

Board of Directors
East-West Gateway Council of Governments
January 26, 2011

DEVELOPMENT INCENTIVES RESEARCH

Final Report

Board of Directors Charge

Committee of the Whole on Regional Tax Reform

January, 2008

...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.

Final Report - What is Included

- ◆ Tax increment financing (TIF)
- ◆ Special districts, like Transportation Development Districts (TDD), Community Improvement Districts (CID), Special Service Areas (SSA), Business Development Districts (BDD)
- ◆ Tax abatements, including Chapter 353 Urban Redevelopment Corporations, Chapter 100 Industrial Development Bonds, Chapter 99 Land Clearance Redevelopment Authority, Enterprise Zones
- ◆ Other state incentives, including exemptions, credits, etc.

Final Report – New Since Interim Report

- ◆ Supplemented by area university research
- ◆ EWG created development incentive database
- ◆ Developed a comprehensive municipal finance database
- ◆ Includes a 2010 Survey of Local Governments
- ◆ Conclusions and Recommendations

Massive Public Investment in Private Development Incentives

- ◆ \$5.8 billion in public money has been committed to supporting private development during the last 20 years – a conservative estimate
- ◆ 80% of TIF and TDD public investment supports retail development
- ◆ From 1990 to 2007, the retail sector grew from about 142,100 to 147,500, a gain of roughly 5,400 jobs
- ◆ This translates to \$370,000 in public money per retail job created

Accountability and Transparency Need Improvements

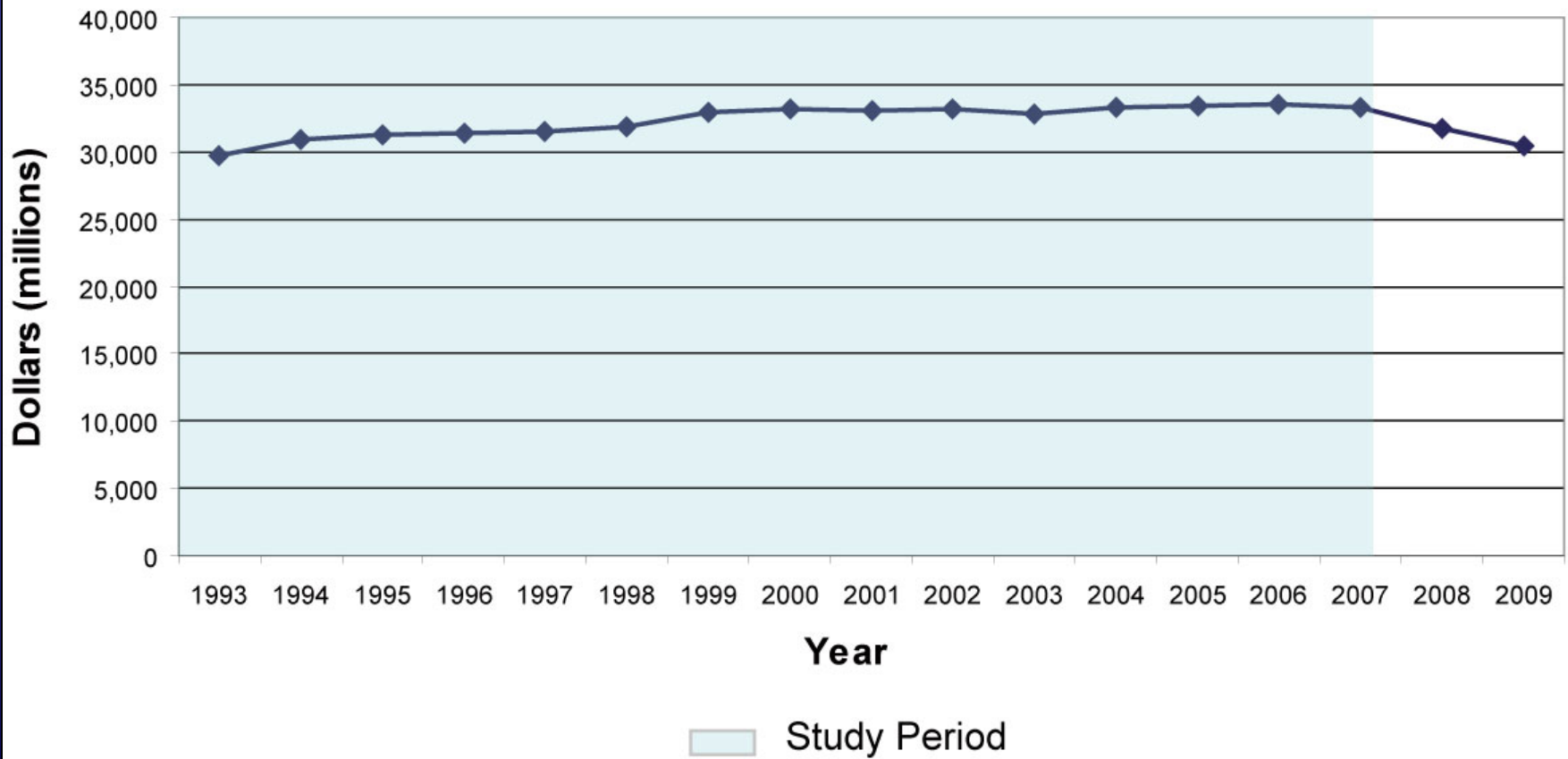
- ◆ Reporting on incentives is inconsistent and incomplete
- ◆ Missouri amended TIF and TDD statutes to improve reporting in 2009, but the laws could be strengthened
- ◆ Reporting of revenues, expenditures and outcomes is inconsistent, unenforced or very weak
- ◆ Except in the city of St. Louis, there are no local mechanisms to require a private project sponsor to deliver promised economic outcomes

Despite Public Investment in Incentives, the Region is Not Growing

Over 15 years from 1993 through 2007:

- ◆ Job growth has been modest
 - ◆ Overall annual growth rate of 0.8%
 - ◆ Shift from goods-producing to service-providing
- ◆ Household income growth has been low
- ◆ Growth in taxable sales revenue has been flat

Total Taxable Sales for the St. Louis Region 1993 through 2009 (2009 Dollars)



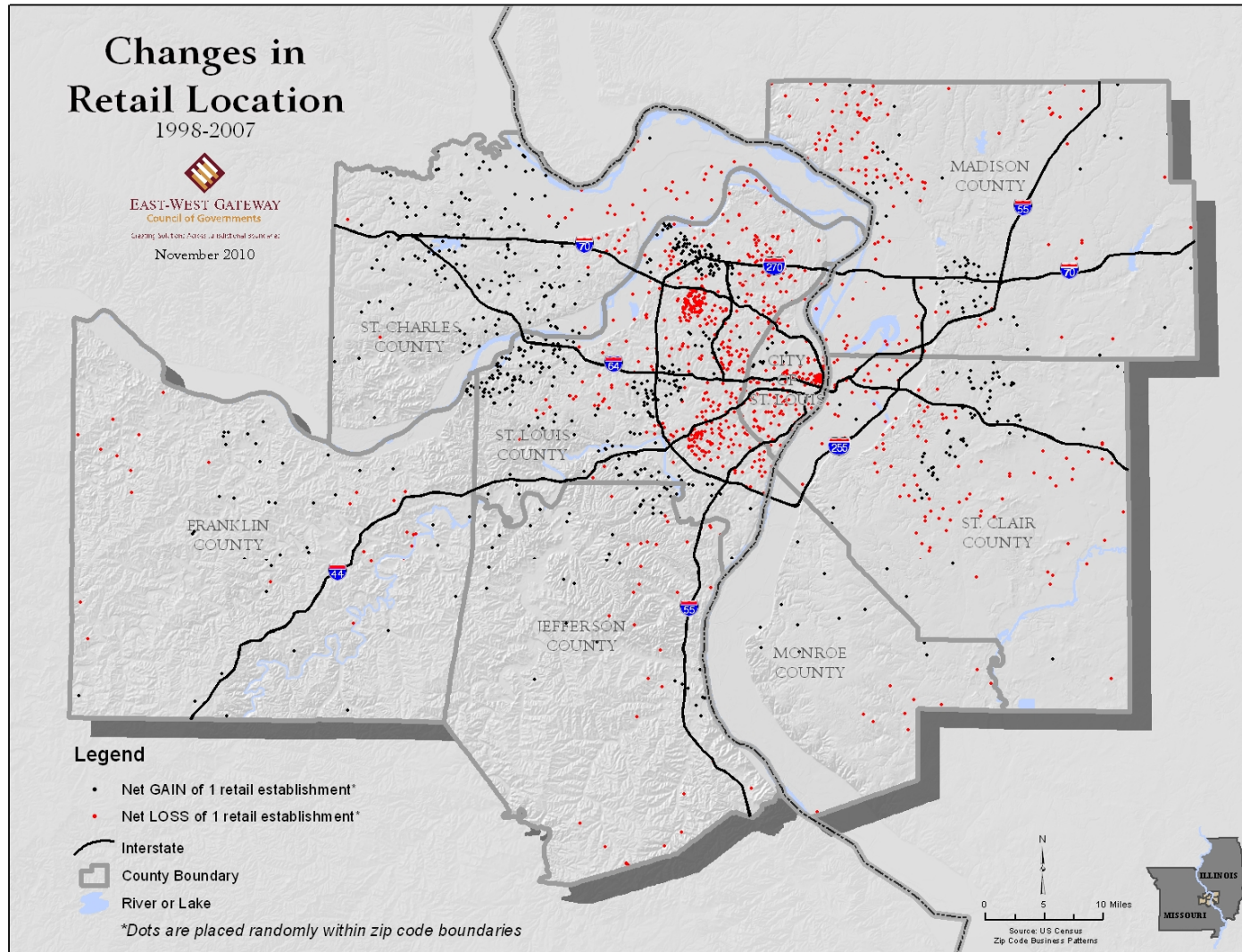
Use of TIF and Other Incentives Creates Intraregional Competition

- ◆ While use of incentives can be positive for TIF using municipality, it has negative impacts on neighboring municipalities
 - ◆ For each \$1 million in retail TIF investment in one municipality, there was a \$25,000 average annual loss in taxable sales for others
 - ◆ Retail TIFs in one area of the region were found to decrease job growth in other areas

Changes in Retail Location 1998-2007

1998-2007


EAST-WEST GATEWAY
Council of Governments
Creating Solutions Across a Multistate Region
November 2010



Conclusions

- ◆ There is a demonstrated need to provide development incentives
 - ◆ The region's competitive economic standing remains weak
 - ◆ There is a clear public purpose in addressing actual blight and providing services in underserved or historic areas

Conclusions

- ◆ The investment of current and future tax dollars in private development has been massive
 - ◆ \$5.8 billion spent and committed since 1990

Conclusions

- ◆ Identifiable regional economic benefits of public development incentives for retail development are minimal
 - ◆ Most incentives are not used in areas of actual blight
 - ◆ Most TIF And TDD incentives (approx. 80%) are used for retail developments
 - ◆ Regional taxable sales are not increasing

Conclusions

- ◆ Reliance on sales tax revenues is risky for the future of municipal finance
 - ◆ Sales tax receipts are not increasing
 - ◆ Local spending per capita is not increasing
 - ◆ Higher sales tax rates will suppress local sales and drive higher untaxed internet sales
 - ◆ Providing incentives to grow retail sales is a redistributive strategy, not a strategy for growth

Conclusions

- ◆ Reporting of revenues, expenditures, and outcomes is seriously deficient
 - ◆ Reports to state agencies are required, but no penalty for non-reporting
 - ◆ Many districts do not report at all
 - ◆ Quality of reports is highly variable
- ◆ Good local and regional decision-making requires better information

Conclusions

Local governments in the region are under fiscal stress

- ◆ Two-thirds of local governments report they are under fiscal stress
- ◆ One-quarter of local governments do not view their city as fiscally sustainable in two to five years; one-third do not view their city as fiscally sustainable in 10 and 20 years
- ◆ Over 90% of municipalities cut services or increased taxes/fees in response to fiscal pressure

Recommendations

- ◆ Adopt model legislation to require uniform and meaningful reporting and accountability
- ◆ Adopt an agenda for regional fiscal reform, beyond development incentives
 - ◆ Local governments are in fiscal crisis and need support
 - ◆ Any reform agenda should include all sectors and levels of government

A Possible Motion...

That East-West Gateway staff be directed to identify options for enhancing efficient delivery of public services by local governments