

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

*Final Report*

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**EAST-WEST GATEWAY**  
**Council of Governments**

Creating Solutions Across Jurisdictional Boundaries



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## Executive Summary

In the last 20 years local governments in the metropolitan St. Louis region have diverted more than **\$5.8 billion** in public tax dollars to subsidize private development through the use of various financial incentives, including tax increment financing, special taxing districts and tax abatements. Municipalities, counties and states used these development incentives in the competition to lure tax-generating businesses to their specific jurisdiction. These incentives subsidized new developments by taking a portion of what otherwise would have been paid as taxes and instead diverting them to the private developer to finance the development.

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.*

This research documents that the use of these tax incentives has been ineffective both as a way to increase regional sales tax revenue or to produce a significant increase in quality jobs. It also clearly has not helped municipalities avoid fiscal stress or had a general beneficial economic impact on the region.

Over the same period, the region has made modest employment gains, primarily in the service sector. Job growth overall has been sluggish, growing at a rate of about 0.8% annually from 1990 to 2007, with a significant slowdown after the year 2000, when the growth rate fell to 0.2%. Retail employment is of particular interest because, according to East-West Gateway estimates, about 80% of tax increment financing (TIF) and transit development district (TDD) incentives have been for retail oriented development. From 1990 to 2007, retail sector employment grew from about 142,100 jobs to 147,500, a gain of about 5,400 jobs. Since 2007, during the recession, both sales tax revenues and job growth have decreased significantly, as might have been expected.

In addition to the \$2.5 billion documented in East-West Gateway's Interim Report, this Final Report provides estimates of the additional tax revenue forgone through **tax abatement programs** in both states as well as tax revenue allocated to private development in the region through the use of **state tax incentive programs**. This report **refines some of the data** used in the Interim Report for TIF and special taxing districts, and **includes more recent data**, through 2009.

There are examples of the effective use of development incentives but they are greatly outnumbered by the projects that produce localized benefits at a high cost with little or no demonstrable economic benefit. The problem is not the use of incentives, but how they are used. The purpose of this report is to challenge community leaders, both in the public and private sectors, to reconsider the role of local development incentives as part of a comprehensive regional economic development strategy and to provide the necessary information to develop policy and legislative changes that might produce real and sustainable economic growth for the St. Louis region.

This Final Report includes research by East-West Gateway staff and research commissioned from area universities, and contains the following elements:

- An inventory of the use of development incentives in the St. Louis region
- An account of the local and regional effects of those tax incentives
- An assessment of the local government finances
- Conclusions and legislative recommendations

Based on the findings of this research, we have reached the following conclusions:

1. There has been a massive public subsidy of private development – more than \$5.8 billion – in the last 20 years across the St. Louis region. The \$5.8 billion diversion of public tax dollars to private developers is a conservative conclusion based upon the best available data. About half of this has been allocated through two types of programs that are predominantly used for retail development: tax increment financing (more than \$2 billion) and special taxing districts (more than \$500 million).
2. Evidence exists that the use of TIF and other tax incentives, while positive for the incentive-using municipality, has negative impacts on neighboring municipalities. An examination of sales tax revenues and the use of TIF demonstrate that declining shares of sales tax revenue in one municipality often coincides with the use of incentives and growth of tax revenue share in neighboring municipalities. Zip codes that have TIF-related investment have been found to have an increase of jobs in the active TIF years, but that TIF use was associated with a decrease in jobs elsewhere.
3. Local governments in the region are under fiscal stress. A significant number of municipalities have experienced declining sales and/or property tax revenues, particularly when these revenues are adjusted for inflation. A significant number of municipalities faced budget deficits, lay-offs and service cuts between 2000 and 2007, even though that was a period of time when the economy had generally fared well. In a survey of municipal officials, many indicated they had serious concerns about the long-term fiscal sustainability of their cities.
4. The use of tax incentives has exacerbated economic and racial disparity in the St. Louis region. Historically, tax incentives to private developers are less often used in economically disadvantaged areas and their more frequent use in higher-income communities gives those jurisdictions what amounts to an unneeded, extra advantage. Tax incentive tools such as

Chapter 99 and Chapter 353 tax abatements and TIFs were used repeatedly in the central business district and the west end of the city of St. Louis while they were used sparingly in depressed sections of North St. Louis. Throughout the region, areas of concentrated poverty begin at a distinct disadvantage when trying to compete for customers, businesses and jobs and are further handicapped when higher-income communities receive additional advantages through diversion of tax dollars to private developers via tax incentives.

5. A complete database of Missouri municipal finances is needed. The Illinois Comptroller has an electronic database of all taxing districts. In Missouri, such a system should be developed to help local officials to make informed decisions, and to provide transparency and accountability. The current system in Missouri involves municipalities filing hard-copy reports with the State Auditor Office.
6. 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. *In 2009 the Missouri legislature modified TIF and TDD statutes to require better reporting and, in the case of TDDs, a financial penalty for failure to submit annual financial reports.* While these are improvements, it is still true that 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.<sup>1</sup>
7. Educate the voting public on taxes and how public services are funded. Many citizens lack an understanding of how government is funded and the tradeoffs required to balance budgets. This fact, combined with a growing mistrust of government has led citizens to disengage from the process. Local governments have increasingly turned to using economic development incentives, particularly TIF and special taxing districts, as a mechanism to fund services. They are tools that local governments can use to control an additional revenue stream without a popular vote and avoiding legislative caps on major revenue sources. This is not a sustainable means of financing government. We must instead, educate the public on the true costs of services, the tradeoffs that exist and the options for funding public services.
8. 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 cannot recover those expenditures in the event that outcomes are not achieved.

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<sup>1</sup> One exception is the city of St. Louis, which has required a “clawback” provision in its redevelopment agreements since 2005.

9. 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 forgone revenue will become increasingly apparent.
10. 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. Furthermore, the region has seen a shift from goods producing (higher paying jobs) to service producing (typically lower paying) jobs, suggesting that although there are more jobs, they are of lower quality. Household income is lower and increasing more slowly than in most of our peer regions.
11. Set aside old ways of thinking and adopt an agenda for regional fiscal reform. In 2008, the Metropolitan Forum brought together a national panel of experts who studied the St. Louis region, concluding the region needs to adopt new ways of thinking. This research supports the need for a regional solution to the problematic overuse of development incentives and the fiscal crisis in which local governments find themselves. Local governments need support to change and adopt a better strategy for the future. Regional fiscal reform will only be possible through a large-scale collaborative process that cuts across jurisdictional boundaries and is inclusive of all sectors and levels of government.



## **I. Preface**

The purpose of this research is to provide a factual basis for a rational discussion of the role of development incentives in an effective regional economic development strategy.

During the past three years of work on this report, researchers found a good deal of common ground among local elected officials. Most agree that local governments are in fiscal crisis and many are not optimistic about their future fiscal health. There is also acknowledgement that local governments increasingly rely on sales tax revenues to pay for essential public services. Many local officials recognize the limitations of an economic growth strategy fueled by incentives because they have seen how retail development has become mobile, often following a bigger incentive offered by a neighboring municipality when the useful life of the store winds down. At best, a new retail development is a short-term fix for a long-term structural problem in a local government budget. At its worst, the competition for new retail pits one local government against another in a costly win-lose competition that ultimately benefits neither. Nonetheless, local governments continue to pursue new sales tax revenue as a necessary and legitimate strategy because it is such a large component of municipal budgets.

The problem, from a regional perspective, is that the intraregional competition for sales tax in a region that is not growing is a zero sum game. Retail sales follow the accumulation of wealth, not the reverse. Without real growth and wealth creation in the region's economy, it is axiomatic that one community's gain becomes a loss elsewhere.

None of the forgoing suggests that development incentives do not have a legitimate role in an economic development strategy or that the local officials that use them are not acting in good-faith service to their community. This report takes a regional view, however, and the regional economic consequences are often quite different than the local fiscal outcome.

This report describes incentives used to support hundreds of projects in eight counties across a wide variety of types and it ultimately questions the regional economic value of those incentives. That conclusion should not diminish, however, individual stories of worthwhile projects that have alleviated real blight and strengthened a neighborhood. Whether it's the redevelopment of the Martin Luther King Plaza in north St. Louis with a much-needed grocery store and other small retail shops, or the reinvigoration of downtown Belleville, there are indeed economically productive uses of development incentives, even those that support retail development. Similarly, there is economic value in the use of incentives to create new non-retail jobs.

Unfortunately, while examples of the effective use of development incentives do indeed exist, they are greatly outnumbered by the projects that produce localized benefits at a high cost with little or no demonstrable economic benefit. The problem is not the use of incentives, but how they are used. The purpose of this report is to challenge community leaders, both in the public and private sectors, to reconsider the role of local development incentives as part of a comprehensive regional economic development strategy and to provide the necessary information to develop policy and legislative changes that might produce real and sustainable economic growth for the St. Louis region.



## II. 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 using them, they have not contributed to overall regional economic growth or long term financial viability of local governments. 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 have led 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 incentives to the private sector to pay for “public” improvements relating to private development.

In 2008, the Metropolitan Forum, created by the Regional Chamber and Growth Association, FOCUS St. Louis and East-West Gateway Council of Governments (East-West Gateway or EWG), published a report, *Regional Fiscal Reform*, the catalyst for this research. The Metropolitan Forum brought together regional business, civic and government leaders who chose to focus on regional fiscal reform; viewing it as “a seminal issue that would define the future of the St. Louis region.” The Forum and the multi-disciplinary board of national experts it commissioned, comprehensively examined the issues facing the St. Louis region. The resulting key findings and recommendations of the report presented the state of the region in a bleak reality and called on the region to set aside old ways of thinking and rise to the challenge of adopting an agenda for regional fiscal reform.

The Metropolitan Forum concluded that the current system of tax increment financing and other tax incentives used in the St. Louis region is “fundamentally flawed” and “may actually work to the economic disadvantage of the region as a whole.” Responding to the call to action of the Forum, in February 2008, the East-West Gateway Board authorized staff to undertake a comprehensive analysis of the use of economic development incentives in the St. Louis region and the current system’s effect “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.”

Since the Board first issued this charge, the need for such an examination has become even more pressing. As property values decrease and individuals tighten their spending habits, two of the biggest funding streams for local governments – property and sales taxes – are affected. In this period of transition, a comprehensive understanding of how we finance government and what the alternatives are for reform is essential. In response to the Board’s charge, this report reviews the use of economic development incentives in the context of local government fiscal health and regional economic vitality.

This report builds on an Interim Report released by East-West Gateway in January 2009, *An Assessment of the Effectiveness and Fiscal Impacts of the Use of Local Development Incentives in the St. Louis region* (the Interim Report).<sup>2</sup> The Interim Report revealed that over \$2.5 billion

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<sup>2</sup> See Appendix A for the location of the full report.

in public money had been committed through tax increment financing (TIF) and similar forms of development districts over about a 20-year period from 1987 through 2007. That number was conservative because of a lack of essential data, limitations of self-reported information and the general lack of transparency and accountability in the use of economic development incentives. These difficulties persist but EWG was able to compile a substantial amount of data and provide analysis in response to the Board's primary questions. This Final Report includes state incentives, tax abatement programs and more recent data for TIFs and development districts.<sup>3</sup>

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?

There is an extensive academic literature on the use of economic development incentives, but there is a need for additional research to explore connections between development incentives, local government finance and the distributional effect with regard to race and income.

The body of this report examines the interconnectedness of these issues in the St. Louis region. Additionally, a literature review describing local and national research on the topic is included in Appendix G.

The report concludes with recommendations and conclusions based on the quantitative and qualitative primary research of East-West Gateway staff, the findings of research commissioned from the Applied Research Collaborative<sup>4</sup> and review of other relevant research.

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<sup>3</sup> This Final Report updates the data in the Interim Report – refining and adding new data that has become available: for Tax Increment Financing (TIF) in Illinois and Missouri, Missouri Transportation Development Districts (TDD), Illinois Special Service Areas (SSA), and Illinois Business Development Districts (BDD). Additionally, this Final Report documents the use of tax abatement programs including: Missouri Chapter 353 Urban Redevelopment Corporations, Missouri Chapter 100 Industrial Development Bonds, Missouri Chapter 99 Land Clearance Redevelopment Authority and Enterprise Zones in both Missouri and Illinois; Missouri Community Improvement Districts (CID) and state tax incentive programs for both states.

<sup>4</sup> The Applied Research Collaborative is an affiliation of university researchers from the University of Missouri – St. Louis, St. Louis University, and Southern Illinois University – Edwardsville. See Appendix A.

### **III. The Cost of Economic Development Incentives**

The following section documents the amount of tax dollars allocated to economic development through incentive programs. The documented costs are conservative estimates based on the best available and most recent data. The section concludes by noting a lack of evidence that the region as a whole has benefited from the use of incentives. See Appendix B for a fuller description of the local development incentive programs and statutory citations.

#### **A. Overview**

Making conservative estimates, over \$5.8 billion in actual or forgone local and state taxes have been spent in the St. Louis region through the use of incentives for the purpose of economic development. Table 1 provides estimates of the amount of taxes collected to date and the amount of public dollars committed to projects, when available. The total amount of tax dollars collected to-date is an estimated \$3.6 billion dollars with an additional \$2.2 billion already committed to these projects for future years.

The aggregate numbers provided in Table 1 are conservative for several reasons. First, the accounting only includes data that were reported to the appropriate agencies or were identified through additional data gathered by EWG staff. Prior to legislative changes in Missouri in 2009 an estimated 20% of TIF projects and more than 20% of TDD projects were not reported to state agencies.<sup>5</sup> While it appears that the recent changes to Missouri law have increased reporting, historical data remains incomplete and the full impact of the legislative changes has yet to be determined. Additionally, data on property tax abatement programs in Missouri is even less comprehensive. Therefore, conservative estimates were made, which likely reflect only a fraction of the actual total costs of the programs. (See Section III.C. for a more detailed discussion.)

Second, amounts for “taxes committed to date” and “total public tax dollars committed” were not available for all incentive programs. Taxes committed to date were used in the total commitment column when total commitment amounts were not available. Additionally, insufficient data were available on taxes committed to date for TDDs and therefore, are not included. Third, limited information was available for state incentive programs in Illinois. The \$16 million accounted for is only for five years and for a mere ten of nearly 50 programs. Finally, there are publicly funded programs, local and state, with the purpose of economic development, such as sales tax abatement programs for which sufficient data are not recorded or available.

Therefore, making conservative assumptions, if the costs documented in Table 1 are 80% to 90% of the actual costs, we can estimate that the total costs to-date is actually between \$3.9 and \$4.5 billion. Additionally, we can estimate that the total dollars committed in current and future revenues are actually closer to at least \$6.4 or \$7.2 billion. These are still conservative estimates due to the lack of reporting on Illinois state incentives alone.

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<sup>5</sup> In 2009, Missouri passed legislation that modifies TIF and TDD statutes to increase reporting compliance. Failure to submit timely complete reports for TIF districts prohibits a municipality from implementing another TIF project for five years and, for TDDs, imposes a fine not to exceed \$500 per day. See Appendix C for further discussion of the legislation.

## Defining Dollars Invested

**Tax Commitment to Date:** The amount of tax dollars that have been invested in or directed to development projects up to the most recent year for which data are available at the time of this report.

**Total Public Tax Commitment:** The estimated amount of tax dollars anticipated to be directed to development projects over the life of the projects. These data are only available for a few programs including (a) TIF in Missouri, for which the annual report form asks for “total anticipated TIF reimbursable costs” or, in other words, the amount of tax dollars that will be spent on the project over the life of the TIF; (b) TDD in Missouri, for which the State Auditor requests TDD administrators to report the total amount of anticipated revenues; and (c) a few Missouri state incentive programs for which additional funding has already been authorized for existing development projects.

## Committed, Invested, Directed, Diverted, Spent and Forgone

*The amount of tax dollars “committed” or “invested” in a development project are allocated to a project in different ways depending on the incentive program used.*

For **TIF**, incremental tax dollars (the amount of tax dollars collected over the amount collected in the base year/year TIF was created) are diverted to a special fund for the life of the TIF district. The funds are to be used specifically within the district for TIF eligible expenses, opposed to being collected and distributed to their regular taxing districts/funds.

**Special Taxing Districts** pass a new tax that is specifically to be collected for and spent on project costs within the district. Most districts pass a sales tax although some districts can also pass a property tax and/or a special assessment on property within the district.

**Tax Abatement** programs exempt property owners from paying taxes at the rate that would normally be due on their property. Tax dollars are forgone, or not collected, usually on the incremental value of the property (the increase in value over the value of the property the year the abatement agreement was created) and/or at 50% of the total property value. Sales tax abatement programs also exist, but are not documented in this report due to lax or non-existent documentation of their use. These programs exempt businesses from paying sales tax on goods purchased for a development, usually within an Enterprise Zone or designated redevelopment area.

Missouri and Illinois both offer **state incentive** or assistance programs to businesses and communities to encourage economic development. These programs use a variety of methods to provide a cost savings to private entities, often including **tax exemptions, exclusions, discounts and preferential tax rates. Tax credits**, one of the most commonly used tools, provide a reduction in the tax liability owed by an individual or business. **Bond financing** is a funding mechanism that uses tax incentives to lower financing costs for business by having a government entity act as a conduit borrower for a private entity. The amount of public dollars allocated to projects through state incentives is inadequately recorded for many programs.

*See Appendix B for a fuller description of the development incentive programs and statutory citations.*

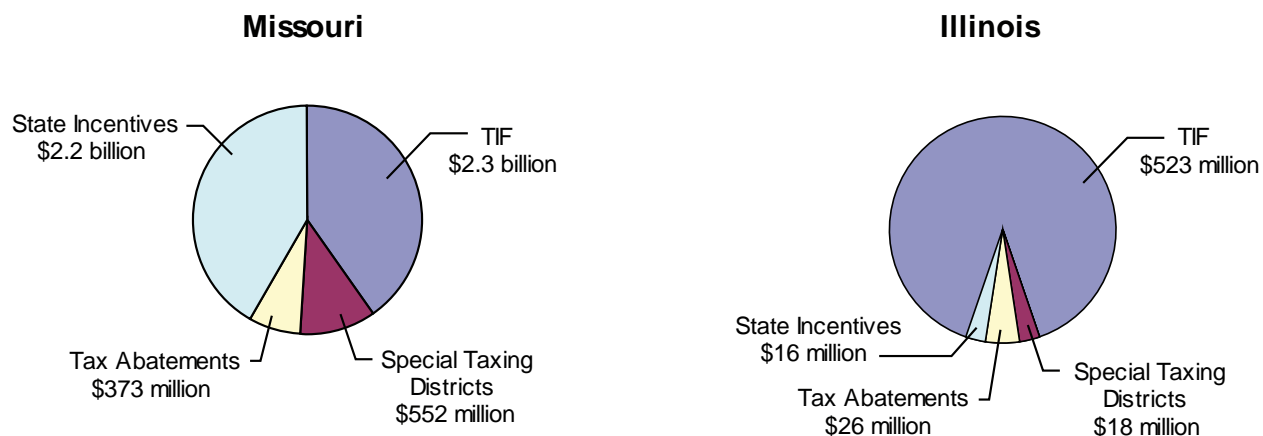
**Table 1**  
**Estimate of Taxes Committed to Projects as**  
**Development Incentives in the St. Louis Region**

<b>Type of Incentive</b>	<b>Tax Commitment to Date</b>	<b>Total Public Tax Commitment <sup>1</sup></b>
Missouri Tax Increment Financing (1987 to 2009)	\$625,361,242	\$2,113,059,807
Illinois Tax Increment Financing (1986 to 2007)	\$523,488,800	\$523,488,800
<b>Total TIF</b>	<b>\$1,148,850,042</b>	<b>\$2,636,548,607</b>
Special Districts		
Missouri Community Improvement Districts (2006 to 2009)	\$11,891,401	\$11,891,401
Missouri Transportation Development Districts (1997 to 2007)	Unknown <sup>2</sup>	\$540,926,526
<i>Missouri Subtotal</i>	<i>\$11,891,401</i>	<i>\$552,817,927</i>
Illinois Special Service Areas (1993 to 2007)	\$13,022,933	\$13,022,933
Illinois Business Development Districts (2006 to 2009)	\$5,257,953	\$5,257,953
<i>Illinois Subtotal</i>	<i>\$18,280,886</i>	<i>\$18,280,886</i>
<b>Total Special Districts</b>	<b>\$30,172,287</b>	<b>\$571,098,813</b>
Missouri Tax Abatements (1993 to 2007)	\$373,852,988	\$373,852,988
Illinois Tax Abatements (1983 to 2007)	\$26,746,765	\$26,746,765
<b>Total Abatement</b>	<b>\$400,599,753</b>	<b>\$400,599,753</b>
Missouri State Incentives (1981 to 2009)	\$1,972,648,092	\$2,208,594,690
Illinois State Incentives (2004 to 2009)	\$16,500,374	\$16,500,374
<b>Total State Incentives</b>	<b>\$1,989,148,466</b>	<b>\$2,225,095,064</b>
<b>Total</b>	<b>\$3,568,770,548</b>	<b>\$5,833,342,237</b>

(1) In those cases where a "Total Public Tax Commitment" number is not available, the "Tax Commitment to Date" figure was substituted. (2) Tax dollars collected to date has not been reported for TDDs but legislation passed in 2009 authorizes the Missouri Department of Revenue to start collecting sales tax dollars for the districts, which will allow for this data to be captured in the future.

## Chart 1

### Public Funding Committed to Projects in the St. Louis Region Through Local and State Incentive Programs



- (1) Figures include the total amount of tax dollars committed to projects including the amount spent or diverted to-date, when available, and the amount of future revenues committed to current projects, when available.
- (2) The time period for which totals are recorded varies by type of incentive. See Table 1 for time periods covered.
- (3) All projects are not accounted for due to inadequate reporting and a possible lag time in reporting data. For example, the totals for TIF in both states and state incentives in Illinois are low.



## B. Tax Increment Financing

Table 2 provides estimates of the use of tax increment financing by county from 1986 to 2007 for Illinois and 1987 to 2009 for Missouri. TIF districts have been implemented in every county in the region with a larger number in the more urban and suburban areas, and very few in the rural areas. St. Louis City and local governments in St. Louis County have committed \$1.8 billion of the \$2.6 billion public tax commitment. Local governments in the three Illinois counties have diverted over \$500 million in property tax dollars to TIF districts, accounting for almost half of the total tax dollars collected to-date with the most recent data available for Illinois being for 2007 and future commitments unknown. Municipalities in St. Charles County made a total tax commitment of \$190 million, while local governments in Franklin and Jefferson counties used TIF at much lower levels.

**Table 2**  
**Tax Dollars Collected to Date and Total Committed**  
**for Tax Increment Financing Districts**

	<b>Number of TIF Districts<sup>1</sup></b>	<b>Taxes Collected to Date<sup>2</sup></b>	<b>Total Public Tax Commitment<sup>3</sup></b>
<b>Missouri Counties (1987 to 2009)</b>			
Franklin	1	\$0	\$12,448,695
Jefferson	5	\$3,095,046	\$78,112,000
St. Charles	14	\$78,739,795	\$190,880,515
St. Louis City	123	\$98,425,838	\$1,025,654,497
St. Louis County	86	\$445,100,563	\$805,964,100
<i>Missouri Subtotal</i>	<i>229</i>	<i>\$625,361,242</i>	<i>\$2,113,059,807</i>
<b>Illinois Counties (1986 to 2007)</b>			
Madison	42	\$135,918,910	unknown
Monroe	2	\$2,390,905	unknown
St. Clair	66	\$385,178,986	unknown
<i>Illinois Subtotal</i>	<i>110</i>	<i>\$523,488,800</i>	<i>\$523,488,800</i>
<b>Regional Total</b>	<b>339</b>	<b>\$1,148,850,042</b>	<b>\$2,636,548,607</b>

(1) The number existing as of the date of this report may be more, because these numbers reflect reporting as of 2009, and there is a lag time between establishment of a district and its report to the state. (2) In Illinois sales and utility taxes were diverted for a handful of districts that were created prior to legislative changes, limiting diversion to property taxes only. (3) Data on total commitments to TIF projects for Illinois is not available, therefore historical "to date" data are used instead.

Sources: Missouri Department of Economic Development and Illinois Department of Revenue

## C. Tax Abatement

The estimated amount of revenue forgone as a result of tax abatement is provided in Table 3. The city of St. Louis accounted for more than 75% of the regional total, abating nearly \$300 million in property taxes from 1997 through 2007. More than \$20 million in property taxes was abated in each of Madison, St. Charles and St. Louis counties and less than \$5 million has been abated in each of St. Clair, Franklin and Jefferson counties.

**Table 3**

**Estimated Forgone Revenue as a  
Result of Tax Abatement**

<b>County</b>	<b>Forgone Revenue</b>
Madison (1992 to 2007)	\$25,558,877
St. Clair (1992 to 2007)	\$1,187,888
<b>Illinois Total</b>	<b>\$26,746,765</b>
Franklin (1995 to 2007)	\$3,789,015
Jefferson (1995 to 2007)	\$105,671
St. Charles (1995 to 2007)	\$31,869,609
St. Louis (1993 to 2007)	\$40,772,038
St. Louis City (1997 to 2007)	\$297,316,655
<b>Missouri Total<sup>1</sup></b>	<b>\$373,852,988</b>
<b>Regional Total</b>	<b>\$400,599,753</b>

(1) Estimates calculated by EWG for all Missouri counties (2) Data includes estimates for tax abatements issued through the following programs: Chapter 353 in all MO counties, Chapter 100 in Franklin, Jefferson, St. Charles and St. Louis counties (data not available for St. Louis City), Chapter 99 for St. Louis City and St. Louis County (not used in the other counties) and Enterprise Zones in MO and IL counties (Zones only in Madison, St. Clair, and St. Louis counties and St. Louis City)

Sources: Illinois Department of Revenue, Franklin, Jefferson, St. Charles, St. Louis County and St. Louis City Assessor offices

Due to the lack of information provided in the required reports to the State Tax Commission for Missouri abatement programs, county assessor offices in each county were contacted directly for additional detail. County assessors in Franklin, Jefferson and St. Charles counties were able to provide the necessary data to calculate an estimate of the amount of forgone tax revenues for all

(current and historic) Chapter 100 and Chapter 353 programs in their counties. There are no reported Chapter 99 projects or Chapter 135 Enterprise Zones in these counties.

St. Louis County provided data from 1993 through 2007 on the use of all tax abatement programs. It is the only Missouri county that utilized all four tax abatement programs. Historical data are not available although it is known that the programs were used to some extent prior to 1993. The earliest “base year” recorded in the database is 1973 but sufficient data are not available to estimate the amount forgone prior to 1993. Ninety-two percent of the forgone tax revenue for St. Louis County is associated with commercial properties while the remainder is with residential properties.

St. Louis City provided a database of parcels that received abatement from 1997 to 2007 under three programs – Chapter 99, Chapter 135 (Enterprise Zones) and Chapter 353. It is not clear to what extent Chapter 100 tax abatement has been used in the City. Due to several factors, including abated properties not being regularly reassessed, it is difficult to determine the amount of tax revenue forgone by the city of St. Louis. Therefore, conservative estimates were made using the data provided by the City.<sup>6</sup> A 2009 study of the City’s finances estimated that in 2007, 15.7% of the City’s assessed property value was subject to some type of real estate tax abatement; comprising a substantial portion of the City’s property tax base.<sup>7</sup>

## **D. Special Taxing Districts**

Approximately \$571 million has been committed to special districts, including Community Improvement Districts (CID), Transportation Development Districts (TDD), Business Development Districts (BDDs) and Special Service Areas (SSAs). Special taxing districts are an increasingly popular incentive, perhaps because of a less complex approval process, they do not directly affect overlying taxing jurisdictions and they produce new revenue (at least for the host property owner or developer), rather than diverting existing revenue.

The dominant share has been the use of TDD in Missouri, accounting for \$541 million (See Table 4). St. Louis County accounts for the largest portion, with \$354 million committed. St. Charles County accounts for the second largest with \$141 million in total tax commitment. The city of St. Louis has used this tool to a lesser degree, with a total of \$45 million committed. Due to legislative changes in 2009, the state auditor will begin collecting sales taxes for TDDs, which will allow for an accounting of tax dollars spent from FY2010 forward.<sup>8</sup>

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<sup>6</sup> See Appendix D for a description of how calculations were made for St. Louis City tax abatement programs.

<sup>7</sup> PFM Group, The; St. Louis, Missouri Comprehensive Revenue Study, 31 July 2009, accessed at <http://mc4be.com>

<sup>8</sup> Previously the administering agency of the TDD, often a consulting firm, collected the sales tax resulting in the tax dollars never passing through a government entity. See Appendix C for further discussion of the legislation.

**Table 4**  
**Estimated Project Costs and Total Tax Commitment**  
**for Transportation Development Districts**  
**Created Prior to December 2007 <sup>1</sup>**

<b>County <sup>2</sup></b>	<b>Number of Districts</b>	<b>Estimated Project Costs (Private and Public Sources)</b>	<b>Total Tax Commitment (Public Dollars) <sup>3</sup></b>
Jefferson	1	unknown	unknown
St. Charles	18	\$4,215,000	\$141,187,879
St. Louis	36	\$237,761,686	\$354,296,433
St. Louis City	10	\$30,832,892	\$45,442,214
<b>Total</b>	<b>64</b>	<b>\$272,809,578</b>	<b>\$540,926,526</b>

(1) The first TDD created in the state was in 1997. (2) No TDDs were reported to the State Auditor Office for Franklin County prior to 2007. The number of districts existing as of the date of this report may be more. (3) Interest costs on TDD debt and administrative expenses account for the difference when the total tax commitment is more than the estimated project costs.

Source: Missouri State Auditor Report, data obtained from MoDOT

A much smaller sum has been committed to projects through the other three special taxing district programs but, like TDD, they are increasing in popularity. BDDs have collected over \$5 million in sales tax revenues in three years (See Table 5). SSAs have collected over \$13 million in special assessment revenues in 15 years (See Table 6) and CIDs have collected nearly \$12 million in sales and use taxes in three years (See Table 7).<sup>9</sup>

Sales tax disbursements to BDDs in Illinois have increased substantially over the three years the tool has been in existence. In fiscal year 2006 disbursements in the three counties were only \$68,000 for two districts. By 2009, disbursements had increased to \$3.2 million for 16 districts.<sup>10</sup> Eleven municipalities have made use of the tool in the three Illinois counties, with Belleville collecting the largest portion, \$1.8 million (35% of the three-county total) for three BDDs.

<sup>9</sup> In addition to sales taxes, CIDs can also collect property taxes and special assessments. These data are not well documented and were therefore only captured for a few districts, totaling less than \$300,000.

<sup>10</sup> One district has been created but did not collect any sales tax dollars in FY2009.

**Table 5**  
**Sales Tax Dollars Disbursed to**  
**Illinois Business Development Districts**  
**2006 thru 2009**

<b><i>County</i></b>	<b><i>Number of Districts<sup>1</sup></i></b>	<b><i>Tax Commitment to Date</i></b>
Madison	11	\$2,698,526
Monroe	1	\$52,842
St. Clair	5	\$2,506,585
<b>Total</b>	<b>17</b>	<b>\$5,257,953</b>

(1) The number existing as of the date of this report may be more, because these numbers reflect reporting as of 2009, and there is a lag time between establishment of a district and its report to the state.

Source: Illinois Department of Revenue, Disbursements to Local Governments

A majority of the SSAs in the region were created in 1993 and collected sales tax disbursements over the entire 15-year period with a few ceasing to collect tax disbursements in 2007. Several SSAs were created and never received a property tax extension. Most of the tax dollars diverted to the SSAs were committed from 1993 to 1998 when average annual extensions were about \$1.5 million. From 1999 to 2007, annual extensions averaged about \$300,000 a year for nearly the same number of districts.

**Table 6**  
**Property Tax Dollars Committed to Special Service Areas**  
**1993 thru 2007<sup>1</sup>**

<b><i>County<sup>2</sup></i></b>	<b><i>Number of Districts</i></b>	<b><i>Tax Commitment to Date</i></b>
Madison	10	\$1,133,232
St. Clair	10	\$11,889,701
<b>Total</b>	<b>20</b>	<b>\$13,022,933</b>

(1) Only districts that reported to the Department of Revenue in the given years are reported in the table. (2) No SSAs were reported by Monroe County.

Source: Illinois Department of Revenue, Disbursements to Local Governments

The number of CIDs and tax dollars diverted to districts has risen considerably over the four-year period they have been in existence. In 2006, four districts collected \$600,000 in sales and

uses taxes. The number of districts and amount of tax dollars collected rose to 47 districts collecting nearly \$6 million in taxes in 2009. A number of districts have been created and have never collected sales tax dollars. St. Louis City has been the largest user with 22 CIDS collecting 25% (\$3 million) of the total. The city of St. Charles was the second largest user with eight districts collecting \$2 million (17% of the total).

**Table 7**  
**Sales Tax Dollars Collected by**  
**Community Improvement Districts**  
**2006 thru 2009<sup>1</sup>**

<i><b>County</b></i>	<i><b>Number of Districts<sup>2</sup></b></i>	<i><b>Tax Commitment to Date<sup>3</sup></b></i>
Franklin	6	\$716,782
Jefferson	4	\$242,499
St. Charles	15	\$3,539,193
St. Louis County	24	\$4,382,718
St. Louis City	22	\$3,010,209
<b>Total</b>	<b>71</b>	<b>\$11,891,401</b>

(1) CID authorizing legislation was passed in 1998, first CIDs to show up on the DOR list in the five counties was in 2005 with the first sales tax diversion reported in FY2006. (2) The number of districts existing as of the date of this report may be more because these numbers reflect reporting as of 2009, and there is a lag time between establishment of a district and its report to the state. (3) CIDs can also levy a property tax and special assessment. This data was only obtained for a few of the districts. Some districts have not collected any sales tax as of June 2009 but are accounted for in the number of districts.

Source: Missouri Department of Revenue Sales Tax Disbursements to Special Districts; Development Dynamics

## **E. State Incentive Programs**

At the state level, Missouri and Illinois offer a variety of tax incentives to promote economic development.<sup>11</sup> Many projects receive both state and local incentives with some state incentives being contingent on the award of a local incentive. In Missouri almost \$2 billion have been committed to the St. Louis region through 35 state incentive programs since 1981 (See Table 8). The data collected for Illinois is much more limited with a reported \$16 million allocated to the region through ten programs for a five-year period only. Again, these are conservative estimates

<sup>11</sup> The states offer numerous tax incentive programs with multiple and diverse goals. One of the difficulties of documenting the use of tax incentive programs for “economic development” is determining which programs to include. See Appendix B for a complete list of state programs included in this accounting.

because of problematic data collection. Some of the problems specific to the state incentive programs are discussed in Appendix B. The use of state tax incentives has risen over the past couple of decades, accounting for large sums of tax dollars in both states.

In Missouri the first tax credit, the Senior Citizen Property Tax Credit, was authorized in 1973. Since then a total of 64 tax credit programs have been authorized. In 1999 tax credit redemptions amounted to 2.33% of the state's general revenue collections (approximately \$143 million) and steadily increased to 6.66% in fiscal year 2008 (approximately \$533 million). In addition to tax credit programs, the state has a number of other economic development programs, such as tax-exempt bonds and sales tax abatement that use different methods of allocating tax dollars to projects.

The Illinois Comptroller reports that tax expenditures have been used since the early 1930's but their use in the state increased substantially in the 1980's and the number of programs surged again in 2000. Roughly a third of the tax expenditures enacted in the 1980's were related to economic development efforts.<sup>12</sup> In 2008, one-quarter of the state tax expenditures went to businesses (\$1.7 billion).<sup>13</sup> Only a portion of this is accounted for in the programs reported to the Corporate Accountability website, and therefore, in this report.

**Table 8**  
**Amount of Tax Dollars Allocated through State Tax Incentives**

<i>State</i>	<i>Number of Programs<sup>1</sup></i>	<i>Tax Commitment to Date</i>	<i>Total Public Tax Commitment</i>
Illinois <sup>2</sup> (2004 to 2009)	10	\$16,500,374	\$16,500,374
Missouri <sup>3</sup> (1981 to 2009)	35	\$1,972,648,092	\$2,208,594,690
<b>Total</b>	<b>45</b>	<b>\$1,989,148,466</b>	<b>\$2,225,095,064</b>

(1) See Appendix B for a list of state programs included. (2) Illinois data are only available from 2004 through 2009 and only for 10 of almost 50 business tax incentive programs. (3) Tax credit programs were recorded in fiscal year approved.

Sources: MO DED and MDFB and IL Corporate Accountability Act Website

## **F. Regional Economic Effects of Development Incentives**

Although more than \$5.8 billion in public funds have been invested in economic development over the last 20 years, it is clear that this investment has not produced economic benefits for the region as a whole. An examination of the aggregate statistics for the region indicates that

<sup>12</sup> IL Comptroller Fiscal Year 2008 Tax Expenditure report.

<sup>13</sup> IL Comptroller Fiscal Year 2008 Tax Expenditure report.

economic performance in St. Louis has been lackluster, suggesting a need to rethink the region's economic development strategy.<sup>14</sup>

### *Employment*

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.<sup>15</sup> This amounted to an increase of about 14.3% for the entire period, or an annual growth rate of about 0.8%.

Most of this growth took place prior to 2000. From 2000 to 2007, employment in the St. Louis region grew by 18,700 jobs, an annual growth rate of 0.2%.

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. Although the analyses portion of this report focuses on a 15-year period from 1993 to 2007, Chart 2 also depicts the decline in jobs experienced from 2007 to 2009, during the recessionary period.

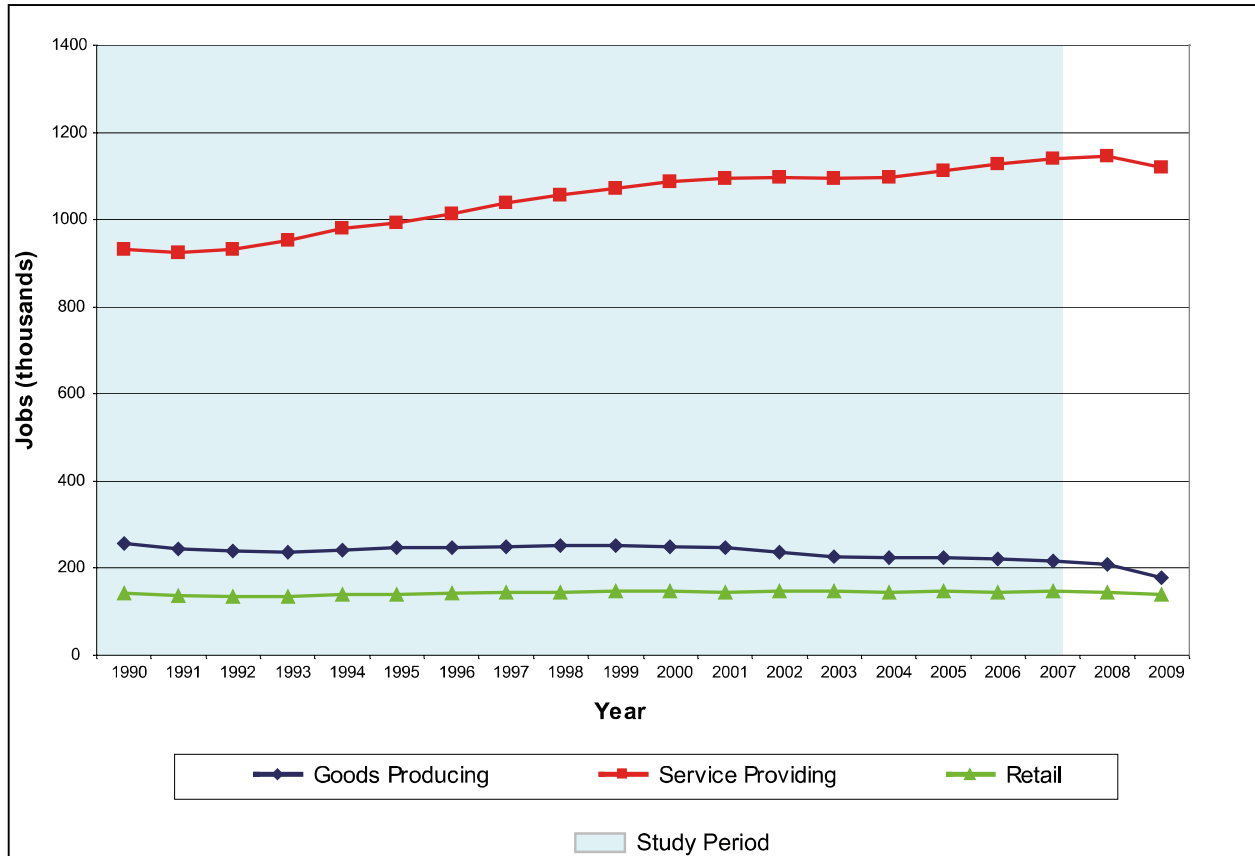
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<sup>14</sup> The study period for the data analysis portion of the report is 1993 to 2007 to avoid examining effects of the recent recession and using a timeframe for which the most comprehensive data are available. The previous section provides more up-to-date cost data for many of the incentive programs.

<sup>15</sup> 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 to facilitate comparisons with other large regions.



**Chart 2**  
**Employment Growth in the St. Louis MSA**  
**1990 thru 2009**



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. 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. Although this sectoral shift to lower paying jobs has been seen nationwide, the region's income is not keeping up with our peers. The St. Louis MSA ranked 26<sup>th</sup> out of 35 peer regions in 2008 with a below average median household income of \$53,189 and a below average increase in income for the preceding decade.<sup>16</sup>

Retail employment is of particular interest 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 a quotient of \$370,000 per retail job created. This is an indication that while TIF projects have played a role in moving retail facilities from one part of the region to another, they have done little to create net jobs for the region.

### *Tax Revenue*

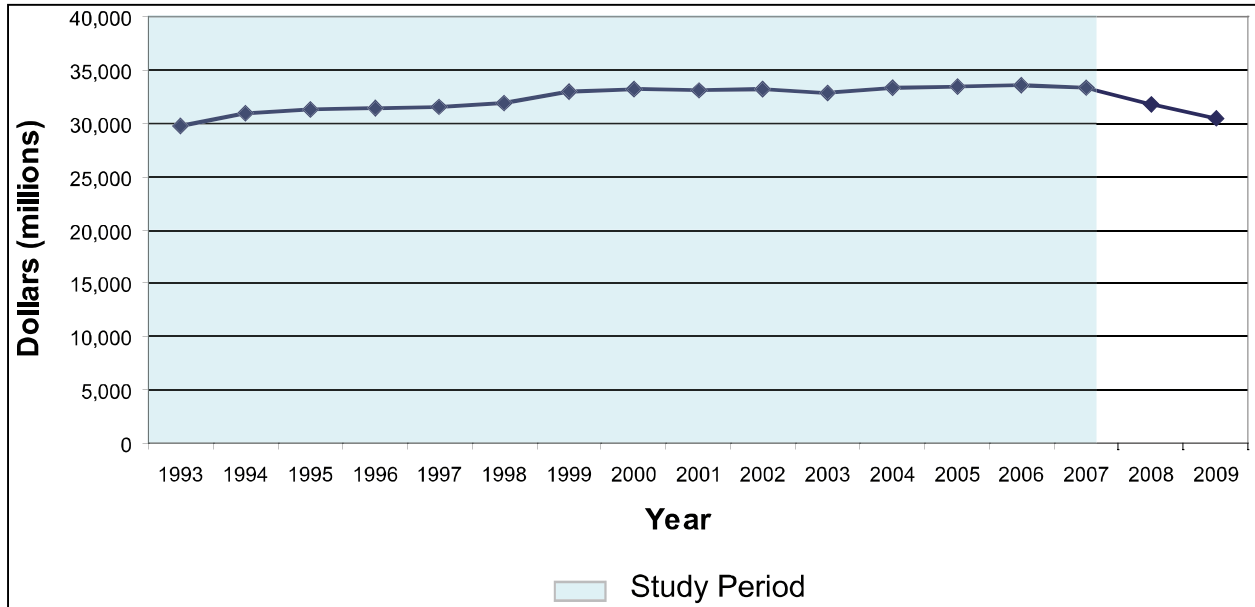
One of the intended goals of the use of tax incentives at the municipal level is to increase taxable sales or sales tax revenues. Due to the substantial investment in retail development in the region, an increase in taxable sales would be expected, but the regional total taxable sales increased only moderately from 1993 to 2000 and remained relatively flat through 2007 (See Chart 3).<sup>17</sup> Again, this chart also depicts the decline in economic activity that has taken place during the recessionary period, showing a sharp decline in regional taxable sales from 2007 to 2009.

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<sup>16</sup> The St. Louis MSA experienced a 20.6% increase in median household income from 1999 to 2008 while the average for the 35 peer regions was a 22.6% increase. Source: American Community Survey, 2008.

<sup>17</sup> For a more detailed discussion and additional figures and graphs depicting change in employment and taxable sales, see the Interim Report. See Appendix A for the location of the full report.

**Chart 3**  
**Total Taxable Sales for the St. Louis Region**  
**1993 thru 2009**  
**(2009 Dollars)**





## **IV. Local Government Fiscal Health**

The Board asked East-West Gateway staff to determine if the use of economic development incentives has affected local governments' ability to finance services. This section discusses the fiscal health of local governments in the region, provides evidence that fiscal constraints have led to cutbacks in municipal services, and discusses possible connections between tax incentives and municipal service cutbacks.<sup>18</sup>

### **A. Municipal Fiscal Health**

A survey of local government officials in the St. Louis region indicates local governments are under stress.<sup>19</sup> Two-thirds indicated they were fiscally unstable, in fiscal turmoil or in fiscal crisis and only one-third indicated the city's finances were fiscally healthy (finances are fine and anticipated to remain fine in the near future). Over half of respondents who said their city is fiscally unstable<sup>20</sup> associate their instability with more than the current economic downturn. They see long-term structural problems in the way local government is financed.

When municipal officials were asked to look ahead two, five, ten and 20 years at the fiscal sustainability<sup>21</sup> of their city, one-quarter indicated they do not view their city as fiscally sustainable in two and five years. An even larger number of respondents indicated they were not confident in the long-term fiscal sustainability of their city. One-third indicated they do not see their municipality as fiscally sustainable in ten and 20 years. This included some cities that also stated they are currently fiscally healthy.

Additionally, research conducted by University of Missouri - St. Louis researchers, Mark Tranel and William Winter, examined the financial health of 28 municipalities in St. Louis County from 1993 to 2007. Tranel and Winter found that over the 15-year period, all municipalities saw a decline in their financial health based on four measures of financial conditions. The researchers warn that this finding, coupled with the fact that many of these municipalities are heavily reliant on sales tax as a revenue source, suggest potential future problems in the delivery of public services should the sales tax decrease.<sup>22</sup>

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<sup>18</sup> While the cost section of this report documents the use of several different economic development incentive programs, this analysis primarily focuses on the use of TIF. The reason for this focus is that dollars allocated through TIF comprise over half of all dollars committed to economic development in the region. TIF is also seen as the most problematic in the way that it affects local government fiscal health and heightens intraregional competition for development.

<sup>19</sup> East-West Gateway conducted the survey in Spring 2010 with a 24% response rate. See Appendix E for the survey instrument and aggregated results.

<sup>20</sup> This represents cities that indicated their city was fiscally unstable, or worse, in fiscal turmoil or crisis.

<sup>21</sup> Fiscally sustainable was defined as: the city will be able to consistently support the current level of services and undertake community improvements to sustain a quality of life for the city's residents.

<sup>22</sup> See Appendix A for the location of the entire report.

## **B. Declining Tax Revenues**

An examination of sales and property tax revenue records for municipalities in the region found a significant number of communities saw a decrease in sales tax and/or property tax revenue during the study period, 1993 to 2007.<sup>23</sup>

### *Sales Taxes*

More than 60% of municipalities (122 of 194) in the St. Louis region experienced a decline in inflation-adjusted sales tax receipts between 1993 and 2007. To account for volatility of sales tax, sales tax revenue data was smoothed by computing three-year averages. Each municipality's average annual revenue for 2005 to 2007 was compared to its highest three-year average experienced during the study period.

While it would be a mistake to draw major conclusions from some of these cases, such as Champ and Fayetteville, where the amount of revenue received from sales tax is overall very small, the list also includes a significant number of municipalities that rely heavily on sales taxes. For example, during the peak years of 2000 to 2002, St. Ann enjoyed average annual sales tax revenues of about \$6.7 million. Between 2005 and 2007, the average fell to just \$4.4 million. Creve Coeur is another example, with sales taxes declining from \$7.6 million for 1999 to 2001 to \$5.3 million for 2005 to 2007. The list includes municipalities from all counties in the region, including a 16% decrease for the city of St. Louis from its peak of \$153 million for 2000 to 2002 to \$129 million for 2005 to 2007. (All dollar amounts are expressed in 2007 dollars.)

### *Property Taxes*

Property tax data was compiled for 173 taxing entities, including fire protection districts and school districts, as well as municipalities. Of these, almost half (82), saw a decline in property tax revenue between 2003 and 2007. Due to the lack of reliable consistent data on property tax this analysis is limited to a five-year period (2003 to 2007) and to property taxing districts in St. Louis County in Missouri and municipalities in Madison, Monroe and St. Clair counties in Illinois. Property tax revenue is normally expected to remain fairly stable, absent a tax cut or a sudden decline in property values, but a large number of districts in the region experienced a decline over the short study period.

Between 2003 and 2007, 52 municipalities, 14 fire protection districts, 16 school districts and several other types of taxing districts experienced declining real property tax revenues in St. Louis County. Among municipalities, Webster Groves and University City experienced the largest declines (in real dollars), both at about \$100,000. Among all taxing entities, the Parkway C-2 and Pattonville R-III School showed the largest declines, with drops of \$1.4 million and \$760,000, respectively. Among other taxing districts, the Mehlville Fire Protection District suffered the largest decline with a loss of nearly \$700,000.

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<sup>23</sup> Tax revenue data for Illinois municipalities was obtained from the Illinois Comptroller's office. For Missouri municipalities, sales tax revenue was obtained from the Department of Revenue and property tax data from the State Auditor Office. All dollar amounts in this section have been adjusted for inflation.

In Illinois, 24 municipalities from the three counties saw some decline in property tax revenues from 2003 to 2007.

### **C. Impact on Ability to Provide Services**

Due to limited standardized data it is difficult to measure the level and quality of services that are provided by government. Census of Governments data and local government financial reports were examined but, due to insufficient contextual information and data, it was determined that these standardized data sets could not be used to demonstrate whether unwanted spending cuts in municipal services occurred. However, a review of newspaper accounts and a survey of municipal governments demonstrate that fiscal constraints have resulted in belt-tightening in a large number of municipalities throughout the region.

#### *Newspaper Accounts*

A review of Post-Dispatch articles from 2000 to 2007 found articles documenting actions taken by 35 municipal governments in response to fiscal stress. Articles were selected if they included references to layoffs, decisions to leave positions unfilled, service cuts, fee increases or tax increases. This does not provide a comprehensive list of municipal actions taken in response to fiscal stress. In all likelihood, most decisions to leave positions unfilled, for example, would not make it into the newspaper of record. Since the Post-Dispatch does not include articles on every city council meeting or every municipal budget in every year this represents a subset of actions taken by municipal governments, indicating that a substantial number of municipalities have either had to cut services or increase taxes in response to budgetary pressures.

#### *Survey of Municipal Fiscal Health*

The survey conducted by EWG revealed that only four of the 48 respondents reported they did not take any of the following actions in the fiscal year ending in 2007: reduced spending in mid-fiscal year; adopted a budget with reduced appropriation levels; deferred maintenance; deferred previously approved capital projects; reduced personnel; proposed a tax increase; or raised fees. Thus, over 90% of the municipalities in the survey reported cuts to services or increases in taxes or fees in response to fiscal pressure.

### **D. Economic Development Incentives and Fiscal Stress**

Due to multiple methodological problems, it is difficult to demonstrate a causal link between development incentives and the state of municipal finance.<sup>24</sup> Therefore, East-West Gateway staff and university researchers used a variety of methods to examine this relationship and the relevant issues.

First, descriptive statistics of sales tax revenues and the use of TIF in municipalities are examined, demonstrating that the use of incentives and growth of tax revenue in one

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<sup>24</sup> See Appendix G for a discussion of these methodological concerns.

municipality coincides with a decline in the share of sales tax revenue in neighboring municipalities. Second, a quantitative model is used to measure the economic impacts (taxable sales and jobs) of the use of TIF for TIF-using areas and outside the TIF-using areas. This model found a correlation with TIF use and increased jobs and taxable sales in TIF-using areas and decreases in jobs and taxable sales in other municipalities in the region. Third, an examination of the location of retail establishments finds that there has been a consolidation of establishments, limiting the bulk of sales tax revenue flow to a smaller number of communities.

### *Descriptive Statistics: Missouri*

An examination of the change in municipal shares of sales tax receipts and TIF use finds that, in general, municipalities in Missouri that invested more than \$10 million in retail-oriented TIFs were successful at increasing their share of tax revenues, while communities that did not invest this amount generally saw decreasing shares of tax revenues. Further, looking at these data components for several groups of neighboring municipalities indicates that TIF use is largely shifting retail and taxable sales around the region, creating some municipal winners at the expense of others.

Table 9 (See Appendix F) provides the share of regional sales tax receipts received for Missouri municipalities for two time periods, 1993 to 1995 and 2005 to 2007. A comparison of these periods shows the change in the share of tax revenues over the course of the study period for all municipalities. The total TIF amount invested by each municipality over the course of the study period is also provided in the table.

Two-thirds of municipalities that used TIF saw an increase in their share of tax revenues over the study period (compared to 25% of those that did not use TIF). More than half of these communities made significant TIF investments (over \$10 million). For example, between 1993 and 1995, Chesterfield received average annual sales tax revenues in the amount of \$3.3 million. Between 2005 and 2007, this increased to \$18.2 million. Chesterfield more than doubled its share of regional sales taxes; rising from 1.8% at the beginning of the study period to 3.9% by the end. Chesterfield made significant use of TIF, with a \$72.5 million TIF supporting development with total project costs of \$275 million.

Brentwood is another municipality with a rapid rise in share of tax receipts associated with a major TIF investment. The average annual sales tax receipts between 1993 and 1995 were \$1.7 million. This rose to \$10.8 million for 2005 to 2007. This rise in tax share coincided with a \$64 million TIF investment. Des Peres increased its share of regional sales tax revenues from 1.2% to 2.45% during the study period, and created a \$30 million TIF.

In at least a couple of cases the simple reading of the table may be misleading. St. Ann saw one of the most significant declines in tax share, going from 1.5% of regional tax revenue at the beginning of the study period to a 0.9% share at the end. Although St. Ann is listed as having a TIF in the amount of \$84 million, this district was not established until 2007, too late to have an impact during the study period. Thus, St. Ann in reality was without significant TIF investment throughout the study period.

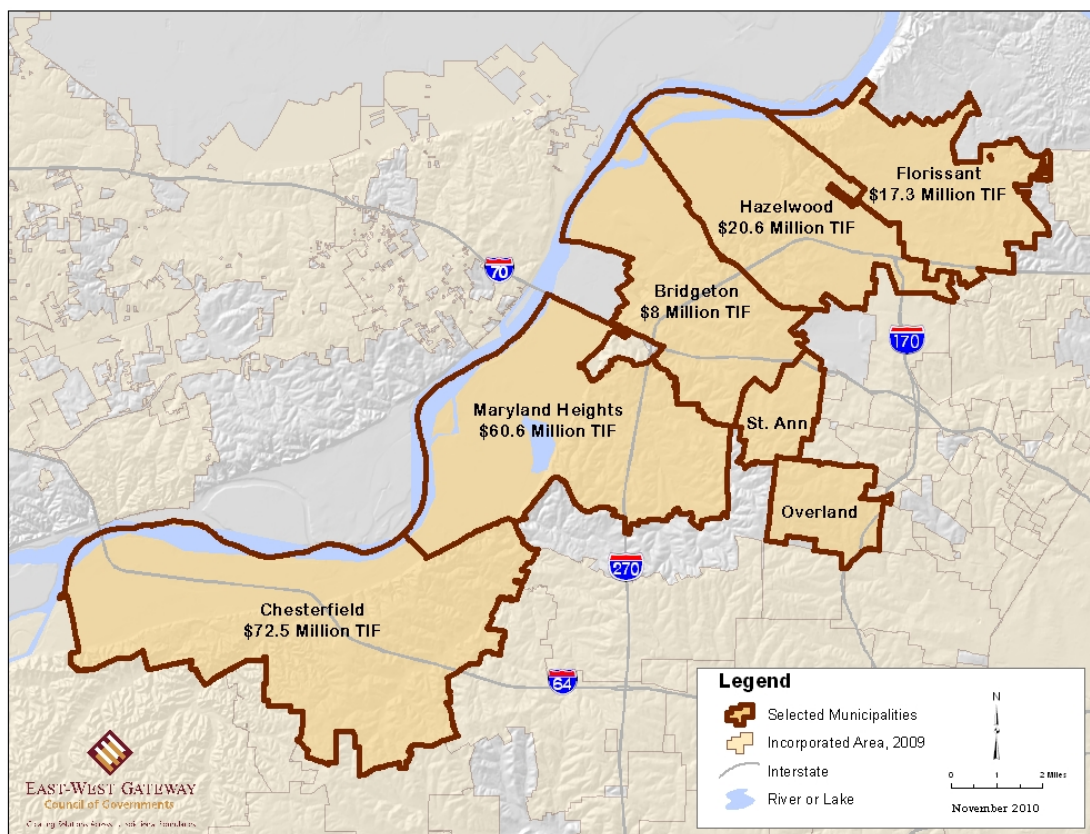


The city of St. Louis was the largest TIF user, with total TIF investment totaling more than \$460 million over the study period and a decline from 36% of the regional tax revenues to 27%. However, St. Louis is a special case for several reasons. A large portion of the funds invested in TIFs supported housing and mixed-use development downtown, an effort aimed at reversing the effects of several decades of population loss.

Overland is an example of a major retail area that did not use TIF, and saw its share of taxes drop from 1.3% to 0.86%. Creve Coeur also saw a drop, and used only a small TIF that was primarily aimed at non-retail use. Crestwood invested \$4 million in TIF, a relatively small sum, and saw its tax share decline from 1.85% to 1.72%.

A closer look at a couple of groups of municipalities sheds more light on the issue. Map 1 depicts St. Ann, Overland, Bridgeton and surrounding communities. St. Ann and Overland, as noted above, made minimal use of TIF during the study period. Bridgeton had a relatively small TIF investment of \$8 million. Each of these three communities had declining sales tax shares during the study period. By contrast, four of the neighboring communities in north and west St. Louis County invested more than \$10 million in TIFs, and saw their tax share increase. These included Chesterfield (\$72.5 million), Maryland Heights (\$60.6 million), Hazelwood (\$20.6 million), and Florissant (\$17.3 million).

**Map 1**  
**Example of Municipal Use of TIF**



Crestwood is another example of a city with a declining tax share and a fairly small involvement with TIF. The neighboring communities of Fenton, Sunset Hills, Kirkwood and Webster Groves all invested more significantly in TIF, and each increased its share of taxes. It is also worth noting that the neighboring communities of Oakland and Grantwood Village had much smaller levels of retail activity throughout the study period, and saw their tax shares decline while creating no TIFs.

### *Descriptive Statistics: Illinois*

The link between TIF use and sales tax distributions is more ambiguous for Illinois. In general, municipalities that used TIF in Illinois were only slightly more likely to increase their share of tax revenue than non-TIF using municipalities (42% of non-TIF using municipalities saw an increase compared to 46% of TIF using municipalities). Those municipalities that diverted more than \$10 million in TIF were actually more likely to see a decline in their share of sales tax revenue, than an incline. (See Appendix F for a list of municipalities, and the change in their share of sales tax revenues over the study period as well as the amount of TIF investment for each municipality.)

This is likely due in part to the differences in the way TIF is used in Illinois and Missouri. There are two prominent differences. First, while sales taxes can be used to retire TIF obligations in Missouri they cannot in Illinois.<sup>25</sup> This appears to reduce the incentive of retail developers to rely on TIF. Second, TIF districts in Illinois tend to be larger – a district area rather than one specific development project, which is more common in Missouri.

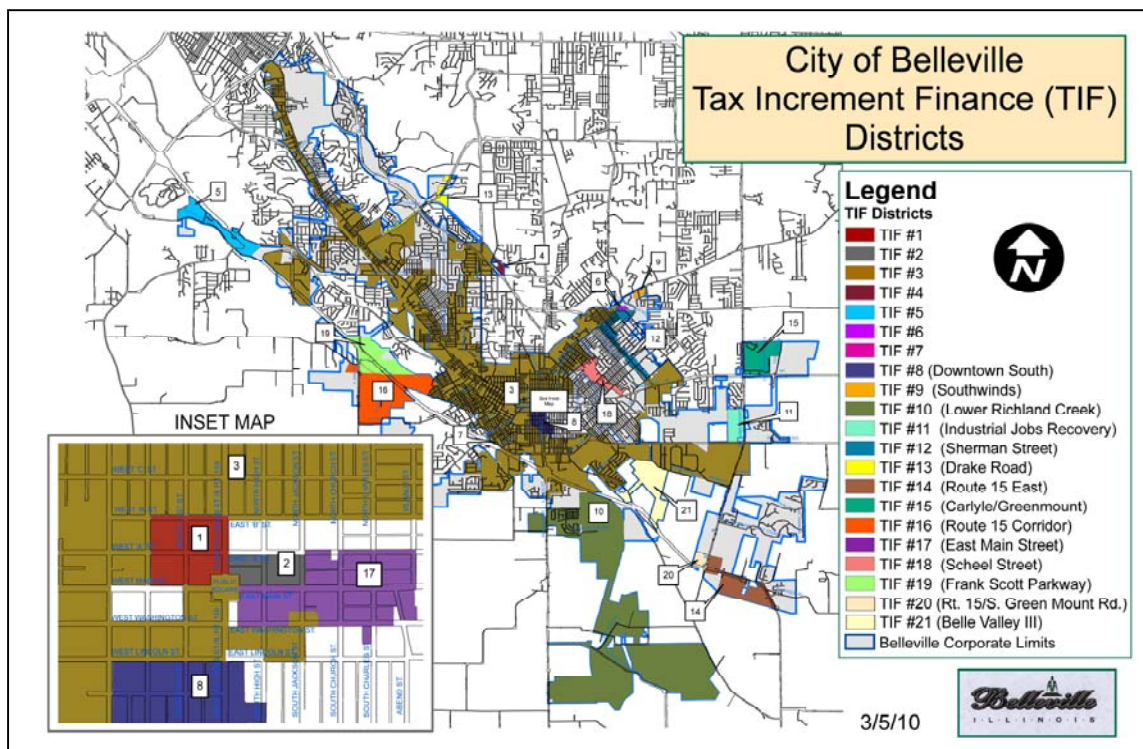
For example, Belleville includes a strip several miles long, encompassing most of the city's Main Street (See Map 2). This is a historic retail district with numerous small shops. In this context, TIF use can be seen as a defensive move by the city with a vital downtown, designed to preserve the retail district against big box developments in the vicinity. Thus the large increase of sales tax and sales tax leakage from other municipalities do not appear to be as much of a factor as in Missouri. Notably, Illinois passed legislation giving local governments the ability to create Business Development Districts in 2005, which functions much the same way as a sales tax TIF.

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<sup>25</sup> Illinois allowed for sales taxes to be diverted as well but only for a short time period in 1986.

## Map 2

### Illinois TIF District Example City of Belleville TIF Districts



Twelve municipalities account for over 90% of all funds diverted for TIF in Illinois. Eleven of these saw declining shares of the total regional sales tax revenues over the course of the study period. Madison was the one exception, experiencing an increase in its share of regional tax dollars over the study period from 0.63% to 0.66%. The municipalities with the largest tax diversions for TIF were Belleville (\$133 million) and East St. Louis (\$96 million). Both saw their shares of sales tax dollars decline significantly over the study period. On the other hand, some municipalities with large increases in their share of tax revenues, such as O'Fallon and Waterloo, either invested no revenues in TIF, or made only small TIF investments.

There are some examples of municipalities that saw sharp increases in tax receipts following the introduction of a TIF, including Glen Carbon and Shiloh. However, none of these examples are among the largest TIF users, or among the leaders in sales tax receipts.

#### *The Economic Impact of TIFs: Jobs and Taxable Sales*

The Public Policy Research Center of University of Missouri - St. Louis was commissioned to study the economic impact of economic development incentives in the St. Louis region.<sup>26 27</sup> The

<sup>26</sup> See Appendix A.

<sup>27</sup> Due to data limitations, the research focused on the use of tax increment financing (TIF) in the Missouri portion of the St. Louis region.

results of the research suggest a link between TIF use and economic activity. In general, municipalities that invested heavily in retail-oriented TIF districts saw their taxable sales and jobs increase, while communities that abstained from TIF use, or that used TIF at smaller levels, saw their taxable sales and jobs decline. The results of the research suggest that while TIF use is positive for the using municipality, those that cannot or do not use TIF are losers in the battle for local economic activity.

The researchers used a statistical method, known as a fixed-effects model, to estimate the impact of TIF on two types of economic outcomes: employment levels within local zip codes and taxable sales within local municipalities. For each outcome variable, the analysis tests two models - the impact of all TIF use and the impact of retail-oriented TIF use, which makes up the bulk of TIF districts in the study area. Past and current TIF investments and other relevant predictors associated with the outcome variable of interest are included in each model. Additionally, both models include a measure of the retail-TIF activity outside the zip code/municipality using TIF to address whether the use of TIF is moving economic activity from one area to another.

The analysis finds a statistically significant association between TIF use and economic activity. On average, each \$1 million of TIF investment is associated with about six to seven jobs added in the zip code of the TIF for each year the TIF is in effect. This effect is slightly higher for retail TIF districts.

In terms of taxable sales, each \$1 million dollars of TIF investment is associated with an annual increase of \$400,000 to \$500,000 in taxable sales for the municipality in which the TIF project was created.

The analysis supports the conclusion that TIF adoption leads to leakage in economic activity from one area to the implementing area. For a given municipality, each \$1 million of TIF investment *elsewhere* in the region is associated with an average annual loss of about \$14,000 in taxable sales. When retail TIF districts are examined specifically, the loss in taxable sales increases to \$25,000. Regarding employment, for every \$10 million in retail investment *elsewhere* in the region, a municipality can expect to lose one job.<sup>28</sup>

### *Consolidation of Retail*

Due to the heavy use of TIF for retail development, a closer examination of the retail sector is of interest. Such an examination finds that there has been a consolidation in the location of retail establishments. This has several implications, the most prominent being that the bulk of sales tax revenue flows to a smaller number of communities.

In the decade between 1998 and 2007, there was a noticeable consolidation in the retail sector. In the St. Louis Metropolitan Statistical Area (MSA), the number of establishments employing fewer than ten persons dropped from 8,750 to 8,152, a decline of 600 small stores in ten years. This occurred while total retail employment increased from 145,000 to 147,700 (BLS). This

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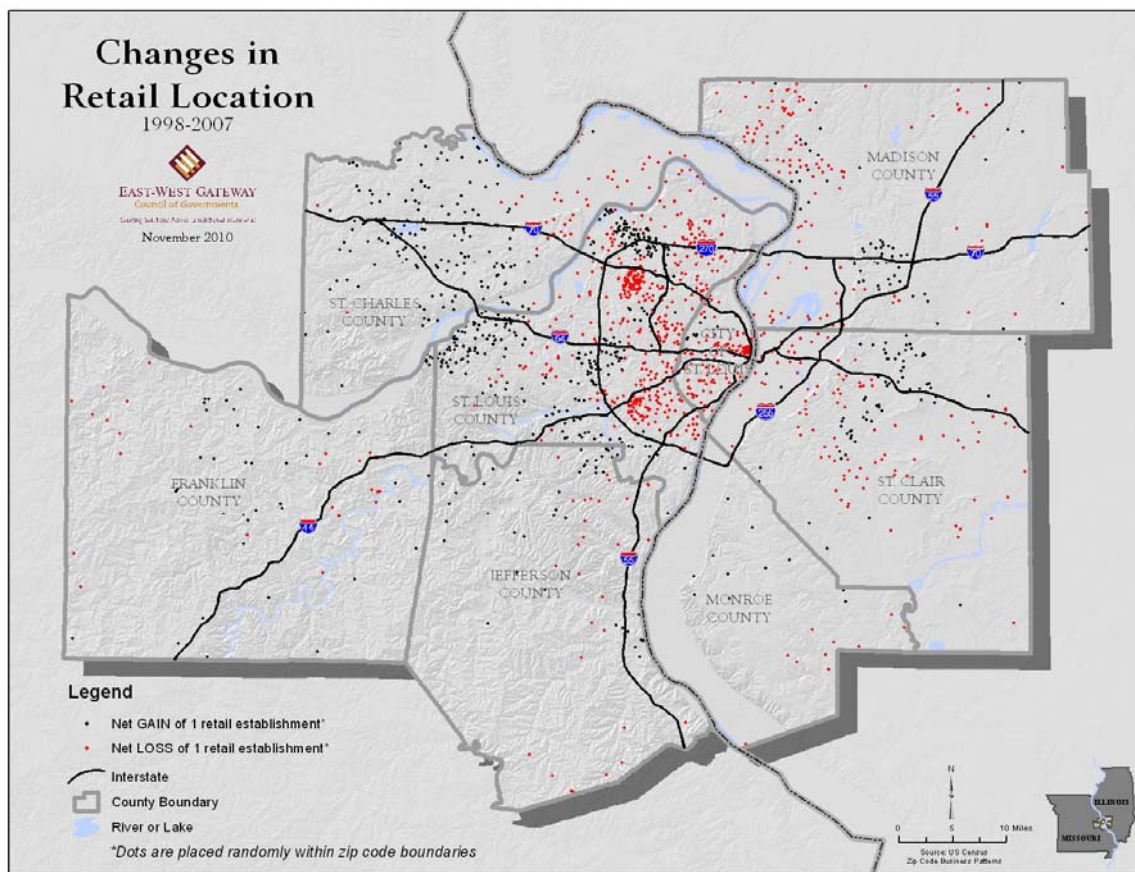
<sup>28</sup> The researchers caution that a statistical association does not conclusively prove causality.



indicates that larger establishments were able to crowd out smaller establishments over the decade.

There has also been a geographic redistribution. Zip codes such as 63026 (Fenton) and 63005 (Chesterfield) have increased their share of retail establishments, while older areas such as 63130 (University City), 63123 (Affton), 63116 (South City) and 63105 (Clayton) have seen a decrease (See Map 3). Declines can be seen in the small North County communities clustered around I-170. Altogether, 52 Zip codes saw an increase in the number of retail establishments between 1998 and 2007, while 89 saw a decrease. This points to an increasing concentration of retail establishments in a smaller number of communities.

**Map 3**  
**Changes in Retail Location**



In 1998 the four older Zip code areas (63105, 63116, 63123 and 63130) had a total of 431 retail establishments. This number decreased to 358 by 2007. These same areas had a total of 304 retail establishments with fewer than ten employees in 1998 and 248 in 2007. This demonstrates a trend of retail establishments folding in older developed areas, as larger retail facilities are being created further from the urban core. Older communities are losing the "mom & pop" stores that

once created vibrant commercial districts, as retail spending goes to large "lifestyle centers" in more distant parts of the metropolitan area.

This trend has several implications. First, a community that loses its retail base will be vulnerable to a decline in sales tax revenue. Second, small locally owned stores are more likely to spend profits within the metropolitan area, creating a greater multiplier effect. Third, a vibrant walkable retail district contributes to the quality of life in many communities, and the loss of this amenity should be considered as a cost.

Whether this creative destruction should be seen as a net positive is a philosophical question that is beyond the purview of this report. But whether this trend should be subsidized by development incentives is an issue that deserves serious debate.

A consolidation of retail means fewer opportunities for small, local entrepreneurs, and more market share for large out-of-town chain stores. There may be both advantages and disadvantages to this trend, and the reasons are undoubtedly complex. But it is worth noting that the developments created by tax incentives for big box stores support, rather than oppose, ongoing consolidation of the retail sector.

## **E. Local Government Fiscal Health Summary**

Although many factors make it difficult to link the use of economic development incentives with the state of municipal financial health, the variety of methods used in this report and a review of the substantial amount of literature, establishes a preponderance of evidence that such an association exists.

It is apparent that local government finance in the region is under fiscal stress - a significant number of municipalities have experienced declining sales and/or property tax revenues (particularly when these amounts are adjusted for inflation); newspaper accounts document a significant number of municipalities that faced budget deficits, layoffs and service cuts between 2000 and 2007 (a period of time when the economy generally fared well); and a significant number of municipal executives indicated they had serious concerns about the long term fiscal sustainability of their cities.

The research substantially supports the theory that the use of TIF may provide benefits for the using municipality but as a result, neighboring municipalities in the region feel negative economic impacts. Municipalities that granted large TIF projects tended to increase their share of sales tax revenues, while cities that abstained or implemented smaller TIFs tended to see sales tax revenues decline. A number of specific examples exist of cities facing declining sales tax revenues after the introduction of major TIF projects by neighboring municipalities. A statistical model accounts for potentially confounding factors, such as population growth and regional employment levels, finding four important associations: (1) for a municipality using TIF, a \$1 million TIF project is been associated with an average increase of \$500,000 in taxable sales after the first year of the TIF; (2) municipalities have averaged a loss of \$25,000 in taxable sales for each \$1 million in TIF used by other cities; (3) for \$1 million in TIF investment, there is an

increase of 6 to 7 jobs in that Zip code; and (4) a Zip code is expected to lose 1 job for each \$10 million in retail TIF investment *elsewhere* in the region.

Additionally, there has been an increasing concentration of retail in fewer Zip codes, and a slow decline in smaller stores in favor of larger establishments. While the concentration of retail cannot be conclusively linked to development incentives, the use of incentives for national retail chains creates incentives that are aligned with this trend. Both municipal finance and quality of life suffer when a city loses its base of small retail establishments. Arguably, the region suffers when development incentives privilege national chains at the expense of local entrepreneurs.

All of these factors support the conclusion that development incentives have contributed to moving retail around the region to the benefit of some communities, and the detriment of more. From a regional perspective, the use of TIF to redistribute retail has not been a net gain.





## V. Effect on Economic and Racial Disparities

The third part of the Board charge asked East-West Gateway staff to determine "the degree to which the extensive use of incentives contributes to economic and racial disparities in the region." The increase in disparity in the region is well documented but whether the use of development incentives has played a role is difficult to determine. Researchers at St. Louis University (SLU) were commissioned to address this portion of the research. Their findings, coupled with findings from other portions of this research, leads to the conclusion that the use of incentives is a contributing factor to the increased disparity in the region.<sup>29</sup>

Sarah Coffin and Rob Ryan's analysis consisted of three components: (1) an examination of racial and economic characteristics of municipalities at the time TIF districts were created; (2) an examination of racial and economic characteristics of areas immediately surrounding TIF districts; and (3) an analysis of the use of TIF on patterns of racial and economic isolation and neighborhood distress in municipalities and the surrounding areas over time.<sup>30</sup>

The following are key findings of the research:

1) The city of St. Louis was the largest user of TIF in the region and has used TIF for residential development much more extensively than other municipalities.

- Between 1993 and 2007, 109 of the region's 303 TIFs were created in the City.
- Of the region's 30 single use residential TIF projects, 28 were in the City.
- The City had an additional 50 mixed-use projects that included residential development.

2) Outside the city of St. Louis most TIF projects were created for retail developments, in more affluent areas, in areas with higher concentrations of white persons, and in areas with low levels of distress.

- Three-quarters of the TIF projects in Missouri, outside the City, were for retail projects. Of 98 projects, 42 were single-use retail, while another 30 were mixed-use including retail.
- Most single-use retail development and most mixed-use projects were created in areas with low to very low concentrations of poor persons.
- Only 17% of single use retail projects outside the City were in areas with moderately high or very high concentrations of non-white persons.
- Only 30% of retail projects outside the city of St. Louis were in areas that were moderately or very distressed.

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<sup>29</sup> Colin Gordon and Myron Orfield have made significant contributions to the discussion of disparity in the St. Louis region. They have pointed to the region's approach to economic development including the use of incentives and unfair competition for the tax base as contributing to, rather than improving, the increasing disparity in the region. Additionally, three studies of the use of TIF in the region found that the tool was used in more affluent communities, often with greater success than when used in distressed communities, providing an additional advantage to the more affluent communities. See Appendix G for further discussion of the relevant research.

<sup>30</sup> See Appendix A for the location of the full report.

3) Given the high concentration of residential TIF projects in the City, and the high concentration of retail-only projects in the suburbs, TIF may be exacerbating a mismatch between jobs and housing.

A strong conclusion that flows from this work is that retail TIF projects are concentrated in more affluent areas with relatively low concentrations of minorities. The implication of this finding is best understood in conjunction with the findings in the previous section. The previous section presented evidence that the use of development incentives shifted retail--and sales tax revenue--to municipalities that made major investments in development incentives, particularly TIF. Conversely, municipalities that made lesser investments in TIF have seen sales tax revenues decline. Therefore, since most retail TIF districts have been created in areas that are relatively affluent, it can reasonably be concluded that TIF is a factor contributing to fiscal distress in communities with lower incomes and greater concentrations of minorities and, generally, contributing to economic and racial disparities in the region.

## VI. Conclusions & Recommendations

This research documents the commitment of over \$5.8 billion in public dollars to economic development projects in the St. Louis region and that the use of these tax incentives has been ineffective as an economic development strategy, exemplified by the lack of significant growth in regional sales tax revenue and quality jobs. Further, the research has provided considerable evidence that local governments in the region are under fiscal stress and while the use of these incentives has been beneficial for some municipalities, this benefit has been at the cost to others.

Municipal governments are in a fiscal crisis, and the use of economic development incentives has increased as governments struggle to find a way to close budget gaps. In a slow growing economy, intraregional competition for development dilutes the regional economic benefits to the metropolitan economy.

The research conducted for this report by East-West Gateway staff and local university researchers only begins to examine the economic vitality and local government finance challenges that plague the St. Louis region. East-West Gateway has compiled a significant amount of data on municipal finances and economic development incentives with the assistance of many area researchers and government employees. These databases will be made available on the agency website and updated regularly. Our hope is that this research (and the databases) will provide a basis for conversations and further research and that regional leaders can use the research to make informed decisions that further the economic vitality of the St. Louis region.

Based on the findings of this research, we have reached the following conclusions and recommendations:

1. There has been a massive public subsidy of private development – more than \$5.8 billion – in the last 20 years across the St. Louis region. The \$5.8 billion diversion of public tax dollars to private developers is a conservative conclusion based upon the best available data. About half of this has been allocated through two types of programs that are predominantly used for retail development: tax increment financing (more than \$2 billion) and special taxing districts (more than \$500 million).
2. Evidence exists that the use of TIF and other tax incentives, while positive for the incentive-using municipality, has negative impacts on neighboring municipalities. An examination of sales tax revenues and the use of TIF demonstrate that declining shares of sales tax revenue in one municipality often coincides with the use of incentives and growth of tax revenue share in neighboring municipalities. Zip codes that have TIF-related investment have been found to have an increase of jobs in the active TIF years, but that TIF use was associated with a decrease in jobs elsewhere.
3. Local governments in the region are under fiscal stress. A significant number of municipalities have experienced declining sales and/or property tax revenues, particularly when these revenues are adjusted for inflation. A significant number of municipalities faced budget deficits, lay-offs and service cuts between 2000 and 2007, even though that was a period of time when the economy had generally fared well. In a survey of municipal officials,

many indicated they had serious concerns about the long-term fiscal sustainability of their cities.

4. The use of tax incentives has exacerbated economic and racial disparity in the St. Louis region. Historically, tax incentives to private developers are less often used in economically disadvantaged areas and their more frequent use in higher-income communities gives those jurisdictions what amounts to an unneeded, extra advantage. Tax incentive tools such as Chapter 99 and Chapter 353 tax abatements and TIFs were used repeatedly in the central business district and the west end of the city of St. Louis while they were used sparingly in depressed sections of North St. Louis. Throughout the region, areas of concentrated poverty begin at a distinct disadvantage when trying to compete for customers, businesses and jobs and are further handicapped when higher-income communities receive additional advantages through diversion of tax dollars to private developers via tax incentives.
5. A complete database of Missouri municipal finances is needed. The Illinois Comptroller has an electronic database of all taxing districts. In Missouri, such a system should be developed to help local officials to make informed decisions, and to provide transparency and accountability. The current system in Missouri involves municipalities filing hard-copy reports with the State Auditor's Office.
6. 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. *In 2009 the Missouri legislature modified TIF and TDD statutes to require better reporting and, in the case of TDDs, a financial penalty for failure to submit annual financial reports.* While these are improvements, it is still true that 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.<sup>31</sup>
7. Educate the voting public on taxes and how public services are funded. Many citizens lack an understanding of how government is funded and the tradeoffs required to balance budgets. This fact, combined with a growing mistrust of government has led citizens to disengage from the process. Local governments have increasingly turned to using economic development incentives, particularly TIF and special taxing districts, as a mechanism to fund services. They are tools that local governments can use to control an additional revenue stream without a popular vote and avoiding legislative caps on major revenue sources. This is not a sustainable means of financing government. We must instead, educate the public on the true costs of services, the tradeoffs that exist and the options for funding public services.
8. 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

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<sup>31</sup> An exception is the city of St. Louis, which has required a "clawback" provision in its redevelopment agreements since 2005.

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 cannot recover those expenditures in the event that outcomes are not achieved.

9. 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 forgone revenue will become increasingly apparent.
10. 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. Furthermore, the region has seen a shift from goods producing (higher paying jobs) to service producing (typically lower paying) jobs, suggesting that although there are more jobs, they are of lower quality. Household income is lower and increasing more slowly than in most of our peer regions.
11. Set aside old ways of thinking and adopt an agenda for regional fiscal reform. In 2008, the Metropolitan Forum brought together a national panel of experts who studied the St. Louis region, concluding the region needs to adopt new ways of thinking. This research supports the need for a regional solution to the problematic overuse of development incentives and the fiscal crisis in which local governments find themselves. Local governments need support to change and to adopt a better strategy for the future. Regional fiscal reform will only be possible through a large-scale collaborative process that cuts across jurisdictional boundaries and is inclusive of all sectors and levels of government.

## **Appendix A**

### **Additional Resources**

The following resources are referenced throughout the report and can be found on East-West Gateway's website [ewgateway.org/dirr](http://ewgateway.org/dirr)

#### **A. Regional Fiscal Reform Report**

*Regional Fiscal Reform in the St. Louis Metropolitan Region*

The Metropolitan Forum, Report of the St. Louis Metropolitan Forum Policy Advisory Panel  
February 2008

The Metropolitan Forum, created by the Regional Chamber and Growth Association, FOCUS St. Louis and East-West Gateway Council of Governments brought together regional business, civic and government leaders who chose to focus on regional fiscal reform; viewing it as “a seminal issue that would define the future of the St. Louis region.” The Forum and the multi-disciplinary board of national experts it commissioned, comprehensively examined the issues facing the St. Louis region. The resulting key findings and recommendations presented the state of the region in a bleak reality and called on the region to set aside old ways of thinking and rise to the challenge of adopting an agenda for regional fiscal reform.

#### **B. Interim Report**

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

East-West Gateway Council of Governments, January 2009

The Interim Report documented a work in progress of this Final Report. In that report, East-West Gateway described the difficulty of the research due to the lack of essential data, unreliability of self-reported information and the general lack of transparency and accountability in the use of economic development incentives in the St. Louis region. It contains preliminary estimates of the amount of tax dollars allocated to projects through the use of TIF and special taxing districts.

#### **C. Commissioned Reports**

East-West Gateway commissioned the Applied Research Collaborative, an organization of local researchers from area universities, to analyze four aspects of the broader research questions posed by the Board.

##### *1. The Economic Impact of TIFs: Jobs and Taxable Sales*

William Rogers and William Winter, University of Missouri - St. Louis  
December 10, 2009

Rogers and Winter use a fixed-effects model to estimate the impact of TIFs on two types of economic outcomes: employment levels within zip codes and taxable sales within local

municipalities. For each outcome variable, the analysis tests two models – the impact of all TIF use and the impact of retail-oriented TIF use. Past and current TIF investment and other relevant predictors associated with the outcome variable of interest were included in the model. The analysis finds that TIF use has a significant effect on economic activity, with the effect on jobs small and the impact on taxable sales more substantial. Furthermore, the analysis supports the hypothesis that TIF adoption leads to leakage in economic activity from areas not using TIF to the TIF-using area.

*2. The Impact of Tax Increment Financing on Local, Municipal Fiscal Health:*

*A Preliminary Assessment and Case Study*

Mark Tranel & Will Winter, University of Missouri - St. Louis

December 1, 2009

Tranel and Winter examine municipal finances across a 15 year period, from 1993 to 2007, using a multivariate model to analyze the impact of TIF usage, and a variety of other municipal characteristics, on municipal financial health. Although a comprehensive study of the St. Louis region is desirable, due to data limitations, the study focuses on 28 municipalities in St. Louis County only. The researchers examined the trends of four measures of financial condition, concluding that all 28 municipalities in the study saw a decline in their fiscal health over the study period. The researchers warn that this finding, coupled with the fact that many of these municipalities are heavily reliant on sales tax as a revenue source, suggest potential future problems should the sales tax fall. The multivariate model found that two measures of municipal use of TIF are correlated with modest increased financial distress.

*3. The Promises and Pitfalls of TIF in the St. Louis Metropolitan Region: A Look at the Economic and Racial Disparities*

Sarah L. Coffin and Robert W. Ryan, St. Louis University

November 9, 2009

Coffin and Ryan examine the distributional effects of TIF projects on the socioeconomic wellbeing of communities in the region. The research found that all types of municipalities (low to high income and racially diverse and non-diverse) used TIF, with higher income white communities using the tool more frequently for retail development and the lower income non-white communities using TIF more frequently for residential projects. The research concludes that patterns suggest that, despite TIF becoming the tool of choice, it has not alleviated distress. Furthermore, the patterns found by the researchers suggest that racial and economic disparity has increased in the region and patterns of racial and economic disparity appear to shift after completion of incentive projects, but causation cannot be determined.

*4. Economic Development Incentive Case Studies: Examples of Incentive Usage and Effect from St. Louis County and Metro East*

Mark Tranel, University of Missouri - St. Louis and Andy Theising, Southern Illinois University - Edwardsville

August 31, 2009

Tranel and Theising describe specific development projects that used incentives in the St. Louis region to consider issues that are often raised about the use of TIF. The case studies provide an overview of the complicated process and multitude of factors that are involved in development deals and the use of financing mechanisms.

## **D. Economic Development Incentive Database**

As a part of this research, East-West Gateway staff began to create a comprehensive regional database of the use of tax incentives for economic development in the St. Louis region. The goal is to provide an accurate and clear picture of the public dollars allocated to projects in the St. Louis region. The data are compiled from many sources including several state departments from Missouri and Illinois, county assessor offices, as well as municipal records and local media sources. This database will be useful for many purposes including providing transparency and accountability, evaluation of the use of incentives and to inform future decisions.

## **E. St. Louis Region Municipal Finance Database**

To analyze the impact of development incentives on local government finance, East-West Gateway pulled together data on local government finance. The data of particular interest includes itemized financial records of municipal expenditures and revenues. Data for municipalities in Illinois was extracted from annual reports filed with the Illinois Comptroller. In Missouri, although municipalities are required to file annual financial reports with the State Auditor's Office, the reports are not consistent and are usually in hard copy only. Therefore, municipalities were contacted individually for their annual financial reports. The ongoing goal is to collect current and historical financial data from every municipality within the East-West Gateway eight-county bi-state region. Staff has also compiled sales tax receipt data, taxable sales and property tax data.

Databases are a work in progress. See the East-West Gateway website at [ewgateway.org/dirr](http://ewgateway.org/dirr) for the data collected thus far.



## **Appendix B**

### **Description of Economic Development Incentive Programs**

This Appendix includes brief descriptions of development incentives under a typology that is based in how public dollars are allocated to development projects. The typology of incentives provided below is a useful method for categorizing incentives based on how taxes are funneled to private entities. The authorizing legislation or relevant state agencies should be consulted for more detailed descriptions of the incentives. Additionally, a list of all programs included in the accounting of the states' incentive programs is included. Some descriptions for most programs are also available on the websites of the Missouri Department of Economic Development and the Illinois Department of Commerce and Economic Opportunity.

#### ***Programs that Abate Local Taxes***

##### Missouri Chapter 353 Urban Redevelopment Corporation

###### *Authorizing Legislation: Chapter 353, RSMo*

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 the property's assessed value for the next 15 years.

##### 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, 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 exemption of sales taxes on building materials.

##### Missouri Chapter 99 Land Clearance Redevelopment Authority (LCRA)

###### *Authorizing Legislation: Sections 99.300 to 99.660, RSMo*

Any person may apply to the LCRA for certification that the real property he owns, rents or leases is in a blighted area and submit plans for new construction or rehabilitation of the designated property that are in accordance with an approved redevelopment or urban renewal plan. LCRA can declare an area blighted, approve a redevelopment plan and issue tax abatement. Improvements to the property are fully exempt from property taxes for a period of up to 10 years.

### Missouri Enterprise Zone (EZ) and Enhanced Enterprise Zone (EEZ)

*Authorizing Legislation: Sections 135.950 to 135.973, RSMo*

EZs 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. 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%. State tax credits may also be issued to business for up to five years if a company meets certain minimum employment and investment guidelines. The EZ program was modified in 2003 to the EEZ program, which is less restrictive regarding demographic requirements, an unlimited number of zones and credits can be sold, refunded, transferred or assigned.

### 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% 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% 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% 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: Chapter 67, 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: Chapter 71, 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: Chapter 238, 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 5/11-74.3.1, 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

### ***State Incentive Programs***

Missouri and Illinois offer a variety of incentive or assistance programs to businesses and communities in order to encourage economic development. Types of programs commonly used in the states are broadly described here along with a list of programs included in the reporting in Section III.E. of this report. State departments should be contacted for further detail on specific programs.

#### Tax Credits

A tax credit is a reduction in the tax liability owed by an individual or business. In Missouri there are approximately 63 credit programs and in Illinois there are an estimated 10 programs.<sup>32</sup> One of the biggest obstacles related to analyzing state tax credit programs is determining when to record the tax credit. In general, a tax credit goes through three stages: the state *authorizes* a tax credit when the administering agency approves that a credit will be issued upon the completion of specific requirements; the state *issues* a tax credit once it receives proof that the requirements were met; and the state *redeems* a tax credit when the taxpayer uses the credits to offset taxes owed to the state.

Which phase an agency records or reports a specific tax credit in depends on the interest or reason for recording, reporting or analyzing that data and can substantially change the amount a tax credit program reportedly “cost” the state in a given year. For example, the Missouri Accountability Portal records the tax credits the year the credit was authorized but when tax credit data was requested from the Department of Economic Development, the department

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<sup>32</sup> The number of programs is disputable depending on how you classify programs and as programs sunset.

provided data for tax credits in the year they were issued. Due to the different methods of recording the data, the Accountability website reported \$69 million in tax credits used (authorized) in the region in 2008 and the DED report recorded \$217 million in credits used (issued) in 2008. For the purposes of this research, tax credits were recorded in the year the credit was approved.

### Bonds

Bond financing is a funding mechanism that uses tax incentives to lower financing costs for businesses by having a government entity act as a conduit borrower for a private entity. Bonds provide essentially three benefits to private borrowers – credit enhancement, tax-exempt status and low-interest rates. When a government entity acts as a conduit issuer there is an added security provided by credit enhancement of that entity. Second, bonds can be tax-exempt or taxable. The tax-exempt status of bonds means the interest received by bondholders is exempt from federal and state income taxes while taxable bonds are not exempt from federal taxes but are often still exempt from state income taxes. Finally, bonds can provide a lower interest financing option than is available through private financing. When there is reporting on bonds used for private development it is usually the amount of bonds issued, not on the tax dollars forgone or tax savings to the private entity.

### Exemptions, Exclusions, Discounts, and Preferential Tax Rates

Tax exemptions, exclusions, discounts and preferential tax rates are not documented at all or in some cases, poorly documented, in both states. For many of these programs, such as a sales tax exemption on machinery, companies apply for the incentive and once approved the tax exemption is taken at the register and the amount of uncollected taxes is not reported to the state. The only record the state has is the number of companies that are approved for the tax incentives, not the amount of taxes forgone. Tax expenditure reports for both states attempt to estimate the amount of tax dollars forgone (or spent) for some of these programs but the estimates are provided at the state level only. Data are collected for some programs, mostly those that involve income taxes, but the data are still only available in the aggregate because it is considered proprietary.

### Compiling and Analyzing State Incentive Data

In addition to the obstacles specific to the type of incentive being analyzed, there are several overarching issues in collecting and analyzing this data. First, determining what programs should be classified as “economic development” can be problematic. DED administers many tax incentive programs including some programs that one can argue does not serve an economic development purpose. For example, the Youth Opportunity Program allocates tax credits to organizations administering positive youth development or crime prevention. The state department of economic development administers the program and one could argue that education is a means to economic development but its purpose is not directly to create jobs or spur private investment.

A second complication to analysis, data collection, and transparency evident in both states is the involvement of several departments in administering various components of incentive programs. In Illinois, there are 13 departments listed by the Illinois Comptroller as administering economic

development expenditure programs<sup>33</sup> plus the Illinois Finance Authority has the capacity to issue tax-exempt bonds and provide other access to capital for economic development in the state. In Missouri, the Department of Economic Development (DED) often administers programs but credits are awarded through other agencies such as the Missouri Development Finance Board (MDFB) or the Department of Revenue. There are also several programs that neither DED nor MDFB have any role in, such as the Wood Energy Tax Credit program, which is run by the Department of Natural Resources.

This complicates data collection and analysis in at least two ways. First, with no central reporting agency or an effort to merge databases a miscalculation or duplication in reporting the outcome data, such as jobs or private dollars invested, is unavoidable. Second, there is a lack of consistency across agencies on how to report programs and on definitions used in reporting. For example, in various Missouri databases “jobs created” can mean the number of jobs a company *anticipates* creating or retaining or the number of jobs *actually* created or retained, depending on the purpose of the database and the recording agency. Further, the multitude of agencies administering programs makes it difficult to know if all programs have even been identified.

***State incentive programs included in the “costs” section of the report:***

Missouri State Incentive Programs

Affordable Housing	Life Science
Brownfield - Demolition and Job/In Credits	Loan Guarantee Fee
Brownfield Remediation	Low Income Housing
BUILD - Business Use Incentives for Large Scale Development	MDFB Tax Credit for Contribution
Business Facility Tax Credit	Neighborhood Assistance Program
CAPCO - Certified Capital Company	Neighborhood Preservation
Capital (SBIC)	New Enterprise Creation
CDC/Community Banks	Quality Jobs
Community College New Jobs and Job Retention Training	Rebuilding Communities - 1.5% Employee
Development Tax Credit	Rebuilding Communities - 25% Equipment
Distressed Communities	Rebuilding Communities - 40% Income
Dry Fire Hydrants	Research Expense
EZ - Enterprise Zone	Seed Capital
Family Development Account	Small Business Incubator
Family Farm Breeding Livestock	State TIF
Film Production Company	Transportation Development
Historic Preservation	Wine & Grape Tax Credit

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<sup>33</sup> Illinois Comptroller Public Accountability Report, 2008.

Illinois State Incentive Programs

IDOT Economic Development Program

Enterprise Zone Expanded M&E Sales Tax  
Exemption

Enterprise Zone State Utility Tax Exemption

State Treasurer's Employ Illinois Deposits and State  
Treasurer's Employ Illinois Business (STEP)

Employee Training Investment Program

Economic Development for a Growing Economy  
(EDGE)

Large Business Development Assistance Program

Business Development Public Infrastructure  
Program (BDPIP)

High Impact Business Designation Tax Credit (HIB)

Corporate Headquarters Relocation Program



## **Appendix C**

### **Legislative Update: MO TIF and TDD**

With the passage of HB 191 in 2009 the Missouri legislature modified TIF and TDD statutes to address transparency and accountability of the two programs.

Regarding TIF, the legislation (1) prohibits municipalities that fail to file a completed annual report with DED from implementing any new TIF projects for at least five years; (2) requires DED to submit the annual TIF reports to the State Auditor's Office (SAO); and (3) requires the SAO to post the reports on the agency website in a searchable database available to the public.<sup>34</sup>

In the first year of reporting under the new law, DED saw a 50% increase in the number of reports filed for both the region and the state.<sup>35</sup> While the new legislation has already resulted in improvements in transparency and accountability, there is considerable room for improvement. Although the legislation prohibits municipalities that fail to comply with the reporting requirement from implementing additional TIF projects, it does not provide authority for enforcement. DED cannot implicitly state that a municipality is in compliance with TIF reporting because the agency is not made aware of when a TIF district is created, does not have a method of determining the accuracy of reports and is left without a mechanism for enforcing the 5-year penalty. Additionally, municipalities are only required to complete specific components of the annual report form supplied by DED. Some of the components that are essential for evaluating the use of the program, such as the number of jobs created, are not required.

Regarding TDD, the legislation requires (1) petitions filed to create a district to set forth details of the budgeted expenditures; (2) at least one public hearing regarding the creation and funding of the proposed district, if the petition was filed by the owners of all real property; (3) the Department of Revenue to be responsible for the administration and collection of TDD sales taxes; and (4) the imposition of a fine not to exceed \$500 per day for failure of a TDD board of directors to submit a copy of its annual financial statement to the SAO.

The most recent report on TDDs filed by the SAO was in February 2010, including only TDDs created through 2007. The report therefore does not provide any accounting of the impact of the new legislation and the SAO has not been notified of a process for issuing any fines. The next report, due out early 2011, should have more information regarding the impact of the legislation on reporting compliance. The collection of sales tax by DOR will allow for a more accurate and reliable system of accounting for the amount of tax dollars diverted to districts. This is not reflected in the data compiled for this report. The most recent sales tax disbursement data available from DOR is for fiscal year 2009.

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<sup>34</sup> TIF reports are available for all reporting municipalities back to 2007 at [http://www.auditor.mo.gov/tifdata/motifreport\\_query.php](http://www.auditor.mo.gov/tifdata/motifreport_query.php)

<sup>35</sup> In 2008, 321 reports were filed, 128 of which were for districts in the St. Louis region. In 2009, 474 reports were filed, 198 of which were for districts in the St. Louis region.

## Appendix D

### Method of Calculating Amount of Tax Dollars forgone through St. Louis City Tax Abatement Programs

The city property tax data was first sorted based on an assessor code to determine which parcels were receiving abatement and if the parcel was a residential or commercial property. The parcels were next sorted by redevelopment phase and owner code to determine if the property was abated at 100% or 50% based on typical lengths of abatement for redevelopment phases of the abatement programs. (For Chapter 99 property tax is abated at 100% of the incremental assessed value for 10 years; for Chapter 135 and 353 property tax is abated at 100% of the incremental assessed value for 10 years plus 50% of the assessed value for 15 additional years.) In most cases, a value was provided in the current assessed value field for the abated parcels. For these parcels, the appropriate tax rate (commercial or residential) was then applied to the incremental assessed value for each parcel for each year abated to estimate the amount of revenue forgone.

For about 25% of parcels receiving abatement, the current assessed value was “0”. These parcels have likely not been reassessed since the abatement was granted. Thus, it was not possible to directly estimate the amount of tax forgone for these parcels. To estimate the taxes forgone for these parcels, it was assumed that each abated residential parcel had a value equal to the median value of abated parcels with values for current assessments. Similarly, it was assumed that each commercial parcel had a value equal to the median value of abated parcels with values for current assessments.

The following table provides the range of values used for the types of properties in each phase and the median value used for properties for which no current assessed value was provided.

**Range of Values Used to Calculate Median Values of Amount  
Forgone for City Abated Parcels**

<b>Type of Property</b>	<b>Phase</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Median</b>
Residential	1	\$1.30	\$562,858.02	\$785.50
Commercial	1	\$1.62	\$2,777,860.55	\$3,462.17
Residential	2	\$2.59	\$239,674.00	\$534.87
Commercial	2	\$26.18	\$2,022,692.04	\$4,150.60

Source: City of St. Louis Property Tax Records, Calculations made by EWG

The median value was used in an effort to calculate a conservative estimate. As can be seen from the minimum amount used to figure the median figures, the median is likely deflated and the amounts forgone for many parcels are likely lower than the actual amount of savings received by the property owners. For example, a commercial property owner is probably not receiving tax abatement in the amount of \$1.62 since this would not be a significant savings to the owner.

Additionally, Payments in Lieu of Taxes (PILOTs) amounts were provided for 3,254 parcels over the ten-year period. Since PILOTs are tax revenues that are collected on top of those collected on the base assessed value, the total PILOTs amount of \$5,747,330 was subtracted from the sum of the amount forgone for all parcels to determine the estimate of the amount forgone in property taxes by the City.

## Appendix E

### St. Louis Survey

#### Local Government Fiscal Health Survey and Survey Results

The following survey was sent to all municipal governments in the St. Louis 8-County region in May 2010. A link was sent to the survey via Survey Monkey for most municipalities. For those municipalities for which no email address was obtained, a hard copy was mailed to the city. A total of 48 responses were received for a response rate of 24%. Surveys were received from municipalities in every county in the region except the City of St. Louis.

The questions and number of responses for each item are provided. Note respondents were not required to answer all questions and therefore there are not 48 responses for each item.

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**Thank you for agreeing to participate in this survey. Responses will only be reported in the aggregate – we will not quote your answers.**

#### *Profile*

What city do you represent?

Responses were received from the following number of local government in each county: (1) Franklin County, MO; (3) Jefferson County, MO; (4) St. Charles, MO; (25) St. Louis County, MO; (3) Madison County, IL; (1) Monroe County (IL); (11) St. Clair County, IL

What is your role at the city?

9 Mayor  
23 City Administrator/Manager  
6 Finance Director  
10 Other\_\_\_\_\_

#### *Fiscal Health*

1. Which of the following best describes your municipality's current fiscal health? (Mark one).

7 Fiscal Crisis: We are having difficulty funding services and do not see it changing anytime soon.

4 Fiscal Turmoil: We are having difficulty funding services but see it changing soon.

21 Fiscally Unstable: We are ok right now but foresee potential problems in the near future.

16 Fiscally Healthy: Our finances are fine and I anticipate them being fine in the near future.

2. If your answer to Question 1 was a, b, or c: do you view the fiscal troubles of your municipality as: (If you answered "d" to Question 1, please move on the Question 3). (Mark one or specify under "other").

16 A temporary phenomenon associated with the current economic downturn

4 A more permanent structural problem with the way local government is financed

13 A combination of both

2 Other \_\_\_\_\_

3. Do you get the sense that a majority of local governments in the St. Louis region are either in a fiscal crisis, facing fiscal turmoil, or fiscally unstable? (Mark one).

37 Yes

3 No

8 Not sure about other governments' finances

4. What, if any, actions did your city take to be prepared for a recession?  
(Indicate all actions you took prior to 2008).

30 Built reserves

34 Reduced spending

6 Proposed a tax increase

15 Raised fee and charge amounts

5 Other \_\_\_\_\_

5. In general, what are the sources of revenue for your general fund? (For each option, enter a percentage between 0 and 100. The answers should add up to 100%)

*Average for Region*

Sales Tax	<u>26.6%</u>
Property tax	<u>19.1%</u>
State transfers	<u>9.1%</u>
Utility taxes	<u>16.6%</u>
Charges/fees	<u>13.4%</u>
Other	<u>10.8%</u>
<b>Total</b>	<b>100%</b>

6. Please indicate to what degree the following have had a negative impact on your fiscal health/ability to maintain a consistent level of service for your residents, using a scale from 1 to 5, where "1" indicates "no impact" and "5" indicates "strong negative impact":

Circle the most appropriate number on the scale for each item.

a. Decreasing sales tax revenues	1 (7)	2 (6)	3 (8)	4 (9)	5 (17)
b. Property tax caps	1 (25)	2 (8)	3 (6)	4 (5)	5 (3)
c. Pension fund	1 (25)	2 (7)	3 (5)	4 (4)	5 (5)
d. Health care costs	1 (8)	2 (2)	3 (13)	4 (17)	5 (6)
e. Rising personnel costs	1 (7)	2 (9)	3 (11)	4 (15)	5 (5)
f. Infrastructure costs	1 (7)	2 (7)	3 (17)	4 (13)	5 (3)
g. Aging Population	1 (22)	2 (13)	3 (7)	4 (4)	5 (1)
h. Suburbanization	1 (28)	2 (11)	3 (2)	4 (1)	5 (1)
i. Mistrust in government	1 (23)	2 (15)	3 (7)	4 (2)	5 (0)
j. St. Louis regional governance structure	1 (26)	2 (13)	3 (6)	4 (1)	5 (1)
k. Unfunded state mandates	1 (11)	2 (10)	3 (9)	4 (11)	5 (6)

7. Looking forward, do you see your municipality as fiscally sustainable? “Fiscally sustainable” meaning the city will be able to consistently support the current level of services and undertake community improvements to sustain a quality of life for the city’s residents”.  
(Check “yes” or “no” for each item.)

a. In 2 years	<u>9</u> No	<u>37</u> Yes
b. In 5 years	<u>10</u> No	<u>36</u> Yes
c. In 10 years	<u>12</u> No	<u>32</u> Yes
d. In 20 years	<u>13</u> No	<u>31</u> Yes

8. What, if any, actions did your city take during the current fiscal year and/or the previous fiscal year? (Indicate all that apply and/or specify under “other”).

29 Reduced spending in mid-fiscal year

33 Adopted a budget with reduced appropriation levels

25 Deferred maintenance on city facilities and infrastructure

18 Deferred previously approved capital projects or equipment

26 Reduced personnel (layoffs, furloughs, salary reduction, deferral of scheduled pay increases or not filling vacant positions)

4 Proposed a tax increase

18 Raised fee and charge amounts

1 Other \_\_\_\_\_

9. What, if any, actions do you anticipate having to take in the next fiscal year?  
(Indicate all that apply).

35 Adopt a budget with reduced appropriation levels

20 Defer maintenance on city facilities and infrastructure

17 Defer previously approved capital projects or equipment

24 Reduce personnel (layoffs, furloughs, salary reduction, deferral of scheduled pay increases or not filling vacant positions)

11 Propose a tax increase

10 Raise fee and charge amounts

0 Other \_\_\_\_\_

10. Are there any changes to legislation on how municipal government in the St. Louis region is financed or structured that you think would be beneficial in making local governments fiscally sustainable?

- If the State of Illinois shared more revenue with local governments that would make municipalities more fiscally sustainable.
- Tax services and tax Internet sales.
- A regional wide earnings tax shared on a population basis with St Louis City grandfathered. Eliminate sales tax sharing in St Louis County. All it has done is perpetuate continuing existence of small cities due to financial resources being provided to them. Allow all cities to be point of sale with some set sharing percentage (25.0%) to

go into a pool for the COUNTY to provide services to small cities that do not merge into larger cities.

- Share the boat money the same way we are forced to share sales tax. What is good for one area should be good for all areas.
- Force State of Missouri to return more of the tax revenue that the St. Louis area sends to Jefferson City back to St. Louis. Force outstate taxing jurisdictions to properly assess real property
- Keep spending down and I know that is hard to do for some, but it can become a good habit to have.
- Business license cap for Village's only (15K) Review sales tax distribution formula for small pops.
- For funding capital improvements, stopping the use of sales tax initiatives for fire and ambulance districts to use for operational expenses would be a great help.
- Legislation that would incent local governments to share more resources and/or spur regionalization/multi-governmental service agreements.
- State should get their act together
- There is way too much government waste.
- We must be funded on a monthly basis for funds due, absolutely no unfunded mandates or employee enhancements
- If the state gov (IL) would stop cutting and/or slowing payments to municipalities, we would not have any of the troubles we are having right now

11. Do you have any additional comments on municipal fiscal health?

- Most cities are suffering mainly due to poor economic conditions in our country.
- We have weathered the downturn very well; we were even able to give a pay increase to employees this year. We have been innovative in meeting our health care needs and using in house labor to meet most of our maintenance needs.
- We rely heavily on contractual services with St. Charles County for public safety, streets and building inspections/permits. This allows us to have streamlined operations with minimal staff.
- Without police, fire and IMRF pension reform, it is not if, but when, we will no longer be solvent as municipalities
- I am concerned about the proposed fair tax and possible effects on local government
- Our main problem revolves around the state cutting local government funding and slowing their payments to us

12. Would you be interested in discussing the topic in more detail with East-West Gateway staff?  
If so, please provide contact information and we will be in touch soon.

5 Respondents would like to be contacted.

13. Would you like to see the results of the survey, in the aggregate? If so, please provide your contact information.

21 Respondents would like to see results.

**Appendix F**  
**Tables 9 & 10**

**Table 9**

**Share of Municipal Sales Tax Revenue for Missouri**

**1993 to 1995 and 2005 to 2007**

<b>Municipality</b>	<b>Average Sales Tax Receipts, 1993-1995</b>	<b>Average Sales Tax Receipts, 2005-2007</b>	<b>Total TIF Amount, 1993-2007</b>	<b>Share of MO Tax Receipts, 1993-1995</b>	<b>Share of MO Tax Receipts, 2005-2007</b>	<b>Change in Share of Tax Receipts (&gt;1=gain, &lt;1=loss)</b>
Arnold	\$2,391,679	\$5,305,019	\$39,500,000	0.0132	0.0115	0.8701
Augusta	\$30,090	\$72,840		0.0002	0.0002	0.9496
Ballwin	\$2,681,390	\$8,378,109	\$5,000,000	0.0148	0.0181	1.2257
Bel Nor	\$132,714	\$296,797		0.0007	0.0006	0.8773
Bel Ridge	\$244,996	\$782,727	\$25,800,000	0.0014	0.0017	1.2533
Bella Villa	\$52,673	\$268,356		0.0003	0.0006	1.9986
Bellefontaine Neighbors	\$799,678	\$2,059,377		0.0044	0.0045	1.0102
Bellerive (Acres)	\$17,431	\$48,563		0.0001	0.0001	1.0929
Berger	\$6,285	\$5,307		0.0000	0.0000	0.3312
Berkeley	\$758,944	\$2,476,358	\$869,000	0.0042	0.0054	1.2800
Beverly Hills	\$71,431	\$134,600		0.0004	0.0003	0.7392
Black Jack	\$600,106	\$1,261,480		0.0033	0.0027	0.8246
Breckenridge Hills	\$364,172	\$563,196		0.0020	0.0012	0.6067
Brentwood	\$1,701,166	\$10,835,250	\$64,100,000	0.0094	0.0235	2.4986
Bridgeton	\$4,392,425	\$9,118,397	\$8,000,000	0.0243	0.0197	0.8143
Byrnes Mill	\$40,325	\$126,896		0.0002	0.0003	1.2344
Calverton Park	\$106,972	\$245,535		0.0006	0.0005	0.9004
Champ	\$26,224	\$1,539		0.0001	0.0000	0.0230
Charlack	\$102,390	\$265,780		0.0006	0.0006	1.0183
Chesterfield	\$3,270,759	\$18,190,515	\$72,507,000	0.0181	0.0394	2.1817
Clarkson Valley	\$188,969	\$343,033		0.0010	0.0007	0.7121
Clayton	\$1,976,766	\$5,747,684		0.0109	0.0124	1.1406
Cool Valley	\$168,499	\$260,351	\$545,000	0.0009	0.0006	0.6061
Cottleville	\$60,112	\$585,724		0.0003	0.0013	3.8223
Country Club Hills	\$97,708	\$256,494		0.0005	0.0006	1.0298
Country Life Acres	\$7,337	\$10,387		0.0000	0.0000	0.5554
Crestwood	\$3,342,983	\$7,927,508	\$4,285,000	0.0185	0.0172	0.9302
Creve Coeur	\$2,739,528	\$5,129,514	\$3,580,000	0.0151	0.0111	0.7345
Crystal City	\$800,884	\$1,155,889		0.0044	0.0025	0.5662
Crystal Lake Park	\$37,151	\$76,117		0.0002	0.0002	0.8037
De Soto	\$613,384	\$1,577,537		0.0034	0.0034	1.0089
Dellwood	\$406,546	\$1,164,713	\$4,050,000	0.0022	0.0025	1.1238
Des Peres	\$2,184,239	\$11,328,001	\$29,800,000	0.0121	0.0245	2.0345
Edmundson	\$239,757	\$768,551		0.0013	0.0017	1.2575
Ellisville	\$1,724,751	\$3,994,690		0.0095	0.0087	0.9086
Eureka	\$1,034,009	\$4,310,737	\$41,050,000	0.0057	0.0093	1.6354



Fenton	\$2,210,490	\$8,089,948	\$47,735,000	0.0122	0.0175	1.4357
Ferguson	\$2,435,894	\$6,865,158	\$21,182,000	0.0134	0.0149	1.1056
Festus	\$2,306,302	\$5,173,028		0.0127	0.0112	0.8799
Flint Hill	\$47,298	\$104,651		0.0003	0.0002	0.8680
Flordell Hills	\$70,845	\$172,915		0.0004	0.0004	0.9575
Florissant	\$3,741,520	\$11,909,964	\$17,300,000	0.0207	0.0258	1.2487
Foristell	\$144,146	\$290,355		0.0008	0.0006	0.7902
Frontenac	\$1,056,016	\$3,812,865		0.0058	0.0083	1.4164
Gerald	\$140,264	\$191,380		0.0008	0.0004	0.5352
Glen Echo Park	\$17,112	\$21,287		0.0001	0.0000	0.4880
Glendale	\$435,422	\$1,241,398		0.0024	0.0027	1.1184
Grantwood Village	\$66,210	\$163,980		0.0004	0.0004	0.9715
Greendale	\$54,785	\$140,193		0.0003	0.0003	1.0038
Hanley Hills	\$170,287	\$380,692		0.0009	0.0008	0.8770
Hazelwood	\$2,267,757	\$7,835,753	\$20,629,000	0.0125	0.0170	1.3554
Herculaneum	\$240,095	\$855,806	\$2,750,000	0.0013	0.0019	1.3983
Hillsboro	\$201,525	\$363,671	\$362,000	0.0011	0.0008	0.7079
Hillsdale	\$142,675	\$274,323		0.0008	0.0006	0.7542
Huntleigh	\$41,138	\$41,420		0.0002	0.0001	0.3950
Jennings	\$996,230	\$3,466,984	\$18,350,000	0.0055	0.0075	1.3652
Josephville	\$2,229	\$6,383		0.0000	0.0000	1.1231
Kimmswick	\$49,798	\$67,293		0.0003	0.0001	0.5301
Kinloch	\$197,899	\$87,125		0.0011	0.0002	0.1727
Kirkwood	\$2,645,040	\$9,772,746	\$18,010,000	0.0146	0.0212	1.4494
Ladue	\$1,360,466	\$3,945,712		0.0075	0.0085	1.1377
Lake St. Louis	\$479,898	\$1,668,546		0.0026	0.0036	1.3639
Lakeshire	\$107,445	\$176,326		0.0006	0.0004	0.6438
Mackenzie	\$10,840	\$17,568		0.0001	0.0000	0.6358
Manchester	\$1,652,804	\$5,250,357		0.0091	0.0114	1.2461
Maplewood	\$1,309,990	\$5,587,973	\$19,867,500	0.0072	0.0121	1.6733
Marlborough	\$135,791	\$576,060		0.0007	0.0012	1.6641
Maryland Heights	\$1,863,049	\$7,668,145	\$60,600,000	0.0103	0.0166	1.6146
Moline Acres	\$198,685	\$410,648	\$2,500,000	0.0011	0.0009	0.8108
New Haven	\$202,988	\$348,189		0.0011	0.0008	0.6729
New Melle	\$15,072	\$89,040		0.0001	0.0002	2.3174
Normandy	\$368,577	\$797,962	\$20,000,000	0.0020	0.0017	0.8493
Northwoods	\$373,972	\$1,037,686		0.0021	0.0022	1.0885
Norwood Court	\$65,039	\$136,059		0.0004	0.0003	0.8206
Oakland	\$116,674	\$287,101		0.0006	0.0006	0.9653
O'Fallon	\$3,815,325	\$15,363,956	\$1,400,000	0.0211	0.0333	1.5797
Olivette	\$1,022,382	\$2,487,038		0.0056	0.0054	0.9543
Overland	\$2,310,571	\$3,958,311		0.0128	0.0086	0.6720
Pacific	\$656,956	\$1,346,405		0.0036	0.0029	0.8040
Pagedale	\$381,598	\$846,594		0.0021	0.0018	0.8703
Parkway	\$10,120	\$19,539		0.0001	0.0000	0.7574
Pasadena Hills	\$85,326	\$213,033		0.0005	0.0005	0.9794
Pasadena Park	\$38,964	\$90,822		0.0002	0.0002	0.9144
Pevely	\$304,684	\$748,048		0.0017	0.0016	0.9631

Pine Lawn	\$372,347	\$825,570		0.0021	0.0018	0.8698
Portage Des Sioux	\$15,894	\$14,437		0.0001	0.0000	0.3563
Richmond Heights	\$3,771,898	\$9,620,802	\$29,902,194	0.0208	0.0208	1.0006
Riverview	\$237,449	\$587,307		0.0013	0.0013	0.9703
Rock Hill	\$631,654	\$1,833,695	\$40,000,000	0.0035	0.0040	1.1388
Saint Ann	\$2,809,709	\$4,310,414	\$84,000,000	0.0155	0.0093	0.6018
Saint George	\$98,946	\$193,261		0.0005	0.0004	0.7662
Saint John	\$548,150	\$1,794,897	\$9,257,000	0.0030	0.0039	1.2845
Shrewsbury	\$1,096,234	\$2,697,869		0.0061	0.0058	0.9654
St. Charles	\$8,045,997	\$15,418,396	\$54,462,500	0.0444	0.0334	0.7517
St. Clair	\$587,139	\$996,375		0.0032	0.0022	0.6657
St. Louis	\$66,668,958	\$125,469,383	\$461,979,419	0.3681	0.2718	0.7383
St. Peters	\$10,492,500	\$19,471,808	\$80,426,000	0.0579	0.0422	0.7280
Sullivan	\$1,187,433	\$2,827,481		0.0066	0.0061	0.9341
Sunset Hills	\$883,472	\$3,595,034	\$8,550,000	0.0049	0.0078	1.5963
Sycamore Hills	\$48,852	\$92,587		0.0003	0.0002	0.7435
Town and Country	\$1,539,064	\$5,905,066		0.0085	0.0128	1.5051
Twin Oaks	\$503,527	\$594,472		0.0028	0.0013	0.4631
Union	\$804,295	\$2,863,734		0.0044	0.0062	1.3967
University City	\$2,943,562	\$9,041,512	\$2,551,600	0.0163	0.0196	1.2049
Uplands Park	\$36,548	\$85,436		0.0002	0.0002	0.9170
Valley Park	\$376,781	\$1,618,234	\$3,500,000	0.0021	0.0035	1.6848
Velda City	\$116,967	\$269,731		0.0006	0.0006	0.9046
Velda Village Hills	\$96,313	\$202,446		0.0005	0.0004	0.8246
Vinita Park	\$146,557	\$447,902		0.0008	0.0010	1.1989
Vinita Terrace	\$24,756	\$54,233		0.0001	0.0001	0.8594
Warson Woods	\$135,750	\$690,846		0.0007	0.0015	1.9964
Washington	\$2,879,144	\$5,812,913	\$12,448,695	0.0159	0.0126	0.7920
Webster Groves	\$1,683,938	\$5,991,050	\$5,640,000	0.0093	0.0130	1.3956
Wellston	\$264,549	\$487,964		0.0015	0.0011	0.7236
Wentzville	\$1,176,839	\$6,454,148	\$1,635,000	0.0065	0.0140	2.1514
Westwood	\$21,579	\$36,419		0.0001	0.0001	0.6621
Wilbur Park	\$38,232	\$88,222		0.0002	0.0002	0.9052
Winchester	\$130,628	\$264,305		0.0007	0.0006	0.7937
Woodson Terrace	\$517,404	\$1,928,986		0.0029	0.0042	1.4625

*Note: Municipalities for which a three-year average could not be calculated were not included.*

*Source: Missouri Department of Revenue, Missouri Department of Economic Development, calculations made by East-West Gateway.*

**Table 10**  
**Share of Municipal Sales Tax Revenue for Illinois**  
**1993 to 1995 and 2005 to 2007**

<b>Municipality</b>	<b>Average Sales Tax Receipts, 1993-1995</b>	<b>Average Sales Tax Receipts, 2005-2007</b>	<b>Total TIF Amount, 1993-2007</b>	<b>Share of IL Tax Receipts, 1993-1995</b>	<b>Share of IL Tax Receipts, 2005-2007</b>	<b>Change in Share of Tax Receipts (&gt;1=gain, &lt;1=loss)</b>
Alhambra	64,794	64,653		0.002	0.001	0.583
Alorton	30,716	92,160	2,312,713	0.001	0.002	1.754
Alton	3,737,067	5,265,601	12,285,416	0.104	0.086	0.824
Belleville	4,870,000	5,986,893	118,767,862	0.136	0.098	0.718
Bethalto	468,338	891,458	215,952	0.013	0.015	1.112
Brooklyn	36,992	35,880	136,307	0.001	0.001	0.567
Cahokia	1,159,518	1,501,188	19,247,289	0.032	0.025	0.757
Caseyville	209,369	304,694	9,994,906	0.006	0.005	0.851
Centreville	42,173	47,207	7,537,313	0.001	0.001	0.654
Collinsville	2,852,214	4,273,752	23,036,739	0.080	0.070	0.876
Columbia	663,341	1,399,638	2,271,601	0.019	0.023	1.233
Dupo	80,033	155,044	1,376,737	0.002	0.003	1.132
East Alton	647,229	855,927	147,930	0.018	0.014	0.773
East Carondelet	11,529	15,451	0	0.000	0.000	0.783
East St. Louis	792,516	929,717	92,193,159	0.022	0.015	0.686
Edwardsville	1,592,429	3,606,561	6,255,948	0.045	0.059	1.324
Fairmont City	284,349	93,526	3,317,256	0.008	0.002	0.192
Fairview Heights	5,632,360	8,024,725	647,189	0.157	0.131	0.833
Fayetteville	3,476	5,234	0	0.000	0.000	0.880
Freeburg	186,190	329,959	220,484	0.005	0.005	1.036
Fults	2,379	6,879	0	0.000	0.000	1.690
Glen Carbon	469,941	1,963,686	6,754,177	0.013	0.032	2.442
Godfrey	753,770	1,146,005	0	0.021	0.019	0.889
Granite City	1,690,063	3,175,742	29,907,288	0.047	0.052	1.098
Grantfork	6,102	10,058	0	0.000	0.000	0.963
Hamel	68,967	162,749	0	0.002	0.003	1.379
Hartford	199,425	448,809	4,381,267	0.006	0.007	1.315
Hecker	7,471	14,621	0	0.000	0.000	1.144
Highland	1,169,925	2,232,744	0	0.033	0.036	1.115
Lebanon	252,720	340,222	0	0.007	0.006	0.787
Lenzburg	17,845	4,958	0	0.000	0.000	0.162
Livingston	35,291	52,993	0	0.001	0.001	0.878
Madison	228,445	400,975	30,453,037	0.006	0.007	1.026
Maeystown	8,951	3,204	0	0.000	0.000	0.209
Marine	29,171	42,749	0	0.001	0.001	0.857
Marissa	176,161	205,065	134	0.005	0.003	0.680
Maryville	98,328	263,220	0	0.003	0.004	1.565
Mascoutah	303,420	364,141	2,496,115	0.008	0.006	0.701
Millstadt	153,990	303,852	628,369	0.004	0.005	1.153

New Athens	105,365	123,370	0	0.003	0.002	0.684
New Douglas	4,495	5,686	0	0.000	0.000	0.739
O'Fallon	1,990,205	6,465,880	2,103,243	0.056	0.106	1.899
Pierron	16,072	69,247	0	0.000	0.001	2.518
Pontoon Beach	291,283	853,582	15,875,246	0.008	0.014	1.713
Roxana	28,674	58,720	0	0.001	0.001	1.197
Sauget	157,164	223,429	39,405,785	0.004	0.004	0.831
Shiloh	210,500	1,436,848	4,222,464	0.006	0.023	3.989
Smithton	61,335	108,205	0	0.002	0.002	1.031
South Roxana	29,733	66,199	32,720	0.001	0.001	1.301
St. Jacob	17,165	33,456	0	0.000	0.001	1.139
St. Libory	33,575	70,279	0	0.001	0.001	1.223
Summerfield	4,129	5,144	0	0.000	0.000	0.728
Swansea	824,589	1,322,224	2,499,186	0.023	0.022	0.937
Troy	504,811	1,136,079	1,922,309	0.014	0.019	1.315
Valmeyer	19,427	26,501	119,304	0.001	0.000	0.797
Venice	32,438	18,518	120,140	0.001	0.000	0.334
Washington Park	146,931	189,945	4,967,448	0.004	0.003	0.756
Waterloo	671,936	1,762,544	0	0.019	0.029	1.533
Williamson	1,082	1,305	0	0.000	0.000	0.704
Wood River	1,549,914	2,160,415	18,840,098	0.043	0.035	0.815
Worden	34,866	47,352	0	0.001	0.001	0.794

*Source: Illinois Department of Revenue, calculations made by East-West Gateway*

## **Appendix G**

### **Literature Review**

The scope of the research posed by the Board has been widely covered in academic literature as well as the regular media. Yet there is a lack of a depth in understanding of the interconnectedness of the use of economic development incentives and local government finance as well as the distributional effects of the use of incentives. This section summarizes some of the research on these topics and provides context specific to the St. Louis region.

#### **A. Municipal Finance, Increased Competition and the Rise in Use of Economic Development Incentives**

Referencing relevant research, this section of the report briefly summarizes the key trends and challenges facing local governments including rising expenditures, constrained revenue sources, the changing economy, and an examination of how the fiscal environment affects local leaders approach to economic development. Due to limited research on local government finance specific to the St. Louis region, EWG surveyed local municipal officials in Spring 2010 to better understand the fiscal health of our local governments and how national research applies to our region. The survey instrument and results are provided in Appendix E. The results are referenced throughout this section, referred to as *the St. Louis Survey*.

##### *Municipal Finance*

The recession has hit every sector, leading individuals, businesses and governments alike to evaluate budgets and cut unnecessary expenditures. While waiting it out may work to an extent there is considerable evidence the structure of local government finance is broke and short-term fixes will do little to resolve its instability. Intergovernmental relationships, tax caps, and revenue sources that do not suit today's economy have been compounding, resulting in local governments attempting to piece together revenue in order to provide services their constituents need, want, and demand. The recent economic recession has exacerbated these problems with increasing demands on government from constituents that are facing financial difficulties and revenue sources deeply damaged by recessionary effects.

Although the sources and extent of government financial problems differ by locality, there are common pressures discussed in the literature. On the expenditure side intergovernmental relationships, rising health care costs, pension costs, infrastructure costs and the impacts of changing demographics and suburbanization are cited as major pressures on local government budgets (NLC, 2001 to 2009; Rubin Brown, 2007, 2009; GAO-08-983T, 2008; Munnell, Aubry, Quniby, 2010, Chapman, 2008). The St. Louis Survey asked municipal leaders to indicate to what degree these factors had a negative impact on their fiscal health.<sup>36</sup> Over one-third of respondents reported health care costs, rising personnel costs, unfunded state mandates and infrastructure costs have had strong negative impacts on their fiscal health while a majority of respondents indicated pension funds, aging population, and suburbanization have had minimal or no negative impact on their fiscal health.

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<sup>36</sup> "Fiscal health" was defined as "ability to maintain a consistent level of service for your residents".

The rising expenditures of local governments are met with many challenges on the revenue side of budgets. The largest sources of revenue for local governments are each threatened by at least one rising trend: a growing anti-tax sentiment has led to tax expenditure limitation laws that limit the growth of revenue from property taxes (Chapman, 2008; Dye and McMillin, 2007); the sales tax system is antiquated and not keeping up with the changing economy (Tannenwald, 2004; Mazerov, 2009; Bruce, Fox, Stokely, Luna, 2009); intergovernmental relationships have become less dependable (Chapman, 2008; Pagano and Hoene, 2006); as energy efficiency is encouraged a decrease in utility tax revenues can be expected; and, impacting all revenue sources, a low level of trust in government and unwillingness of local officials to present tradeoffs has led citizens to disengage from the government process and to lack an understanding of the costs of public services and goods (NLC, 2006; Dye and McMillan, 2007). While all of these factors are cited in the national literature, decreasing sales tax revenue is the only factor that was identified by a majority of respondents in the St. Louis Survey as having a strong negative impact on their fiscal health.<sup>37</sup>

In fact, decreasing sales tax revenues was indicated as having a negative impact on fiscal health most frequently, out of 11 factors. This is likely due to a combination of factors that have led to an increased reliance on sales tax among municipalities in the region. The importance of the property tax has been diminished as tax caps have been put in place and public resistance to any increase in the tax is high. There are also a number of problems associated with the sales tax as a reliable source of revenue. Sales tax revenues not only decline during economic downturns as people cut back on spending but also when citizens fear an economic downturn is coming and begin to prepare for a possible downturn (ITEP, 2005). This effect has hit state and local governments particularly hard over the last couple of years with sales tax revenues dropping dramatically as individuals cope with job losses and are increasingly aware of their debt.

Even during good economic times, there has been increasing concern about the dependability of the sales tax as it is structured today due to the shift from goods to services consumption and increasing Internet sales. The portion of American household dollars spent on services has increased from 41% of consumption dollars in 1960 to 59% in 2007 (Tannenwald, 2004; Mazerov, 2009). Since services are typically not taxed, this is thought to have a substantial effect on governmental revenues. While governments have adapted by increasing rates, this ability is increasingly constrained by public resistance and consumers who turn to the Internet for more purchases (Mazerov, 2009). Proponents of taxing services assert doing so will reduce the year-to-year volatility of sales tax revenues and make the sales tax less regressive (2009).

In a 2004 report, Robert Tannenwald concluded that while sales tax may not be a reliable source of revenue, the change in consumption has not been as damaging as is often asserted. He found that the percentage of generally taxed items purchased by consumers and/or unsheltered businesses (mostly service-producing industries) only decreased 2% from 1977 to 1997; indicating that the movement toward purchasing services has not been as dramatic as many believe. He also examined the relationship of taxed consumption, tax-preferred consumption, GDP and recessions from 1967 to 2003. He concluded that taxed consumption has risen more dramatically but is more pro-cyclical than tax-preferred consumption; suggesting that most of the

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<sup>37</sup> The Survey did not ask about intergovernmental relationships and utility tax revenues specifically.

change in taxed-consumption has been a factor of economic downturns, erosion of the sales tax base through tax exemptions and the decrease in costs of goods (2004).

An additional threat to the revenue productivity of the sales tax is the trend for more purchases to be made on the Internet. One estimate is that over \$7 billion in state and local sales and use tax revenues were lost in 2007 in the United States due to e-commerce sales. In Missouri the 2007 loss was estimated at \$134 million and in Illinois at \$322 million (Bruce, Fox, Stokely, Luna, 2009).

### *The Economy and Increased Competition*

A major factor in local government fiscal stress is the considerable change in the economy and the failure to reconstruct government fiscal structure to coincide with this new economy. The shift from a manufacturing to a service-oriented economy and the growth of e-commerce on sales tax revenues is part of this effect but globalization and the increasing mobility of businesses and individuals are also key influences on government finance. The large number of governments and taxing districts in the St. Louis region is an additional source of competition present in the region.

The shift from a goods-producing manufacturing economy to a service-oriented highly mobile economy means businesses, residents, and shoppers can make the choice of where to spend money or do business based on many factors. Businesses are no longer restricted to a location based on a limited resource (Tannenwald, 2004) and it is not a problem for residents to drive longer distances for a simple shopping trip. This also means that people and businesses are not restricted by tax boundaries and can consume public services in one tax district but pay tax dollars in another.

At the same time, political and technological advancements have increased the ability to act globally, widening the economic playing field. Open markets have led to an increase in foreign trade from 11% of gross domestic product in 1929 to 27% in 2005, a trend that is expected to accelerate (Regional Plan Association, 2006). Technology and communication advancements have greatly expanded the possibilities of where businesses locate and do business. Many jobs can be done anywhere and are therefore outsourced to where costs are lowest.

These trends have led to increased competition among governments for jobs, residents, resources, and revenues. The increasing competition for businesses can be exemplified by examining the tax burden of corporations. The ratio of state and local corporate income tax collections to corporate profits peaked at 7.3% in 1980 and, with the exception of a sharp increase in 1987,<sup>38</sup> has steadily decreased to 3.9% in 2000 (Tannenwald, 2004). By comparison, the ratio of state and local personal taxes to personal income has steadily risen from 1.1% in 1959 to 3.4% in 2000, with no decreases (2004).

In addition to facing increased competition from other metropolitan regions from around the globe, at a local level, municipalities in the St. Louis region are also in competition with each other. As discussed in the Metropolitan Forum report, two-thirds of the region's 868 units of

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<sup>38</sup> Due to the federal Tax Reform Act of 1986 that eliminated several corporate tax deductions.

government have taxing authority. This creates an intense environment for competition for tax dollars, especially in a slow-growth region. Research indicates that this decentralization approach to governance makes the region less competitive with other regions throughout the country and worldwide (Metropolitan Forum, 2008).

### *Approach to Economic Development*

The increased competition, constrained revenues, rising expenditures, and anti-tax sentiment effect the approach local government officials take towards economic development. Increased expenditures have led governments to be creative in funding costs while constrained revenue sources have led to more attention on expanding jurisdictional tax bases. And, as competition has increased, governments have increasingly turned to using more tax incentives to entice corporations, retail entities, and residents to their jurisdictions.

Tax increment financing and special taxing districts are tools that local governments can use to control an additional revenue stream without a popular vote and avoid legislative caps on major revenue sources. As local governments have become constrained in raising property taxes, they have sought other revenue sources that are not capped, such as special taxing districts, tax increment financing districts and increases in the fees charged for government services (Property Tax Reform and Relief Task Force, 2009). TIF is seen as a tool that gained much of its popularity as a way to circumvent the implications of the property tax cap laws that were passed in almost every state (Chapman, 2001).

Although the funding streams of TIF and special taxing districts are somewhat restricted they provide government with a bit more flexibility than many revenue options. This is especially true in Illinois where TIF districts tend to cover large geographic areas and can be put in place for up to 35 years.<sup>39</sup> The flexibility of the tool allows municipal governments to capture the incremental revenues and use them for a wide range of expenditures in the collecting TIF district or any adjacent TIF district.

Another option for local governments is to expand the tax base through economic development efforts – attracting more property tax paying businesses and residents and more sales tax generating businesses to their jurisdictions. As competition for the biggest tax generating developments has heightened, the use of economic development incentives has heightened as well (Tannenwald, 2004). As Chapman observed in California (2004), in the St. Louis region a dependence on the sales tax for municipal government finance encourages local officials to use tools available to them to compete for sales tax generating businesses. This has meant increased intraregional competition and larger tax incentives for retail developments. TIF has been a particularly useful tool in this competition because of its attractiveness to retail developers.

In a recent analysis of the use of TIF in Missouri, Susan Mason and Kenneth Thomas found evidence of municipalities using TIF to compete with other cities for investment. The researchers surveyed municipalities<sup>40</sup> on their use of TIF. Using the survey results and Census data they

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<sup>39</sup> TIF districts are first approved for 23 years and can then be extended for an additional 12 years.

<sup>40</sup> St. Louis City and Kansas City were not included nor were cities with a population of less than 2,500. They had a 92% response rate.



found that a city was more than two and a half times as likely to adopt TIF if a neighboring municipality had adopted a TIF and three times as likely to adopt a retail TIF. Another interesting finding of the research is that early adopters of TIF (those municipalities that adopted a TIF in 1987 through 1992) adopted 3.62 times more TIFs and 3.81 more retail TIFs, providing evidence of dependence on the use of the tool (2010).

## **B. The Use and Effectiveness of Economic Development Tax Incentives**

As governments compete for development in an effort to expand their tax base and determine the most efficient use of limited resources to improve their communities, a critical question is if the use of tax incentives is an effective and efficient use of public dollars to encourage economic development. The topic has been researched extensively generally concluding that tax incentives have little, if any, impact on the economic vitality of an area but the methodological difficulties of studying the subject are prevalent. This section summarizes the findings of the research including the methodological difficulties related to studying the effectiveness of tax incentives.

### *The Rise in the Use of Economic Development Incentives*

The use of tax incentives to attract businesses has risen despite any substantial evidence that their use results in positive outcomes. The rise in competition for businesses and increased use of tax incentives since the 1960s is well documented with overall corporate tax rates falling and the number and size of tax incentive packages increasing (Markusen and Nesse, 2007). The current estimate is that \$50 billion in tax incentives are provided through state and local governments for economic development purposes (Peters and Fisher, 2004) and the average incentive package provided to businesses grew from 10% to 30% of gross business taxes in the 1990's alone (Fisher, 2007). Although business surveys in recent years tend to indicate taxes are an important factor in business location decisions, much of the growth in the use of tax incentives occurred at a time when surveys of businesses indicated taxes had minimal impact on site location decisions (Fisher, 2007).

The literature attributes a few factors to this growth in the importance and/or use of tax incentives. First, falling transportation and communication costs have allowed businesses more freedom to locate in multiple locations resulting in a decreased level of their importance to business location decisions and therefore a relative increase in the importance of other cost factors such as labor and taxes (Fisher, 2007; Bartik, 2007; Luger, 2007). Second, federal and state governments have shifted power and responsibility to local governments, increasing their role in economic development. Local officials are provided with limited options in how to attract businesses to their jurisdiction. Tax incentives are often one way a jurisdiction can set itself apart from other areas within their metro area (Bartik, 2007). Taxes are also one of the few costs government can change with relative ease in order to encourage economic development.

An additional factor that has risen with the use of incentives, is the rise of the site consultant industry. The site consultant industry was dominated by the Fantus Corporation until about 1975 when the company published the first state "business climate" rankings which led to bidding wars among the states and additional firms entering the industry (Markusen and Nesse, 2007). Site consultants' stand to gain from an increase in the number of tax incentive programs utilized

and the amount of subsidies provided to business. Consultants' fees are often tied to the amount of the tax incentive received with commissions running up to 30% of the value of the acquired subsidy (LeRoy, 2007). Consultants play a unique role in development deals, being hired at different times by both local governments seeking to develop and businesses that are relocating. This creates an advantage at the negotiating table, particularly over local governments that have less capacity and expertise in negotiating deals with businesses. Furthermore, governments do not have access to the financial information of corporations while their own finances and policies are required to be public. This prevalent information asymmetry and role of site consultants is thought to result in higher tax incentive deals for private entities (Luger, 2007; Markusen and Nesse, 2007).

### *Measuring the Effectiveness of Economic Development Tax Incentives*

The most agreed upon conclusion in the research on economic development incentives is that analysis of incentives presents enormous methodological difficulties. The second most widely held conclusion is that there is no substantiated evidence that tax incentives are a cost-effective means of generating economic development. There is an abundance of economic development incentive tools, and even defining what should be included in this category can vary depending on one's point of view. Success, or effectiveness, can also be measured differently based on one's goal or the scope of geography used to measure success. Furthermore, as discussed extensively in the East-West Gateway Interim Report, the lack of available data and other methodological problems make it difficult to draw conclusive results.

One of the central methodological problems is the inability to test the counterfactual. Authorizing legislation of incentives often calls for a "but for" test to be met. Meaning that the development can only receive the tax incentive if it would not happen "but for" the presence of the incentive. There is no means for a government to determine if the test is truly met. Government must rely on the developer and/or site consultant's word that this is true. Further, those in the private industry have an upper hand in negotiations because government finances and incentives are public record while government entities are limited to the financial information the private industries choose to share with them. Also, when evaluating the outcomes of an incentive project it is impossible to tell if the number of jobs, tax revenues or other economic outcomes increased more than they would have in the absence of the incentive or how much of any increase can be attributed to the use of the incentive opposed to any number of other factors that influence the economy and growth of a community. Similarly, if there is a decrease in economic activity is it because the incentive failed or did the incentive halt the economy from an even more substantial decline?

Property values are one of the most common measures used in evaluating the use of TIF or tax abatement. This can be problematic if a purely quantitative analysis is undertaken (which is typically the case). Studies have shown increased property values in an area that used TIF (Byrne, 2006; Weber, et.al, 2007; Smith, 2009) but the data does not indicate how this result was reached. Was it by gentrification or displacement of lower-income residents or existing smaller businesses being pushed out in favor of higher income or larger tax generating businesses? Similarly, the scope of geography used to measure the effectiveness of a program can affect the

conclusion as well as the type of development supported by the incentive program (Weber, et.al, 2007).

Another problem that is discussed frequently is the tradeoff between lower taxes and quality of public services (Lynch, 2004). Business location surveys and location decision studies try to respond to this problem but still do not provide clarity. If government provides a tax break or incentive to a business it means those tax dollars will not be available for other public services such as education, fire and police. These services are also part of attracting businesses. The business location studies try to determine which is a higher priority for businesses (the services and higher taxes or lesser quality services and lower taxes) or what balance is needed to create a healthy business environment.

Although indices that rate the business climate of states imply that policy makers can increase economic activity simply by lowering taxes and reducing government regulations (Fisher, 2005), examples can be found of both booming low-tax regions (Houston, Texas and Research Triangle, North Carolina), and booming high-tax regions (Silicon Valley, California and Boston, Massachusetts), indicating other factors are at play. The conclusion drawn from the literature is that many factors influence these decisions and vary in importance depending on the industry or individual business (Wheeler, 2006). While taxes do not usually comprise the largest cost for businesses (KPMG, 2010) and are not the top factor in making a location decision, they do matter to some extent (Area Development Magazine, 2010) and, logically, if a business can find savings through the use of a tax incentive, they will gladly take it. Additionally, as discussed previously, the increased role of local governments in economic development appears to have had some impact on the importance of tax incentives in business location decisions and the relative importance of taxes appears to have increased (Bartik, 2007).

Many of the studies on economic development tax incentives also discuss the caveat that the data are not the most reliable or the most desirable for evaluation. Data on jobs created or private dollars leveraged are often considered proprietary and therefore are often not obtainable. When they are obtained they are predictive estimates rather than actual, and are self-reported numbers by incentive-receiving businesses with no verification, or they are so incomplete that conclusions cannot be drawn. The amount of funds spent through incentive tools is also difficult to capture due to lack of enforced reporting requirements and the fact that much of the spending is in the form of taxes never collected (abated, forgiven or credited). The number of jurisdictions and departments that administer and collect information on the various programs also makes it difficult to know if all programs available have been accounted for. Furthermore, tax revenues and expenditures are often not collected or reported at the appropriate level of geography for proper analysis.

In Missouri, reviews of the use of economic development incentives in the state over the past 20 years conducted by the Joint Committee on Tax Policy, the DED Incentive Review Committee and the State Auditor have all called for legislation that would increase reporting requirements, availability of data, and accountability for tax credit programs. Accountability and reporting appear to be improving with the implementation of the tax accountability portal, the requirement of the State Auditor to review all tax credits and the Joint Committee on Tax Policy's review and

hearings of tax credit programs and improvements made to TIF and TDD legislation in 2009. Yet, sufficient legislation has not been passed to provide true accountability or transparency.

Illinois is also improving accountability and transparency. In 2004, the Corporate Accountability for Tax Expenditure Act (CAA) was passed, requiring businesses receiving tax assistance through 10 state programs to report annually. The reports are posted electronically on the CAA website. The CAA was a move in the right direction but one of the most obvious downfalls is that it only addresses 10 out of almost 50 state business tax assistance programs.<sup>41</sup> Additionally, the reports are not complete, sometimes include conflicting information and are not checked for accuracy. Although the Illinois Department of Commerce and Economic Opportunity claims nearly 100% compliance, some reports have missing or conflicting information.

Furthermore, an analysis of the first year of reporting and effectiveness of the programs by Good Jobs First found that the state is subsidizing low-quality jobs. These low wage jobs are both in manufacturing and service sector, and some companies hired workers at lower wages than was promised in the applications. The analysis found that the low wage jobs occurred in both manufacturing and service sector projects. Subsidies were provided to both Target and Wal-Mart, although they were warehouse projects, the Target facilities still paid only \$21,000 annually and Wal-Mart up to \$30,000 (McCourt, 2006).

### **C. Economic and Racial Disparity**

One of the three primary questions posed for this research asks to what extent the use of development incentives has contributed to racial and economic disparity in the region. It is well documented that such disparity exists and recent detailed analyses of the development of the St. Louis region have attributed at least part of the blame on the use of economic development incentives. Research has approached this question mostly by examining if tax incentives are used in “blighted” or distressed communities and if they are effective in creating economic growth in those areas.

When authorizing legislation and case law does not restrict the use of tax incentives to strictly distressed communities, the tools are usually used in more affluent communities as well and with greater success than when used in distressed communities (Adams, 2005; Luce, 2003; Mason and Thomas, 2010). In a 2003 Brookings Institute report, Luce found that less than half of the 21 St. Louis area TIF-using municipalities were disadvantaged based on four measurements of distress and by another measure, only 7 of the TIF-areas were “at-risk” (Luce, 2003). When the same tools are available to both types of communities they do not level out the playing field and provide an added advantage to affluent communities; furthering the equity divide and therefore contributing to the disparity between the communities.

Myron Orfield and Colin Gordon attribute the increased disparity in the region to the use of incentives or unfair competition for the tax base, along with the proliferation of municipal governments that have zoning and taxing authority as well as a history of racism. The two researchers provide different approaches to their analyses, reaching similar conclusions.

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<sup>41</sup> The Illinois Comptroller Tax Expenditure report accounts for 47-business tax expenditure programs in 2007.

Gordon provides a detailed documentation of the historic use of formal racial segregation zoning of the early 1900's, followed by restrictive deed covenants and agreements that strictly prohibited the occupation of "any person or persons not wholly of the Caucasian race" that were put in place as the southern and western portions of the City and its suburbs developed (Gordon, p 75, 2008). As these explicit tactics were prohibited, segregation continued through the practices of realtors, lenders, and insurers alongside federal housing policies that provided mortgage insurance for residents moving to the suburbs and public housing assistance to the inner city; essentially subsidizing white flight and restricting opportunities of blacks and low-income persons (2008).

Further, he describes the more recent actions of the city of St. Louis to use tax incentive tools such as Chapter 99 and Chapter 353 tax abatement and TIF to blight the central business district and the western part of the City in order to attract upper-middle-class residents and to promote tourism dollars. At the same time, the City largely ignored the northern, truly blighted, areas and allowed them to decay further. When these areas were targeted for redevelopment, it was usually to clear out the existing residents (mostly blacks) in order to build industrial and commercial development (Gordon, 2008).<sup>42</sup>

While Orfield does not specifically examine the use of tax incentives, he documents the increased disparity of the region in his 1999 report, *St. Louis Metropolitcs: A Regional Agenda for Community and Stability*. Using 1980 and 1990 census data, Orfield documents the increasing concentration of the low-income (poverty) population in the City of St. Louis and the northwestern suburbs, and the decrease in the tax capacity of those areas. During the same time period communities west of St. Louis City and in St. Charles County demonstrated lower poverty rates, increased incomes, the fewest social needs, and most economic resources.

Orfield attributes the rising disparity of the region to fragmented land use control and unhealthy and unfair competition for the tax base. He discusses the domino effect of sprawling development pulling the regional resources from the inner city and older communities, leaving communities with low capacity and diminished resources and its impacts on the ability of those communities to attract business development and jobs, "... areas of concentrated poverty have great difficulty competing with developing suburbs that offer middle-class customers, low taxes, low crime rates, increasing values, room for expansion and parking, new highways, and few contaminated industrial sites" (Orfield, p 12, 1999).

## **D. Literature Review Conclusion**

While attention to the use of tax incentives for the purpose of economic development has been heightened, factual analysis of their use, effectiveness and impacts remains limited. A review of the literature finds substantial support for the need for increased legislation on reporting and accountability measures that will allow for a more comprehensive review of the use of economic development incentives and their outcomes.

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<sup>42</sup> Recently the St. Louis Board of Aldermen approved a \$390 million TIF for an \$8.1 billion redevelopment of 1,500 acres in the northern portion of the City that has met resistance and is currently being challenged in the Courts.

Local governments in the St. Louis region and across the country are financially unstable. They are faced with increased competition, rising expenditures, constrained revenue sources and a tax system that has generally not kept up with the changing economy. Despite evidence that the use of tax incentives do not result in economic development and increased tax revenues for municipalities, local government officials are increasingly turning to the use of tax incentives to encourage development in their communities.

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