property taxes. Also, if there is a surplus in the TIF special allocation fund at the end of the year, that amount

[11] In Illinois, the required filing of annual reports with the Comptroller's office is low. The IL DOR reports on property taxes extended appear to be complete, but have not been verified.

may be issued to the regular taxing entities on a pro rata basis. No data source captures this re-allocation so it is not accounted for here.

The second reason for potential overestimates is problematic reporting. Some projects may have been initially reported to the state but never fully activated. In cases where it has been possible to confirm cancellation of development incentives for a project, staff has deleted the inactive project from the EWG database.

In both cases, analysis indicates that overestimates, if any, are not substantial compared to the underestimates described above.

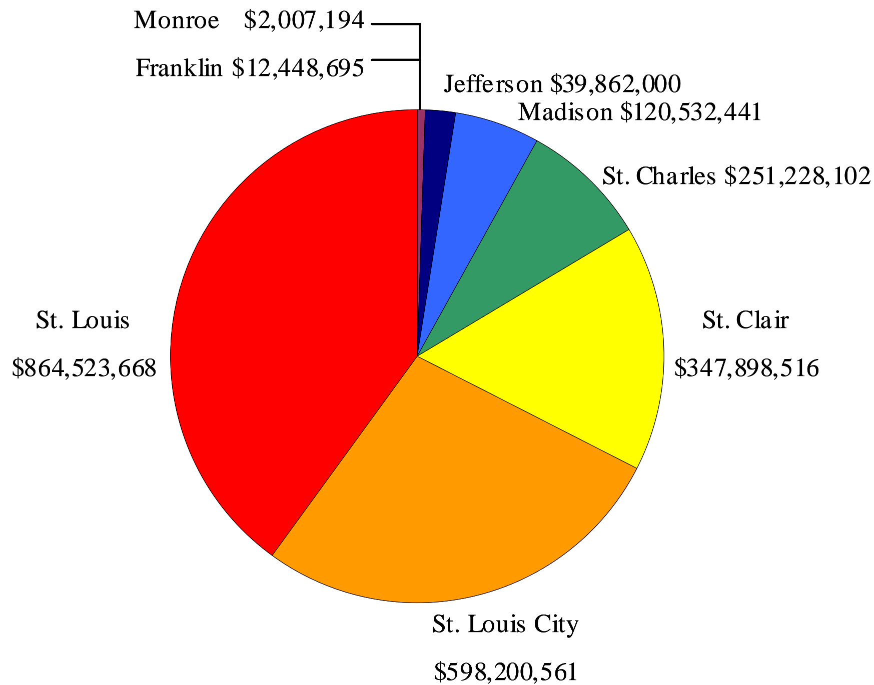
Table 1
Partial Estimate[12] of Taxes Collected and Committed to Projects as Development Incentives in the St. Louis Region

Type of Incentive	*Taxes Collected to Date*	*Total Public Tax Commitment [1]*
Missouri Tax Increment Financing (1987 to 2008)	$560,486,469	$1,308,834,769
Illinois Tax Increment Financing (1986 to 2006)	$455,832,132	$455,832,132
Total TIF	*$1,016,318,601*	*$1,764,666,902*
Special Districts		
MO Transportation Development Districts (1997 to 2006)	unknown	$457,428,257
Missouri Subtotal	*unknown*	*$457,428,257*
Illinois Special Service Areas (1993 to 2005)	$12,587,124	$12,587,124
Illinois Business Development Districts (2005 to 2008)	$2,018,894	$2,018,894
Illinois Subtotal	*$14,606,019*	*$14,606,019*
Total Special Districts	*$14,606,019*	*$472,034,276*
Total	**$1,030,924,620**	**$2,236,701,178**

(1) In those cases where a "Total Public Commitment" number is not available, the "Taxes Collected To Date" figure was substituted.

[12] Based on estimates from state agencies and EWG analysis, the amounts shown likely reflect 80-90% of the totals, due to non-reporting or incomplete and inaccurate reporting by project sponsors.

Chart 1
Public Funding Committed to TIF and Special Development Districts[1]
1986 to 2008



(1) The special development districts used in computing the public funding committed were TDDs from Missouri, and SSAs and BBDs from Illinois. Illinois numbers represent what has been collected to date.

B. Tax Increment Financing

Table 2 includes preliminary estimates of how much has been directed to TIF districts in each of the counties in the St. Louis region. If patterns from Missouri hold true in Illinois, "total public tax commitments" in Illinois are likely to be more than twice as much as has already been collected.

The city of Washington, Missouri in Franklin County recently approved its first TIF district, meaning that every county in the St. Louis region has at least one TIF district. The majority of the districts have been in three counties - St. Clair County, St. Louis City and St. Louis County. These three counties account for 246 (82%) of the 302 recorded TIF districts in the region.

Table 2
Tax Increment Financing by County

	Number of TIF Districts	*Taxes Collected to Date[1]*	*Total Public Tax Commitment[2]*
Missouri Counties			
Franklin	1	$0	$12,448,695
Jefferson	5	$605,900	$39,862,000
St. Charles	12	$66,145,608	$137,923,500
St. Louis City	96	$81,583,505	$524,812,680
St. Louis County	80	$412,151,456	$593,787,894
Missouri Subtotals	*194*	*$560,486,469*	*$1,308,834,769*
Illinois Counties			
Madison	36	$118,344,324	unknown
Monroe	2	$1,997,731	unknown
St. Clair	70	$335,490,077	unknown
Illinois Subtotals	*108*	*$455,832,132*	*$455,832,132*
Regional Totals	**302**	**$1,016,318,601**	**$1,764,666,902**

(1) In Illinois, sales and utility taxes are diverted for a handful of districts that were created before legislation changed limiting diversion to only property taxes. (2) Data on total future commitments to TIF projects for Illinois has not been obtained; therefore historical "to-date" data is used instead.

Map 1 is a graphic representation of the municipalities in which TIF has been used. The size of the dots is proportional to the amount of tax revenues diverted to TIF districts.

Map 1
Municipal Use of TIF

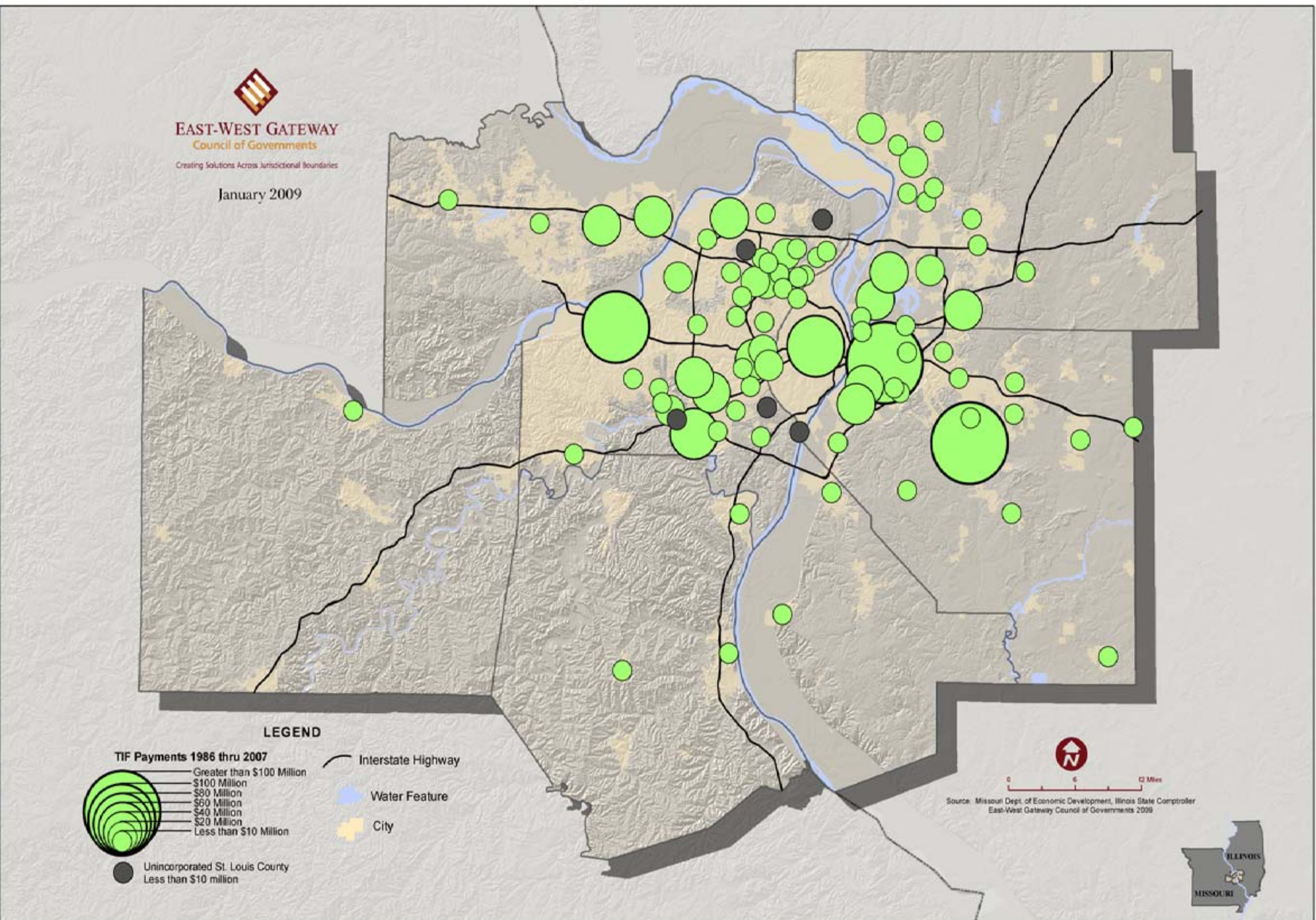


Table 3 compares the amount of total anticipated tax commitments to TIF and total project costs in Missouri. Total project costs (information not obtained for Illinois TIF districts) ought to provide a rough measure of the amount of private money leveraged by the use of TIF. For example, Table 3 suggests that $1.3 billion in diverted tax dollars has supported almost $6.0 billion in private investment. However, this overstates the private investment in at least two ways. First, projects often receive multiple incentives. The Missouri State Auditor's Office has identified 22 TDD projects that also included TIF. These 22 projects received $233 million in TDD revenues, which illustrates that public funds can leverage more public funds, as well as private. Moreover, it is likely that some of those private dollars would have been spent anyway on smaller or different projects.

Table 3
Total Anticipated Tax Commitment and Total Project Costs for TIF Districts in the Missouri Counties in the St. Louis Region

County	***Total Anticipated Tax Commitment***	***Total Project Costs***
Franklin	$12,448,695	$35,537,250
Jefferson	$39,862,000	$141,362,000
St. Charles	$137,923,500	$868,613,168
St. Louis City	$524,812,680	$3,254,384,030
St. Louis County	$593,787,894	$2,984,639,276
Total	**$1,308,834,769**	**$7,284,535,724**

Sources: Missouri DED TIF database and TIF redevelopment plans

C. Transportation Development Districts (Missouri)

Table 4 provides estimates of the use of TDDs by Missouri counties in the St. Louis region. Over $400 million have been committed to 53 TDD projects. "Total tax commitment" from these districts exceeds the total "estimated project costs." One possible reason is that interest payments on bonds are not included in total project costs. For instance, the Hanley/Eager Road TDD spent $12 million to rebuild key transportation infrastructure, including widening of the two roads. The district issued a bond, which is payable in 30 years, and estimates that, including interest charges, almost $23 million will have been collected and spent to retire the bonds.

Table 4
Estimated Project Costs and Total Tax Commitment for Transportation Development Districts Created Before December 2006 [1]

County[2]	*Number of Districts*	*Estimated Project Costs (Private and Public Sources)*	*Total Tax Commitment (Public Dollars)*
St. Charles	17	$75,730,405	$113,304,602
St. Louis County	28	$195,176,686	$270,735,774
St. Louis City	8	$35,152,892	$73,387,881
Total	**53**	**$306,059,983**	**$457,428,257**

(1) First TDD created in the state was in 1997. (2) No TDDs were reported to the state auditor for Franklin and Jefferson Counties.

Source: Missouri State Auditor Report

D. Special Service Areas (Illinois)

Table 5 provides an overview of the use of Special Service Areas in Madison and St. Clair counties in Illinois. No SSAs were reported for Monroe County. Twenty-five districts are active in the two counties and have collected over $12 million in additional taxes.

Table 5
Property Tax Dollars Committed to Special Service Areas (SSAs) in Madison and St. Clair Counties 1993 thru 2005 [1]

County	*Numbers of SSAs*	*Total Tax Commitment*
Madison	16	$1,056,975
St. Clair	9	$11,530,149
Total	**25**	**$12,587,124**

(1) Only districts that reported to the Department of Revenue in the given years are reported in the Table. No SSAs were reported by Monroe County.

Source: Illinois Department of Revenue Property Tax Statistics Table 14, 1993 to 2005

E. Business Development Districts (Illinois)

Municipalities in Illinois were given the ability to set up Business Development Districts in 2005. The tool is very flexible, allowing districts to collect up to a 1 % additional sales tax and hotel tax to fund any project that benefits the district.

Table 6 shows the use of BDDs in Illinois since the program's inception. Although the incentive has only been in use for a couple of years, these districts have collected over $2 million in additional sales taxes (the amount of hotel taxes collected in unknown).

Table 6
Sales Tax Dollars Disbursed to Illinois Business Development Districts in Madison, Monroe and St. Clair Counties
July 2005 thru June 2008

County	*Number of Districts*	*Sales Tax Disbursed to Districts*
Madison	9	$1,131,142
Monroe	1	$9,462
St. Clair	4	$878,289
Total	**14**	**$2,018,894**

Source: Illinois Department of Revenue, Disbursements to Local Governments

F. Transparency Issues

A key finding of this research is one that has surfaced in most research undertaken on the topic in Missouri and Illinois, as well as in other regions and states – the lack of transparency and accountability is striking. Every state offers incentives to private developers, spending billions of tax dollars on economic development. Yet nearly all of them fall short in requiring reporting and analysis of the effectiveness and efficiency of the use of incentives.

In Missouri and Illinois, the lack of a centralized collection point, lax reporting requirements and unreliability of reported data make meaningful analysis of the effectiveness of incentives for any specific project and for the use of incentives as a whole problematic. Furthermore, the lack of data and uneven reporting make it impossible for citizens and local governments to see how the development incentives work and evaluate whether they are effective. Open records and transparency of government activity are fundamental principles of governmental accountability and without effective record keeping transparency is lost.

No Centralized Collection Point

The lack of a centralized collection point makes reviewing projects difficult, especially because many projects receive multiple incentives. This point is demonstrated in the previous discussion on TIF (See Table 3). When the Missouri TIF data is presented by itself it appears that the public funds have leveraged $6 billion in private dollars. If TIFs and TDDs were reported on together and in a centralized location, the impact of the more than $233 million dollars in public funds injected into those projects through TDD would decrease that figure. Moreover, TDDs are not the only incentive used in conjunction with TIF; tax credits, CIDs, NIDs, and other tax incentives are also used with TIF.

Not only is there a lack of one centralized collection point for data and reporting about these projects, but there is inconsistency regarding the kinds of information required and the format for reports. There are many places where data is collected; in Missouri, TDDs are audited annually by the Missouri State Auditor's Office, municipalities report annually to the Missouri Department of Economic Development on TIF districts, and tax abatement reports are filed with the State Tax Commission. In Illinois, the Department of Revenue publishes reports on subsidies extended to TIF districts, enterprise zones, special service areas, and business development districts but report no other information on the projects. Other information and data must be gathered from the Comptroller's office or local governments themselves. Some information cannot be obtained from government entities but must be gathered from private entities which manage the projects.

Since reports on different incentive programs are collected separately, analyzing the effectiveness of any one of them on projects that include more than one becomes problematic. This is true on a project-by-project basis as well as programmatically across all projects. For instance, if an individual project receives TIF and TDD incentives together with state tax credits, how effective was the TIF to the success of the project? In addition, when analyzing all TIFs across the region, it is necessary to understand to what degree the TIFs were supplemented by other incentives.

Lax Reporting Requirements

Although reporting is required by legislation for almost all incentives, an estimated three fourths of projects are actually reported on. There are no substantive penalties for non-reporting, and where reporting requirements exist, they are not enforced. The Missouri State Auditor's Office estimates that it receives reports from about 80% of the TDDs in Missouri, a number similar to the 80% of Missouri TIF districts submitting documentation to the Missouri DED. The Illinois Comptroller Office estimates an even lower reporting rate of nearly 60%.

Validity of Data

Even when reports are submitted, they are often incomplete and the reliability or accuracy of the data is questionable. Furthermore, individuals completing the reports can interpret questions in the forms differently. For some programs, reporting entities do not use state forms but file their

own audit or other private report that has already been completed. This leads to reporting of inconsistent information.

The questionable validity of reported data on property tax abatements leaves a substantial gap in data. Abatements have been used for many years and continue to be used with frequency. Furthermore, it appears that historical data may not even be available, despite any number of sources being referenced – for a variety of reasons local governments have not kept comprehensive and reliable records on these programs.

IV. Regional Economic Effects of Development Incentives

A. Overview

One of the purposes of this interim report is to measure the economic effects of widely used local development incentives. As has already been noted several times in this report, the paucity and variability of reported development incentive data makes this analysis difficult, at least on a project specific basis. Staff will continue to collect data and refine the analysis of the economic effects of incentives and will include a more complete analysis in the final report.

There are at least three major problems with measuring the direct benefits from development incentives. First is a recurrent theme in this report: the lack of accessible information about the economic benefits produced by developments that receive incentives. These transparency issues include: 1) lax, incomplete and unreliable reporting; and 2) incentive programs (e.g., TDD in Missouri) that do not require collection of outcome data critical to evaluating their success.

A second related problem is that the information is not collected or correlated across incentive programs.

A third problem is conceptual. Even if perfect data were available on the localized benefits of each project, this is an incomplete picture. What effect does the subsidized development of a new shopping venue have on the revenues of existing nearby shopping centers? For example, to what degree did the redevelopment of the West County Mall in Des Peres or the development of the Chesterfield Commons shopping center cause the declining fortunes of Crestwood Plaza or the diminishing taxable sales along Manchester Road? This report provides some inferential data relating to this question by estimating sales tax "leakage", the difference between the estimated taxable spending potential from the residents and businesses in a community and the actual taxable receipts. Future phases of this work will produce more refined methods to determine the wider regional and subregional effects of the use of development incentives.

However, it is possible to report some useful preliminary regional findings based on aggregate data that have been collected to-date.

One of the key policy objectives in using a development incentive is to improve the local economy and tax base. Yet, despite the expenditure of billions of dollars in local incentives the St. Louis metropolitan area as a whole has not grown. Despite an enormous commitment of public funding through development incentives to support retail development, neither taxable sales nor retail employment has grown significantly region wide. Also, while specific projects supported by development incentives have had salutary fiscal effects on local municipalities, the overall fiscal health of local governments in the region is increasingly tenuous.

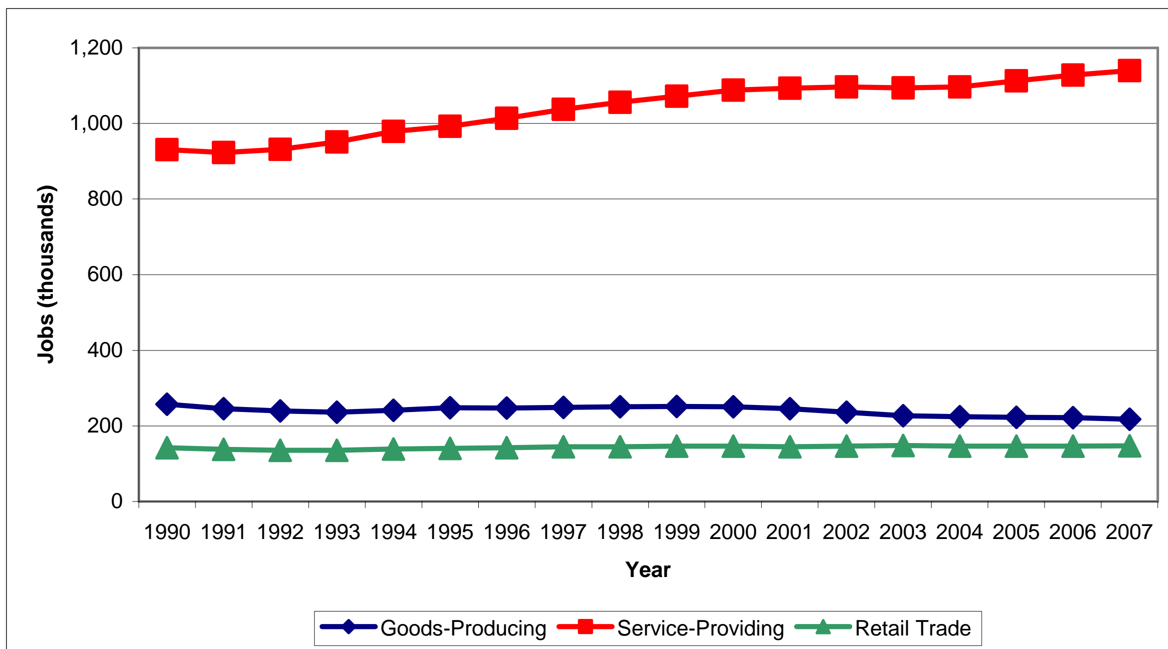
B. Development Incentives and Job Creation

According to the Bureau of Labor Statistics (BLS), total employment in the St. Louis Metropolitan Statistical Area (MSA) grew from 1.19 million in 1990 to 1.36 million in 2007, adding roughly 170,000 jobs.[13] This amounted to an increase of about 14.3 percent for the entire period, or an annual growth rate of about 0.8 percent.

From 2000 to 2007, employment in the St. Louis region grew a total of 1.4 percent, or at an annual rate of 0.2 percent. In terms of real numbers, from 2000 to 2007, the region added approximately 18,700 jobs for a regional total of 1.36 million jobs.

Significant sectoral shifts in employment have occurred since 1990 (see Chart 2). BLS classifies all jobs as either "goods-producing" or "service-providing." From 1990 to 2007, the region lost more than 35,000 goods-producing jobs, while gaining about 200,000 service-providing jobs.

Chart 2
Employment Growth in the St. Louis MSA
1990 through 2007



On average, in each year between 2000 and 2007, the St. Louis region lost about 4,700 goods-producing jobs and gained about 7,400 jobs in the service sector. However, the shift in sectoral composition of employment has an effect on wages: the average goods-producing job pays about $55,000 per year, while the average job in the service sector has an annual salary of about $40,000.

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[13] Although this report studied development incentives for the eight county East-West Gateway region, employment and income data are reported here for the St. Louis MSA because they are collected by the Census Bureau that way.

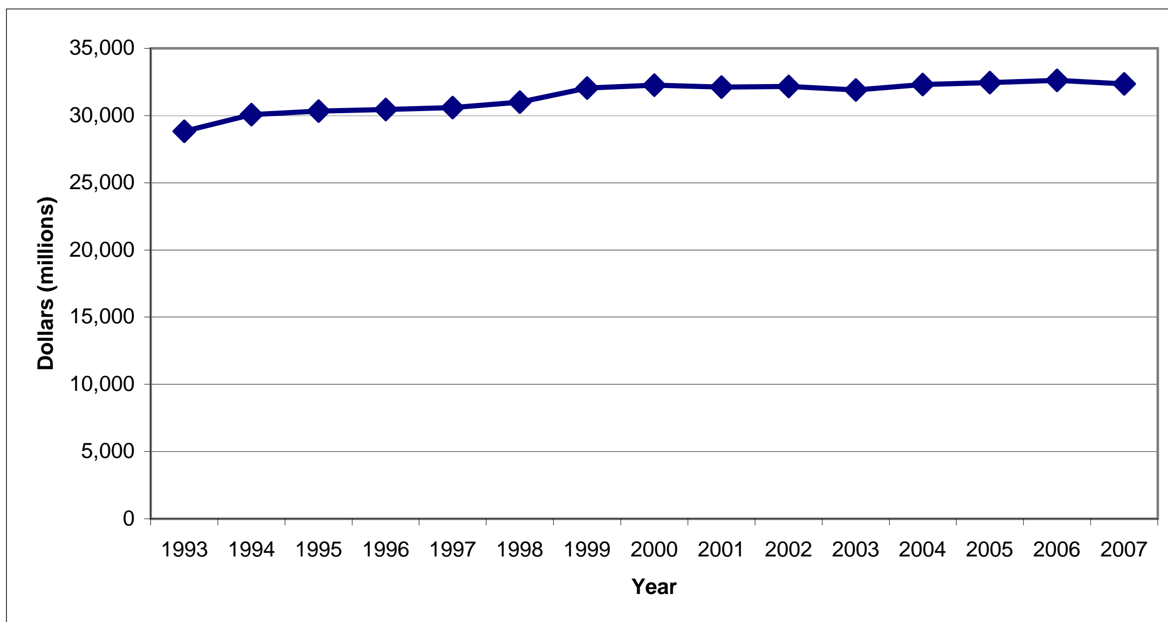
Of most interest is retail employment since, according to EWG estimates, about 80% of TIF and TDD expenditures have been for retail development. From 1990 to 2007, the retail sector grew from about 142,100 to 147, 500, a gain of roughly 5,400 new jobs. This translates to the staggering sum of $370,370 per retail job created.[14] Considering that retail jobs pay, on average, an annual wage of $18,000, this is not a good investment by any measure.

The reported job creation figures reported to DED in Missouri suggest a very different conclusion. Missouri TIF districts reported the creation, or retention, of 32,550 jobs between 1993 and 2007 (and these were incomplete reports, so if fully reported, the total would be higher). If true, that would mean that more than 27,000 retail jobs would have been lost during this time period to produce the net measured gain of 5,400 retail jobs in the region. This analysis highlights the problem of confusing distribution effects with real growth.

C. Regional Trends in Taxable Sales

Since the majority of local development incentives have been granted to stimulate retail development, one major benefit of this public investment should be increased retail sales. The overall trend in taxable sales (see Chart 3) shows modest growth since 1993. The chart demonstrates two distinct time periods: six years of some growth in taxable sales from 1993 through 1999, and eight years of relatively flat taxable sales from 2000 through 2007. The trend in taxable sales for the St. Louis region echoes that of the national trends that took place since the early 1990s.

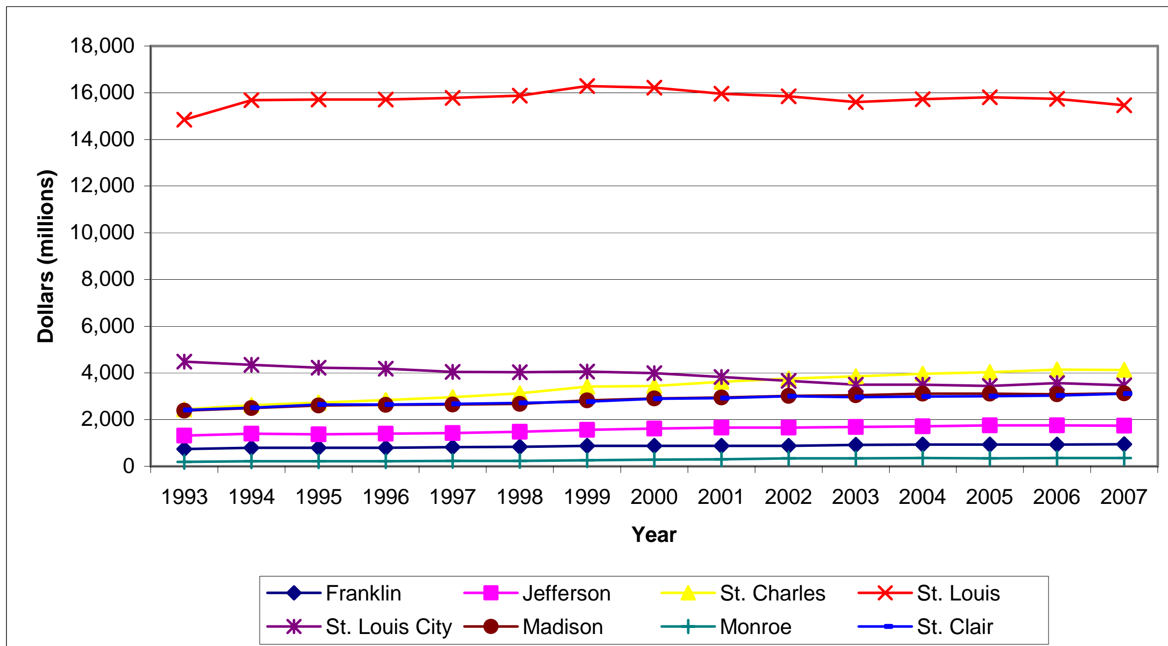
Chart 3
Total Taxable Sales for the St. Louis Region
1993 through 2007 (2007 dollars)



[14] This calculation conservatively assumes a total investment of approximately $2 billion (80% of $2.5 billion) to create 5,400 retail jobs.

A breakdown of total regional sales by county provides insight (see Chart 4). In particular, St. Charles County realized a significant increase in taxable sales through 2003, which offset declines in sales in St. Louis City. Taxable sales in St. Louis County, which accounts for the largest percentage of sales in the region, have generally remained flat during the 15 year time span.

Chart 4
Taxable Sales by County
1993 thru 2007
(2007 dollars)



Even more revealing is the trend in taxable sales when controlling for population and income growth taking place during the same time frame.

Chart 5 shows that, on a per capita basis, the trend in taxable sales for the region as a whole is flat or declining, with the possible exceptions of Monroe and Jefferson counties, where increases occurred during the 1990's, primarily due to rising per capita income in those counties.

Chart 5
Per Capita Taxable Sales
1993 through 2007
(2007 dollars)

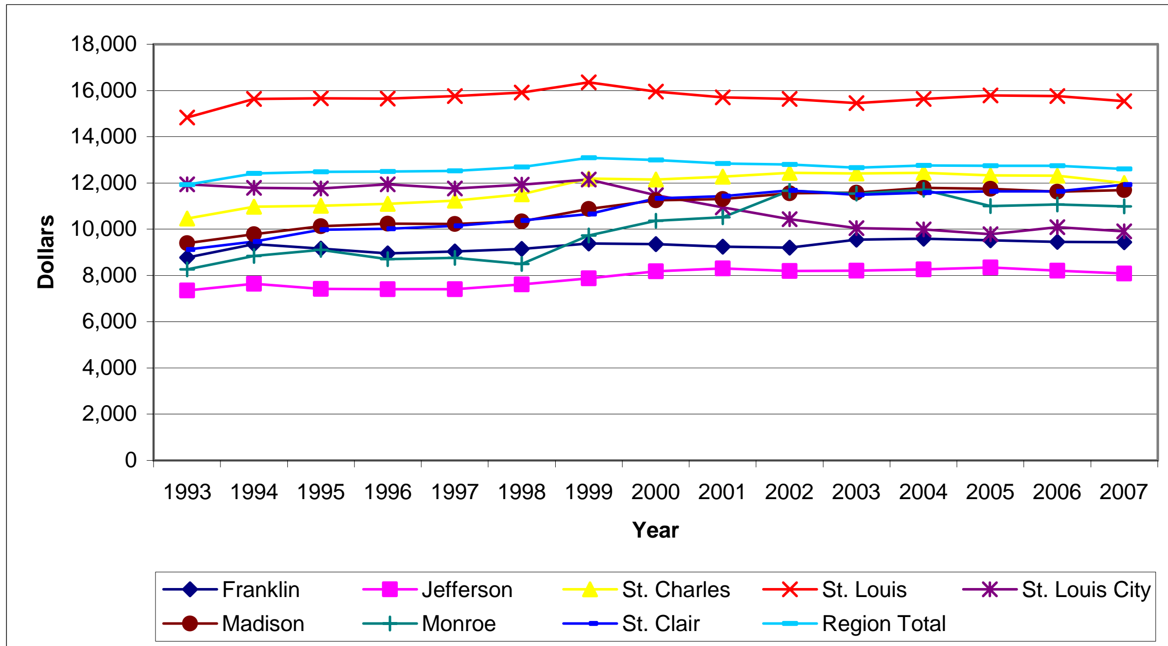
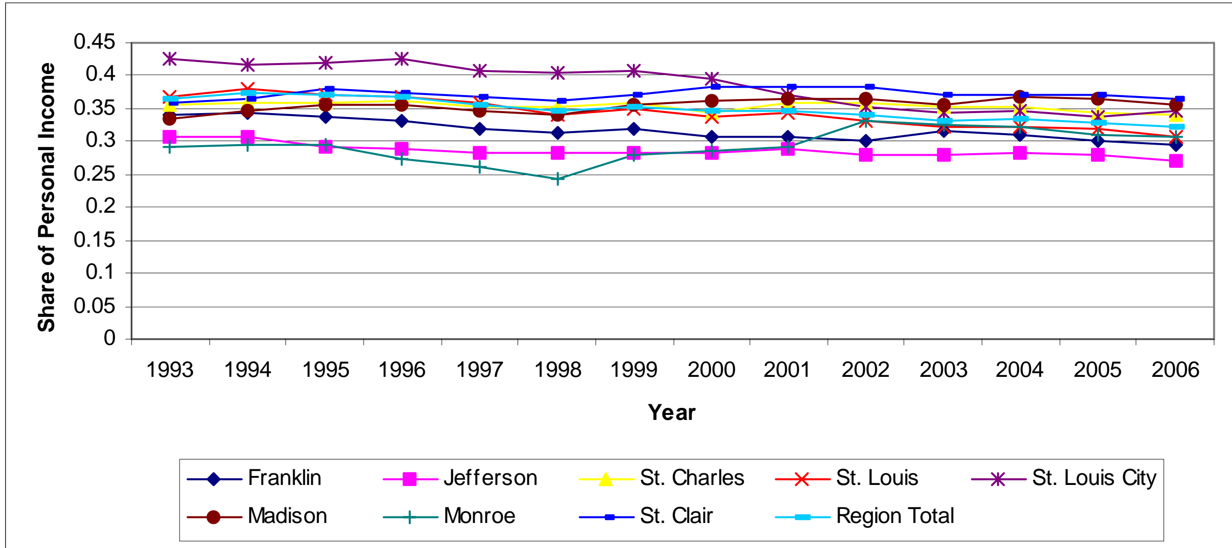


Chart 6 on the following page shows that taxable sales per dollar of personal income have not just flattened, but in fact are declining. Individuals are spending a smaller portion of their income on local retail. This could be explained by a diversion to Internet sales, higher spending on healthcare, other entertainment, gaming, or other untaxed services. Higher portions of income may also be devoted to housing and transportation.

Chart 6
Taxable Sales as a Share of Personal Income
1993 through 2006
(2007 dollars)

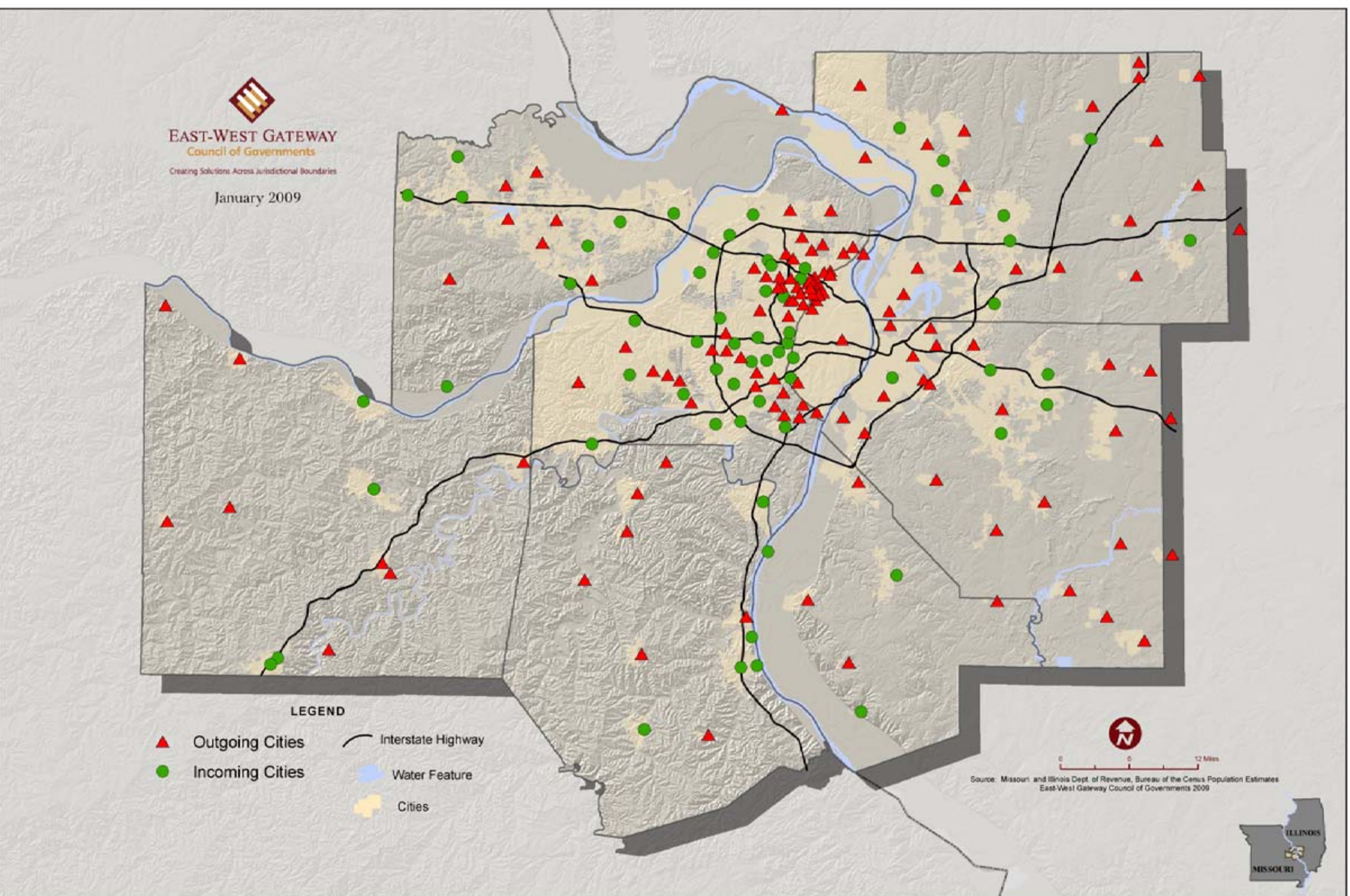


D. Distribution of Retail Sales

Like the foregoing analysis of employment growth, development incentives have significant distribution effects on retail sales. To help understand those effects an analysis was done of "sales tax leakage," which compares the amount of taxable sales per capita generated in each municipality to the regional average per capita sales. A value of one indicates that a municipality generates proportionally the same amount of sales tax per capita as the region. Values greater than one indicate that a community is pulling sales tax away from other areas in the region, while values less than one indicate that a community is losing sales tax to surrounding areas.

The map of taxable sales leakage for municipalities in the eight county EWG region shows those cities that attract more taxable sales, represented by the green dots, and those that lose taxable sales to other municipalities, represented by the red triangles (see Map 2). Not surprising is the trend that there are fewer "winners" (incoming cities) than "losers" (outgoing cities) in this analysis. The distribution of winners and losers changes over time, often corresponding to the use of development incentives in a particular area to attract retail growth.

Map 2
Taxable Sales Leakage 2007



E. Summary of Economic Impacts

This report does not provide an analysis of project-specific economic impacts. Rather, it relies on comparing regional growth data in key categories to public investments in development incentives in consistent timeframes. In brief, the analysis concludes that development incentives have not contributed to growth in employment or retail sales, two measures that are specifically targeted as benefits of public investments in private development. There are however, strong distributional effects of these investments on these same variables, suggesting that the principal economic effect of local development incentives is to redistribute, jobs, income and taxable sales across the region.

This conclusion does not suggest that other measurable benefits are not important, particularly in areas that are underserved by retail development, truly blighted, or historic. There is a clear benefit to redeveloping abandoned properties and restoring shattered neighborhoods. However, most incentives are not directed toward those purposes.

This analysis is admittedly incomplete, but so far it has produced little plausible evidence of regional economic benefit.

V. Policy Considerations for Reform

In addition to the quantitative analysis that is the principal subject of this report, a number of policy issues emerged in interviews with over 90 local officials and development professionals involved with the use of incentives in the St. Louis region. The purpose here is not to address these issues, but simply to report on them with the expectation that they will be addressed in more substance in the final report.

Three key issues have emerged during the interviews that have not been discussed elsewhere in this report. These issues are described in the following sections.

A. Policy Objectives

With economic development incentives being used in every county in the region, it is apparent that local governments perceive benefits from committing current and future tax revenues in this manner. There are three themes that emerged from the interviews to explain why municipalities use development incentives.

Fiscal health: The key rationale offered by almost everyone interviewed was that developing or redeveloping under-utilized land improves the fiscal health of the sponsoring local government. Not only does this give reason to use incentives but also increases the motivation to use incentives for retail development. Since sales taxes have become an important source of revenue for local governments, municipalities will exhibit a preference for retail growth.

Redevelop the urban core and other distressed areas: This is the original intended use of development incentives. Arguably, a big source of the frustration expressed when affluent suburban areas are declared “blighted” stems from a policy preference that such tools be used to address redevelopment of distressed areas. The proliferation of the use of incentives in the suburbs has exacerbated already significant economic disparities between communities, ratcheting up the use of incentives in core areas that must not only overcome their historic economic disadvantages but also now compete with incentives offered by more affluent areas.

A community wants to change its character: Significant land use changes often cannot happen solely through actions by the private sector. For instance, Chesterfield municipal officials lamented the poor types of development taking place in the Chesterfield Valley prior to the development of the Chesterfield Commons. In reflecting upon their use of TIF to develop the Valley, they are equally proud of the fiscal success of the development (it has paid itself off quickly, and now provides significant fiscal benefit to the city) and of the actual physical transformation to the area (not just the shopping centers, but also new green space and ball fields). The area may have developed without incentives, but the use of incentives allowed for better planning and a more desirable outcome for the city.

B. Finding Meaning in the "but for" Test

In both Missouri and Illinois, in order to qualify for the principal types of development incentives, project sponsors must demonstrate that, "but for" the incentive, the project could not be built. The logical premise of the "but for" test almost always yields a positive result. One local official described the "but-for" test as follows: "Suppose I plan to build a $200,000 house. If you give me a $100,000 incentive, then I'll build a $300,000 house. I'll happily sign a form saying that, 'but for' the incentive, I won't build a $300,000 house."

Users and beneficiaries of development incentives emphasize that the developments would not have happened without the incentive. Following the logic described above, that reasoning is almost always true. The problem is that there is no process that compares the economic outcomes of what may be two different projects, one less ambitious (without incentives), but which might yield net economic benefits for a smaller public expenditure.

C. Defining "Blight"

According to the Missouri TIF statute, a "blighted area" is one in which "by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals or welfare in its present condition and use."[15]

Reading this legal definition carefully, if the development or redevelopment of a given site leads to higher economic use (presumably generating more tax revenue), then that site can qualify as blighted. Redevelopment of a site will presumably always result in higher property values and possibly sales tax revenues. Thus, in practice, if a sponsor wants to use TIF for a project, the project will result in more economic activity.

Both state and federal courts have deferred to "local legislatures" (i.e. city councils) to determine whether a given piece of property is "blighted." This leads to the arrangement where local leaders with legitimate self-interest and a somewhat narrow view of the larger regional community are determining what is blighted.

Also, the cost of eliminating "blighting factors" does not create an upper limit on the amount of development incentive, so that the value of the incentive need not be consistent with that cost. One local municipality is proposing an $88 million project and is financing $58 million of the cost with TIF, thus potentially spending far more than necessary to mitigate an abandoned mine (the sole blighting factor), that, according to the redevelopment plan can be done for an estimated $6 million. Put another way, $52 million of the TIF is to be used for purposes other than addressing the cause of blight.

[15] The definition for Chapter 353 in Missouri and TIF in Illinois differ somewhat but the concept is the same.

D. Balancing Local and Regional Interests

Local governments, in granting development incentives, are legitimately using tools provided by state legislatures to create value in their communities. The processes for deciding whether to provide incentives give little or no weight to regional economic benefits. In fact, the dominant decision-making factor is the fiscal benefit to the local government sponsor. Recent legislation in Missouri creating a decision-making role for countywide TIF commissions may allow for consideration of fiscal and economic benefits over a wider area. However, without some clear direction on how regional benefits will be calculated and considered, it is far from certain that this approach will significantly change current practice. Moreover, the potential for competition between counties and states still exists, particularly for large-scale projects whose market area extends beyond a single county.

E. Maximizing Economic Productivity of Incentives

Development incentives may be a useful tool to create economic growth. The important question is how to deploy those incentives in ways that maximize the economic benefit to the region. As this report suggests, spending billions of dollars to encourage retail activity has not resulted in measurable economic growth. The important questions to address are:

- In what sectors should the public invest to create economic value; what is the region's economic development strategy?
- Where should incentives be applied across the region?
- How do we measure the economic outcomes of public investment?
- How do we avoid using development incentives to pick "winners" while simultaneously (if unintentionally) creating "losers" among businesses and communities?

VI. Conclusions and Recommendations

This report documents a work-in-progress. Significant effort has been made thus far to determine just how much has been "spent" on public incentives for private development and whether that expenditure has produced measurable regional economic benefit. Despite significant weaknesses in the available data, a reasonable estimate has been made of tax expenditures for development in each of the eight counties in the metropolitan region, at least for several major programs. Some general conclusions were also reached about the regional economic effects of local development incentives.

Much work remains, however. EWG staff will continue compiling data to reach the goal of a complete and reliable inventory of development incentives. This will include a thorough analysis of tax abatements, an important element that could not be included in this report. It will also include developing a database on local government finance in order to address the full scope of work set out by the Board of Directors. While this work takes significant effort, it will result in the first complete database of tax incentives and local government finances in the St. Louis region. Regular future updates will be much simpler.

Despite the incomplete nature of the overall study, the conclusions from this interim report do suggest a direction for immediate policy and legislative initiatives.

A. Conclusions

1. There has been massive public investment in private development in the last 15 years across the St. Louis region; about 80% of that investment includes retail development. Conservatively, there has been over $2.5 billion in public money committed in two programs alone: tax increment financing and various, but quite similar, forms of development districts. When other local tax abatements are included the total may double.

2. Across all incentive programs, the provisions for uniform reporting of revenues, expenditures, and outcomes (jobs, personal income, increases in assessed value, etc.) are remarkably weak, particularly considering the involvement of public funds. Even where some reporting requirements exist, there is no meaningful penalty for failure to report, and the state agencies that have the responsibility for maintaining reports have inadequate resources to discharge those responsibilities. Further, there is no mechanism to require a private project sponsor to deliver economic outcomes, or to allow the taxpayers to recoup the value of local tax incentives if those outcomes don't happen (sometimes known as "clawback" requirements). Those accountability provisions apply to certain state subsidies like the Missouri Quality Jobs Act, but are absent for local incentives.

3. There should be a complete database of public expenditures and outcomes for all publicly supported development projects. Because of the lack of widely available

information, elected officials and the public cannot possibly make reasoned decisions about the expenditure of tax dollars to produce economic growth. Without that information, it is not possible to know whether local governments are getting value for those expenditures, and because there is no accountability for outcomes, the public can not recover those expenditures in the event that outcomes are not achieved.

4. <u>Broad measures of regional economic outcomes strongly suggest that massive tax expenditures to promote development have not resulted in real growth.</u> While there are certainly short-term localized benefits in the use of incentives, regional effects are more elusive. Development incentives have primarily acted to redistribute spending and taxes. While distribution effects might yield broader economic benefits when used to redevelop economically distressed communities, when incentives are used in healthy and prosperous communities the regional effect may be to destabilize the fiscal health of neighboring areas. This conclusion particularly applies to retail development. While there is ample justification for tax expenditures on retail development in underserved areas, overall there seems little economic basis to support public expenditures for private retail development. Despite massive public investment, the number of retail jobs has increased only slightly and, in real dollars, retail sales or per capita spending have not increased in years.

5. <u>Focusing development incentives on expanding retail sales is a losing economic development strategy for the region.</u> The future of sales taxes as a principal source of revenue for local governments should come into question for several reasons: its inherent volatility; the likelihood of a long-term restructuring of retail trade; increasing level of sales taxes discourages spending and local sales in favor of non-taxed internet sales; and, the motivation this tax source provides to focus scarce tax dollars on incentivizing a type of development that appears to yield very limited regional economic benefit. As local governments come under increasing fiscal stress, the impacts of billions of dollars in foregone revenue will become increasingly apparent.

B. Recommendations

1. ***Immediately pursue legislation to uniformly require full public disclosure of expenditures and economic outcomes of public incentives for development***. In particular, public expenditures should be tied to economic results like jobs and wages. The legislation should create meaningful penalties for failure to adequately report expenditures and outcomes, including the termination of the incentive. (Appendix D contains suggestions for potential legislation concerning disclosure.) Additionally, legislation should create "clawback" requirements, so that the public can be reimbursed in the event that economic outcomes are not achieved. It is worthwhile to execute such measures because of the benefits that will be recognized for local governments, the states, and the general public. Improved transparency could reduce paperwork for government entities, hold private entities accountable for the public dollars they receive and allow for evaluation of individual incentive programs. This will allow the region to use incentives that work more effectively and to eliminate the use of those that do not have the desired

impact. As demonstrated in the economic impact section of this report, the region's recent use of incentives is not having the desired impact and as our region and our nation faces difficult economic times, it is time to redirect our focus and determine the best use of public dollars.

2. ***Complete the analysis to meet the mandate of the Board of Directors*** by:

    a. Continuing to assemble data from all sources
    b. Refining methodologies to measure economic impacts
    c. Analyzing impact of incentives on municipal finance and public services
    d. Analyzing distributive effects of incentive use
    e. Develop comprehensive policy recommendations for the use of development incentives

Appendix A
Description of Data Sources

	Data Item	Source(s)	Comments/Issues/Missing Components
Missouri			
Municipal Finances			
	Revenue - Sales Tax	(1) DOR sales tax distribution to local governments available on departmental website (2) Municipal financial reports (usually CAFRs -Comprehensive Annual Financial Reports)	(1) Can include revenues from multiple sales taxes levied that are reserved for a particular revenue stream as well as sales tax dollars that will be diverted to TIF special allocation funds (2) Municipalities are required by legislation to file financial reports annually with the State Auditor's office but many do not comply, they are in hard copy only and the Auditor's office retains the reports for 5 years only. Also, CAFRs do not follow a standard format including several different accounting methods and how revenue is reported (sometimes the revenue source is reported only as "taxes" and does not provide any indication of what taxes - property, sales, etc.) are included, making it impossible to determine how revenue sources are affecting government fiscal health
	Revenue - Property Tax	(1) State Auditor's Office property tax rate data (2) Municipal financial reports (usually CAFRs - Comprehensive Annual Financial Reports)	(1)The property tax rate data provided by the State Auditor only goes back to 1996 (this data is maintained in Access Databases). EWG has requested a dataset comprised of property tax data from 1993-1995 since the Auditor has the data, but it's in a different database management system and must be requested for formally. (2) See (2) above for "Revenue - Sales Tax"
	Revenue - Utility Tax and Other Sources	Municipal financial reports (usually CAFRs - Comprehensive Annual Financial Reports)	See (2) above for "Revenue - Sales Tax"
	Expenditures	Municipal financial reports (usually CAFRs - Comprehensive Annual Financial Reports)	See (2) above for "Revenue - Sales Tax"
Local Government Tax Incentives			
Diverted Taxes	Tax Increment Financing (TIF)	(1) Redevelopment Plans from the County or Municipality (2) Department of Economic Development (DED) TIF reports (3) (Re)Development Agreements	(1) Redevelopment plans are not standardized, do not always contain all information, and staff at municipalities are not always able to locate the plans. (2) Municipalities are required to file annual reports on their TIF districts but it is estimated that 80% comply. Those that do report often leave portions blank and it is apparent that there are errors in the completion of the reports. (3) There are often multiple redevelopment agreements for one development project. They are in hard copy and housed at municipalities and/or private entities. They contain essential information such as PILOTs paid to other taxing districts.
Abated Taxes (foregone)	Chapter 353 Urban Redevelopment Corporations	(1) State Tax Commission (2) County Assessors	(1) Counties are required to report to the State Tax Commission every other year on appraised and assessed value abated under Chapter 353. The data obtained appears to be incomplete, it is commonly known that some assessors do not properly assess property that is abated until it is no longer abated, and the information provided is not extensive enough to do proper analysis (for example, does not always include the percent of abatement.) Furthermore, St. Louis County and City have been exempted from filing detailed parcel by parcel reports, making it impossible to determine the impacted taxing districts (2) County assessors do not necessarily record a proper assessment of property that has been abated. St. Louis City only keeps record of the current year assessment making it impossible to do historical analysis.
	Chapter 100 Industrial Development Bonds	(1) DED (2) County Assessors	(1) Industrial Development Authorities are required to file with DED annually on the bonds issued. Reporting is incomplete and the information provided does not indicate the amount of foregone revenue from property tax abatement (2) Counties record keeping varies in regards to amount of detail and accessibility. Since property abated under Chapter 100 is technically owned by the local government, it is often flagged the same as other government owned property in government databases.
	Enterprise Zones (EZ, Chapter 135)	State Tax Commission	Counties are required to report to the State Tax Commission every other year on appraised and assessed value abated under Chapter 135 (EZ). The data obtained appears to be incomplete, it is commonly known that some assessors do not properly assess property that is abated until it is no longer abated, and the information provided is not extensive enough to do proper analysis (for example, does not include the percent of abatement.) Furthermore, St. Louis County and City have been exempted from filing detailed parcel by parcel report, making it impossible to determine the impacted taxing districts.
Additional Taxes	Transportation Development Districts (TDDs)	State Auditor Annual Report	The State Auditor is required to audit TDDs annually. A report has been issued on all TDDs for the past 3 years on all reporting districts. In 2007, 23% of districts in the state did not report. The report also does not provide detailed information that is essential for proper analysis.
	Community Improvement Districts (CIDs)	(1) DED (2) Department of Revenue	(1) CIDs are required to file a notice of creation with DED as well as annual reports. DED staff believes most send reports (usually handled by private entity) but they are not in a standard format and are in hard copy only. (2) DOR sales tax disbursement records have been referenced for amount of sales tax distributed to CIDs
	Special Business Districts (SBDs)	Municipal financial and other records	Municipal record keeping varies in regards to amount of detail and accessibility.
	Neighborhood Improvement Districts (NIDs)	Municipal financial and other records	Municipal record keeping varies in regards to amount of detail and accessibility.

Appendix A, cont'd.

	Data Item	Source(s)	Comments/Issues/Missing Components
Illinois			
Municipal Finances			
	Revenue and Expenditures	Comptroller Annual Financial Reports	Municipalities are required to file annual financial reports with the Comptroller's office. The database is not complete, the format has been changed twice since 1994, municipalities can use different accounting methods and code books for earlier years are not available.
Local Government Tax Incentives			
Diverted Taxes	Tax Increment Financing (TIF)	(1) Comptroller's Office (2) Redevelopment Plans from the County or Municipality (3) Department of Revenue (DOR)	(1) Municipalities are required to file annual but many do not comply, reports are often incomplete and they are in hard copy only (2) Information provided in redevelopment plans is inconsistent, staff sometimes cannot locate the plans and they are usually only in hard copy (3) County clerks file annual reports with DOR. If PILOTs are made to regular taxing districts or another agreement was made where 100% of incremental property taxes are not diverted to the TIF district, it is not reflected in this data.
Abated Taxes (foregone)	Enterprise Zones (EZ)	(1) DOR (2) Department of Commerce and Economic Opportunity (DCEO) (3) EZ Administrators	(1) County clerks file annual reports with DOR regarding abated property. If PILOTs are made to regular taxing districts or another agreement was made where 100% of incremental property taxes are not diverted to the TIF district it is not reflected in this data. (2) The Department of Community and Economic Opportunity publishes an annual report of investments made by companies and the number of jobs estimated to come from those investments. These are self-reported numbers by companies and are not considered to be reliable because of ulterior motives companies have for inflating or deflating the numbers. (3) Each EZ has an administrator that can provide some information but often data that is needed for proper analysis is not tracked (such as amount of sales tax exemption received)
Additional Taxes	Special Service Areas (SSA)	DOR	Only municipalities reporting to DOR are included. Rate of reporting is unknown.
	Business Development Districts (BDD)	DOR	Only municipalities reporting to DOR are included. Rate of reporting is unknown.
State Incentives		DCEO	This preliminary report has not made substantial effort to collect data on state incentives.

Appendix B
Description of Economic Development Incentives and Definitions

This Appendix includes brief descriptions of development incentives under a typology that is based in how public dollars are allocated to development projects. Definitions of PILOTs and EATs are also included. The authorizing legislation or relevant state agencies should be consulted for more detailed descriptions of the incentives. Some description can be found for most programs on the websites of the Missouri Department of Economic Development and the Illinois Department of Commerce and Economic Opportunity.

Section 1: Economic Development Incentive Program Summaries

During the first phase of this incentive research, more than a dozen economic development incentive programs were identified as having been used by local governments in Missouri and Illinois. Metropolitan Research Exchange researchers and EWG staff conducted sixteen interviews with local government staff, state government staff, and consultants involved in the development process to gain a better understanding of how incentives work and their use.

The typology of incentives provided below is a useful method for categorizing incentives based on how taxes are funneled to private entities. The oldest and, perhaps until recently, the most widely used type are those that "abate" or forgive future taxes. Second, are those that divert future tax revenues from regular revenue streams – primarily tax increment financing. Lastly, are those incentives that create new taxes and fees – usually business districts that raise new taxes to make improvements or provide a special service to a designated area.

Programs that Abate Local Taxes

Missouri Chapter 353 Urban Redevelopment Corporation
Authorizing Legislation: Chapter 353, RSMo
Chapter 353, a municipality may create an "urban redevelopment corporation" for the purpose of developing a blighted property. The redevelopment corporation may be formed by a private company or by a not-for-profit organization. The redevelopment corporation must submit a redevelopment plan, which is approved by the city government. Improvements to the property are fully exempt from property taxes for a period of 10 years, and are taxed at 50% of their value for the next 15 years. The redevelopment corporation must continue to pay taxes equal to those paid on the property prior to redevelopment.

Missouri Chapter 100 Industrial Development Bonds
Authorizing Legislation: Chapter 100, RSMo
Under this program, municipalities are authorized to issue Industrial Development Bonds (IDB's) to finance industrial development projects for private entities. A requirement for issuing these bonds is that the local government must take ownership of the property. The bonds can be taxable or tax-exempt. If they are tax-exempt, the can be issued at lower interest rates than typically can be financed through conventional means. The local government leases the property back to the company with bond proceeds used to purchase and construct the project. The company has an unconditional obligation to pay principal and interest on the bonds. Whether or

not the bonds are tax exempt, the real and personal property taxes financed through the revenue bonds are abated for the life of the bonds. Missouri law permits up to 100 percent abatement of real and personal property taxes for 20 years. Companies can also apply for a certification of exemption of sales taxes on building materials.

Missouri Enhanced Enterprise Zone (EEZ)
Authorizing Legislation: Sections 135.950 to 135.973, RSMo
EEZs are set up to stimulate job creation for new or expanding companies in distressed areas. Zones are limited to "high poverty" areas with high unemployment, are blighted and are generally distressed as defined in Section 135.953 RSMo. In the St. Louis region there are 2 zones in St. Louis County and 1 in St. Louis City. A 50 percent abatement on real property taxes is provided for a minimum of 10 years to businesses locating in the zone that meet guidelines specified by the zone. At the zone's discretion the abatement can be approved for up to 25 years at 100 percent. State tax credits may also be issued to business for up to five years if a company meets certain minimum employment and investment guidelines.

Illinois Enterprise Zone (EZ)
Authorizing Legislation: 20 ILCS 655/1, et seq.
The Illinois Enterprise Zone Act was passed in 1982 to stimulate economic growth and neighborhood revitalization in distressed areas. Eighty-eight zones were originally created by 1993 and seven additional zones were later approved. Six zones were created in the St. Louis region. When a business is located within (or relocates to) an EZ there are several incentives available depending on the particular zone, the amount of investment it makes and the number of jobs affected. Common incentives are property tax abatement, sales tax exemption on building materials, and, for large investors, a sales tax exemption on personal property for the manufacturing process or a pollution control facility. Other local incentives (such as TIF) can be overlaid on the EZ. Each EZ has a local administrator whose job it is to coordinate state and local incentives in the EZ.

Projects that Divert Local Taxes

Tax Increment Financing

Tax increment financing (TIF) is an incentive to encourage real estate development, or redevelopment in blighted or otherwise distressed areas. When a TIF is established the appraised value of the property is frozen at a base value. When new construction occurs within a TIF district, property values and tax assessments go up. When this happens, the tax revenue is split into two streams. The first stream, derived from the "base value," or pre-TIF assessment, continues to go to local taxing districts – schools, municipalities, counties, etc. The second stream – also known as the "tax increment" – is used to pay for TIF eligible expenses. In Missouri, TIF districts can also capture 50 percent of the incremental sales, utility, and income tax (applicable to St. Louis and Kansas Cities only).

In both Missouri and Illinois a development project must meet two tests in order to be eligible for TIF. First, developers are required to provide an affidavit stating that the development would not occur "but for" the use of tax increment financing. Second, the TIF area must be "blighted"

or, in Missouri, be located in a conservation area or an economic development area, and in Illinois be located in a conservation or industrial park conservation area.

Missouri Tax Increment Financing

Authorizing Legislation: Sections 99.800-99.865, RSMo

The local governing body establishes a TIF Commission whose membership includes representatives from the local government (county and/or municipality), school district(s) and other local taxing authorities. The TIF commission is charged with providing the municipality with a recommendation to approve the TIF or not. If the TIF commission recommends the municipality not approve the TIF, a super majority is needed to pass the establishing ordinance. If the TIF commission does recommend approval, the municipality needs only a simple majority. Public hearings, economic impact reports, revenue projections, blight studies and other documents are required to be produced prior to establishment of a TIF district. Often TIF is used in conjunction with other local or state incentives. A "regular" TIF allows diversion of up to 100 percent of incremental property tax revenue, known as PILOTs (Payments in Lieu of Taxes) and up to 50 percent of incremental economic activity taxes, known as EATs, (taxes on sales, earnings and utility receipts). Local governments can also work with the state on some projects to employ a "Super TIF" that allows up to 100 percent diversion of local EATs as well as state EATs.

Development in TIF districts can be financed on a pay-as-you-go basis or bonds or notes can be issued to allow development to begin and continue while revenue is being diverted to a special allocation fund. Bonds, or other TIF obligations, must be paid off within 23 years of the redevelopment being approved. Municipalities are required to file annual reports on active TIF districts to the Department of Economic Development.

Illinois Tax Increment Financing

Authorizing Legislation: 65 ILCS 5/11-74.4.1, et seq.

As in Missouri, Illinois TIF districts divert incremental property taxes for the purpose of economic development in "blighted" areas and must meet "but for" requirements. For a short time, TIF was allowed to divert sales and utility taxes. However, subsequent changes in the TIF law in 1999 limited the ability to divert sales and utility taxes to those districts created prior to 1987. Some TIF districts that were created when the diversion was allowed are still in existence and receive a portion of overall net state TIF increment on a proportional basis from the Department of Revenue.

Prior to the creation of a TIF by a municipality, a "Joint Review Board" (similar to the TIF Commission in Missouri) of all affected taxing jurisdictions must vote on the approval. (Counties in Illinois do not have the power to create TIF districts, only municipalities.) While this does not act as a veto, it does inform the municipal decision. The Joint Review Board is required to meet at least annually for the life of the TIF. Local TIF districts are required to file annual reports with the Local Governments Division of the Illinois Comptroller's Office, but there is no penalty for noncompliance and there is no formal review of the submissions.

TIF districts are authorized for 23 years but can be terminated earlier if obligations are paid off and the municipality votes to terminate. The district can also be extended 12 years beyond the

original 23 at the municipality's discretion. When a municipality has more than one TIF district, funds can be transferred between TIF districts that are contiguous or separated by a public right-of-way.

As in Missouri, TIF in Illinois is frequently used in conjunction with other incentives and TIF districts can overlay state Enterprise Zones, though TIF and the EZ tax abatement benefit cannot be used at the same time. In Illinois, TIF has supported a wide variety of economic development projects including retail, commercial, and industrial.

Projects that Increase Local Taxes and Fees

Missouri Community Improvement District
Authorizing Legislation: Sections 67.1401 to 67.1571, RSMo
Municipalities and counties are authorized to create CIDs to provide funding for public infrastructure and public services for a designated area. The major difference between CIDs and other programs in this subsection is that CIDs allow costs for non-construction activities. A CID is typically formed as a separate political subdivision that can impose a sales tax, property tax or special assessment within its boundaries. A CID can also be formed as a non-profit organization that can impose special assessments. DED reporting is required upon establishment and annually, though there is no effective enforcement mechanism for those who do not report.

Missouri Neighborhood Improvement District
Authorizing Legislation: Sections 67.453 to 67.475, RSMo
NIDs provide funding for public infrastructure in designated areas. NIDs are not separate political entities. The scope of improvements is established by petition of the property owners and approved by the municipality. The municipality then issues general obligation bonds to fund expenditures. The bonds are retired by a special assessment on the properties that benefit.

Missouri Special Business District
Authorizing Legislation: Sections 71.790 to 71.808, RSMo
SBDs are political subdivisions created by municipalities. The districts have the power to impose real property taxes, a business license tax and special assessments to fund public improvements. The governing structure and powers vary depending on the population of the city. In cities with a population less than 350,000, the city governing body operates as the governing body of the SBD but must do so as a separate political subdivision of the city, not as another board or commission of the city. Cities with population of 350,000 or more have additional powers including the ability to accept gifts, grants, loans and contributions and enter into contracts.

Missouri Transportation Development District
Authorizing Legislation: Sections 238.200 to 238.275, RSMo
TDDs provide funding for transportation improvements that facilitate development projects. These districts are separate political entities than can impose a sales tax of up to 1% within its boundaries; impose a property tax, special assessments, or tolls. Bonds may also be issued for up to 40 years. This program typically involves retail development projects since the primary source of funds is the sales tax. TDD is often used with the TIF incentive. No reporting to DED is required but the state auditor is required to audit each TDD every three years.

Missouri Sales Tax Rebate/Development Agreements

Authorizing Legislation: Section 70.220, RSMo

Municipalities can enter into an agreement with a property owner who agrees to fund the costs of public improvements. The municipality repays the costs from incremental sales taxes from the project. These agreements are purely local and require no special reporting or approval outside the municipality.

Illinois Business Development Districts (BDD)

Authorizing Legislation: 65 ILCS 5/11-74.3, et seq.

BDDs were authorized by the state in 2005 under the Illinois Business District Development Act. A 1% sales and a 1% hotel tax may be implemented by local ordinance for a defined district. Sales tax receipts are collected by the Illinois Department of Revenue and hotel tax receipts are collected by the municipality. The BDD must meet "blight" and "but for" requirements similar to TIF districts, but BDDs do not have the same spending restrictions that TIFs do, thereby making it appealing for certain economic development projects with specific needs.

Illinois Special Service Areas (SSA)

Authorizing Legislation: 27, 35 ILCS 200/27, et seq.

SSAs can be created by local governments, allowing the government to levy a special tax on properties within a defined geography to fund special services or improvements within that defined area. SSAs were first started in 1970 and are largely used to support retail districts, particularly central business districts, and infrastructure in newly developing areas.

Section 2: Definition of Terms

Payments in Lieu of Taxes (PILOTs)

PILOTs is used to refer to two different concepts related to economic development incentives. The first refers to the incremental real property taxes that are diverted to the special allocation fund for a TIF district. When a property is in a TIF district property owners make two payments based on the assessed value of their property. (1) The first payment is property taxes on the base assessed value (assessed value for the year prior to the creation of the TIF district) of the property that go to the regular taxing districts (city, school, fire, police, etc.). (2) The second is a "payment in lieu of taxes" based on the increment in assessed value of the real property (due to improvements made and inflation) in the amount that they would pay in taxes if the property were not in a TIF district that goes in the special allocation fund to pay for TIF reimbursable costs.

The second meaning of "PILOTs" refers to payments made to regular taxing districts out of the TIF special allocation fund. When a TIF is approved agreements are sometimes made that a taxing district will receive a payment in the amount that would be received in property taxes (or some percentage of) if the property were not in a TIF district in order to accommodate for any additional burden placed on that district by the new development. A common example of this is when TIF is used for a residential development, the school district may receive a payment in lieu of taxes since they will be experiencing increased enrollment.

Economic Activity Taxes (EATs):

EATs refers to the increment in sales, gross utility receipts, and income taxes that are generated by a new development (or redevelopment) in a TIF district. When a TIF district is created in Missouri the EATs are frozen at a base amount and any increment that occurs over that amount is diverted to the TIF special allocation fund and used to pay off TIF eligible expenses. In Illinois, incremental sales and utility taxes were diverted for a short period of time but changes in the TIF law in 1999 limited the ability to divert sales and utility taxes to those districts created prior to 1987. Some TIF districts that were created when the diversion was allowed are still in existence and receive a portion of overall net state TIF increment on a proportional basis from the Department of Revenue.

Appendix C
Municipal Finance Data Collection

In order to analyze the impact of development incentives on local government finance, EWG is creating a database of finances for municipalities in the region. The data of particular interest includes itemized financial records of each municipality's expenditures (public services such as police, fire and streets) and revenues (particularly from taxes). This information appeared, most often, in the form of yearly audited financial reports or Comprehensive Annual Financial Reports, CAFRs. The ongoing goal is to collect fifteen years of financial data (1993-2007) from every municipality within the East-West Gateway eight-county bi-state region. The database will be useful for this and future studies.

Methodology

Data collection commenced at the beginning of August and continues today. The Internet was used as a starting point for collecting data from municipalities, and all reports available online were gathered. Once the online resources were exhausted, municipal governments were contacted seeking their financial records. A diversified approach was used for contacting municipalities, recognizing the effectiveness of using various methods when dealing with vastly different municipalities (i.e. size, resources, employees, etc.). This approach included written request letters, e-mails, faxes and, most frequently, phone calls.

Illinois

Data from the sixty-one Illinois municipalities have been fully collected through a database maintained by the Illinois Comptroller. The state requires that municipalities report their finances directly by filling out a form provided by the Comptroller's office. Because of this, a solid foundation in Illinois municipal financing is set and it is now possible to begin to interpret and analyze some of the data.

While this digital method helps achieve a standardized financial dataset, there are some questions to the data's validity. First, the actual numbers reported by each municipality may not be audited, but simply numbers that seem appropriate to whomever is filling out the form. The second discrepancy of the Illinois database involves changes in the actual form over the last fifteen years. While the overall purpose of the database has remained the same, changes to specific fields, including new additions and deletions, and an increase in the amount of details requested on a year-to-year basis, have created subtle, yet influential differences between these annual forms. These changes makes it difficult to accurately track a municipality's fiscal trends and hinders the ability to maintain a cohesive dataset. Finally, written details about specific funds and descriptions about certain variables, which is crucial information available in CAFRs, is nonexistent in the Illinois database. Nonetheless, the database maintained by the Illinois Comptroller has created progress in the field of transparent accounting for government entities, but there is a need to review its current practices.

Missouri

Unfortunately, no such municipal finance database exists in Missouri. While municipalities are required to file with the Missouri State Auditor's Office, reporting rates are low. Additionally, the state only retains the five most recent years of reports filed by entities. Since municipalities do not always file reports, the data currently on record at the state is not even the five most recent years and therefore, the data that the department maintains possesses drastic gaps. It was decided that the state would be a secondary data source for financial records for Missouri's 133 municipalities.

Municipal websites were searched and all financial records that were available, primarily from larger municipalities, were gathered. Next, governments were contacted through phone calls, request letters, faxes and emails. Numerous arrangements have been made with municipalities to gather data including receiving digital copies, receiving hard copies through the mail and picking up their reports to keep, or scan into a digital format and return. It has been an ongoing challenge, but the database currently contains 45% of the 2,055 reports desired. It has been particularly difficult to get in touch with the smallest, rural municipalities but efforts will continue. The aim of the project is to investigate regional trends of municipal financing over time, rather than provide a snap-shot of larger and heavier populated municipalities.

Data Entry

Data entry has started for municipalities in Missouri with many revelations and setbacks throughout the process. No actual data needed to be entered for Illinois because of the state's dataset. However, the format of the database from the Illinois Comptroller was manipulated to better meet EWG needs, while the data itself was not altered. Missouri's data, on the other hand, is a much different scenario.

There are various types of financial accounting (cash based, accrual, etc.) and each method affects the actual numbers presented in an annual report. A report completed with cash based accounting will have different figures than one completed with accrual-based accounting. Over time, municipalities have switched between methods to better suit their own needs, and not until recently, has there been a primary, standardized method of accounting (it is currently required by the state to use accrual based accounting methods). Changing accounting standards makes it difficult to compare municipalities' funds to one another, and in some cases, even to track a single municipality's finances over time. Also, the level of detail provided in CAFRs varies over time.

When attempting to create a database containing detailed variables, it is difficult to gather specific figures if the sources of data do not mirror one another. One of the primary variables of interest is taxes (including sales, property and utility). Some municipalities report aggregate municipal taxes and report only the total. This makes it impossible to deduce how much of the whole was received from the various possible sources. The greater the level of details in a financial report, although tedious, allows for greater transparency, validity and comparability.

Information and descriptions of capital projects and different fund accounts in CAFRs has provided valuable information. The data, when accompanied by such a narrative, allows the reader to better understand what is being presented, and creates a stronger sense of confidence when searching for specific variables, which might have otherwise remained hidden.

While it has been burdensome to sift through each individual CAFR to extract data, it allows for examination of the extreme variations between municipalities' reports and illustrates the need for a standardized accounting practice. While Missouri has taken some steps toward standardizing financial records by requiring municipalities to file annual reports and use accrual accounting, there is a lack of enforcement and oversight, thwarting the effects of such attempts.

Appendix D
Disclosure Policies

Disclosure, accountability and transparency are themes that appear throughout much of the literature on development incentives. This appendix summarizes some key features of a model disclosure policy, and provides references to other reports that have called for similar measures.

This research project has added to the literature by highlighting an issue that has so far received relatively little attention – namely, the difficulty in evaluating projects that receive incentives from multiple sources.

Features of model disclosure policy:

1) Single state agency collecting and reporting information: This would improve the current situation in two ways. First, it would allow for easier reporting by municipalities or other administrators of projects that have received incentives. Second, information will be more accessible to the public and to municipal officials.
2) Enforcement mechanisms to ensure timely and complete reporting: Reports are not always filed, or contain missing information.
3) Public notification of creation of incentives: Some programs (for instance, Missouri's TDD incentive) do not require public notification or a public hearing when a district is created.
4) Easy access to information collected: Ideally, the information will be presented in an online searchable database
5) Project-by-project reporting: This will allow better evaluation of the success of individual projects, and allow a better understanding of the effects of multiple incentives.
6) Collection of performance measures: If a project receives an incentive because it is supposed to produce jobs, then data on the jobs ought to be collected and reported. If it is found that projects consistently under-perform, then it might become necessary to add provisions to allow taxpayers to recoup the value of local taxes incentives.
7) Bring disclosure policies for local incentives up to the level required for state incentives: For example, the BUILD program administered by the Missouri Development Finance Board requires reporting on job creation and on private investments leveraged by the public incentive.

State Sources and citations:

Multiple reports have been written, both in Illinois and Missouri, with recommendations to improve disclosure. The following is a list of some of those reports.

1) "Transportation Development Districts," Missouri State Auditor's Office (SAO) – (2006, 2007 and 2008): The Missouri SAO issues an annual report on TDDs. Every report includes 2-3 pages detailing transparency and accountability recommendations. The 2008 report highlights the following problems: no public notification when TDDs are created;

no involvement by voters or elected representatives when TDDs are created; and no oversight or independent review of TDD expenditures.

2) "Performance Audit; Tax Increment Financing Follow-up," City Auditor's Office, City of Kansas City – (2007): The report calls for improved disclosure, including a call for "reporting annual comparisons of actual and projected revenues and verified job data."

3) "2008 Tax Credit Review," Missouri Joint Committee on Tax Policy report. A review of several major state-level incentive programs included, as a final recommendation, "that Missouri state government develop a program evaluation model for the purposes of analyzing the impact of each of Missouri's tax credit programs."

4) "Missouri Development Finance Board," Missouri State Auditor's Office (SAO) – 2007: In its audit of two state-level incentive programs (BUILD and DREAM), the auditor's office recommended "increased monitoring efforts . . . by verifying employment and wage information."

5) Website: http://corpacctportal.illinois.gov/ State of Illinois Department of Commerce and Economic Opportunity, Corporate Accountability portal. This portal allows access to a database on recipients of state-level economic development assistance.

6) "A Review of Issues Related to Property Tax Reform in the State of Illinois," Madison County Property Tax Reform Committee, 2008. In the summary of issues regarding the use of economic development incentives, the report recommends "more accountability of TIF Districts," including "analyzing the fiscal effects of proposed TIFs on local units of government should be required and made part of the findings establishing the TIF district;" and "include detailed accounting of surplus increment in annual TIF reports."