

THE IMPACT OF ECONOMIC DEVELOPMENT INCENTIVES
ON PUBLIC EDUCATION IN MISSOURI

A DISSERTATION IN
Public Affairs and Administration
and
Educational Leadership, Policy and Foundations

Presented to the Faculty of the University
of Missouri-Kansas City in partial fulfillment of
the requirement for the degree

DOCTOR OF PHILOSOPHY

by
TERRENCE RAY WARD

B.S., University of Missouri - Rolla, 1970
M.B.A., Rockhurst University, 1984

Kansas City, Missouri
2012

© 2012

TERRENCE RAY WARD

ALL RIGHTS RESERVED

THE IMPACT OF ECONOMIC DEVELOPMENT INCENTIVES
ON PUBLIC EDUCATION IN MISSOURI

Terrence Ray Ward, Candidate for the Doctor of Philosophy Degree
University of Missouri-Kansas City, 2012

ABSTRACT

Economic development incentives are formally intended for use in attracting new businesses to a community or a particular part of a community. Studies of their effectiveness in achieving this purpose show little direction coming from community planning, but rather direction coming from developers, and a general failure to create new economic activity in most instances of retail development or sporting venues. However little research has been done to measure the impact on the other taxing jurisdictions whose revenues are impacted by the diversion or abatement of taxes for supporting economic development.

This dissertation studies the impact on public school financing in Missouri of locally administered economic development incentives, including tax increment financing, chapter 353 tax abatement, chapter 100 bond issuances and enterprise zones. School districts in Missouri are dependent on local property tax revenues for a majority of their financing.

Granting of all incentives is controlled by the municipality or the county. The school

district is an independent entity established by the state of Missouri and is solely responsible for its own solvency, but these incentives alter funding.

The analysis of all of the tax incentives granted within each school district in 2007 and 2009, created an understanding of the nature of the extent of these incentives. Additionally, through qualitative research, understanding of the use of these incentives from multiple perspectives was sought.

Key findings emerging include:

- In 2007, nearly \$140 million was diverted or abated from taxes for public education. By 2009, the amount had increased to \$162 million.
- Between 2007 and 2009, the amount of revenues impacted increased by 19.6% while the total assessed value went up by 14%.
- The best predictor of assessed value impact was district size.
- All forms of incentive increased state-wide, over the two years, but Increased abatement didn't correlate with either increased assessed value or student population in that short window.
- Incentives are seldom used as formally intended to address blight, but have become an additional source of funding for developers.
- The impacts on non-municipal public entities are seldom considered in the decision to grant the incentives.

APPROVAL PAGE

The faculty listed below, appointed by the Dean of the School of Graduate Studies, have examined a dissertation titled “The Impact of Economic Development Incentives on Public Education in Missouri,” presented by Terrence Ray Ward, candidate for the Doctor of Philosophy degree, and certify that in their opinion it is worthy of acceptance.

Supervisory Committee

Robert D. Herman, Ph.D., Committee Chair
Department of Public Administration

Jennifer I. Friend, Ph.D.
Department of Educational Leadership, Policy and Foundations

Steve LaNasa, Ph.D.
President, Donnelly College

Michael J. Podgursky, Ph.D.
Department of Economics

David O. Renz, Ph.D.
Department of Public Administration

CONTENTS

ABSTRACT.....	iii
LIST OF ILLUSTRATIONS.....	vii
LIST OF TABLES.....	ix
ACKNOWLEDGEMENTS.....	x
Chapter	
1. INTRODUCTION.....	1
Responsibility for Funding for Public	3
Responsibility for Economic Development	4
Background of the Problem.....	6
Problem	8
Research Questions	9
Literature Review.....	11
Research Methodology.....	12
Glossary of Terms	14
2. REVIEW OF LITERATURE.....	15
Financing Public Education and Local Economic Development Incentives	16
Historical Perspective.....	22
Current Practice.....	24
Promise Unfulfilled	27
Public Education Implications.....	36
Political Value of Economic Development Incentives.....	39

The Impact of Funding on Education Performance	41
Summary	54
3. METHODOLOGY	57
Quantitative Data Analysis.....	58
Qualitative Data Analysis.....	69
Limitations in Quantitative Analysis.....	78
4. RESULTS.....	84
Quantitative Findings	85
Qualitative Findings	118
5. DISCUSSION	138
Policy Issues	144
Recommendations for State Policy and Practices	149
Limitations	153
Recommendations for Further Study	154
APPENDIX: SEMI-STRUCTURED INTERVIEW PROTOCOL	161
REFERENCES	162
VITA	169

LIST OF ILLUSTRATIONS

Figure		Page
1.	Counties in Missouri that have Abatements or Diversions from any of the Four Studied Economic Development Incentives	88
2.	Counties in which School Districts are Impacted by Economic Development Incentives Ranked by the Impacts on the School District.....	91
3.	School Districts with Approved TIF Projects in 2009.....	92
4.	School Districts with Active Chapter 353 Projects in 2009	93
5.	School Districts with Chapter 100 Bonds in 2009.....	95
6.	School Districts Impacted by Enterprise Zones in 2009.....	97

LIST OF TABLES

Table	Page
1. Breakdown of Property Taxes in the North Kansas City School District.....	34
2. Total State of Missouri Diversions/Abatements – Assessed Valuations and Fiscal Impacts.....	86
3. Total Tax Abatement and Diversions by County (Top 10 in 2009).....	89
4. Total Tax Abatement and Diversions by School District-Top Ten	90
5. Top Ten School Districts – Assessed Valuations and Fiscal Impacts of TIF Diversions.....	92
6. Top Ten School Districts – Assessed Valuation and Fiscal Impacts of 353 Abatements	94
7. Top Ten School Districts – Assessed Valuation and Fiscal Impacts of Chapter 100 Abatements	95
8. Top Ten School Districts – Assessed Valuation and Fiscal Impacts of EEZ Abatements	98
9. Decile Breakdown of Student Population of School Districts in Missouri	100
10. Breakdown district characteristics of School Districts in Missouri.....	101
11. Decile Breakdown of Assessed Valuation Characteristics of School Districts in Missouri	102
12. Intercorrelation Matrix for all Analysis Variables.....	103
13. SPSS Model Summary Looking at Multiple Characteristics as Predictors of Impacted AV	112
14. SPSS Model Summary using multiple characteristics to predict Impacted AV.....	115

ACKNOWLEDGEMENTS

I acknowledge the support of my family, whose support enabled me to complete this life's ambition; my wife, Linda, who enabled me to be able to dedicate myself to the efforts necessary to complete this work; my son, Jason, who helped me as a research associate to secure some of the information from the counties around Missouri.

I acknowledge the support, guidance, leadership and coaching that was provided to me by the chair of my doctoral committee, Dr. Robert D. Herman. And I also acknowledge the support that was provided by my doctoral committee.

I acknowledge the cooperation I received from county auditors and county collectors across the state of Missouri who provided the information to enable me to assemble the impact information necessary for this work.

I acknowledge the work of the Missouri Department of Elementary and Secondary Education who has steadfastly worked to assemble the core data that is stored in the Missouri school district data base.

I also acknowledge numerous professors, colleagues and friends who provide support and encouragement along the path to this degree.

CHAPTER 1

INTRODUCTION

The relationship of politics, policy, economic development and educational finance in Missouri is complex. It involves elected leaders at state, city, and county levels as well as school districts. And importantly, it affects voters who expect robust economic conditions and the jobs that follow, and who also expect strong public schools. These needs and expectations come from citizens in their roles as employers, employees, parents, grandparents, and just generally, as citizens of each community. As economic pressures have grown over the last three decades for states, counties, cities, and school districts, identification of adequate revenue streams have not kept up with perceived needs for any of these entities. In response to growing needs for funding and increasing aversion among voters to increased tax burdens, states, cities and counties have developed innovative tools to redirect future taxes in order to have resources to attract and retain businesses and to support that development, shore up inadequate infrastructure like roads, sewers, and other improvements the city cannot otherwise afford. While this redirection appears to address the needs of businesses and infrastructure funding, the diversion of property tax revenue creates enormous pressure on school districts, library districts, community college districts, mental health services and other taxing jurisdictions which rely on the property taxes that were voted by the citizens to support those entities. However, those very property taxes are the primary source the innovative tools draw from to shore up inadequate state, city and county funds.

While experts in creating, obtaining and employing these tools that redirect property taxes have flourished, there has not been a commensurate response from those institutions

most negatively affected. School districts and other taxing jurisdictions have demonstrated little comprehension of what is happening to them; school board members are largely uninformed and silent on this issue; and most importantly, voters seem to have little awareness of the connection between more money for economic development and less money for public education.

What follows is an examination of the powerful influences of politics and policies relative to public education finance and the role of leaders on all sides of the issues. Historical context and economic development policies in Missouri will also be examined. The explosion of use of these tools prompts examination of the findings of recent research literature that investigates the relationship between student achievement and restriction of fiscal resources. A relationship between these two factors will establish that the diversion of property taxes does matter. And this would be true if we were trying to increase performance in a static environment. However, it is magnified in the environment created by the No Child Left Behind (NCLB) legislation. NCLB requires that every year a greater percentage of all students will be performing on grade level, and that in 2014 all students shall be performing on grade level in math, reading and science. This drives the educational establishment into finding ways to reach every student. The goal of educating all students has existed for decades, but NCLB establishes consequences for failure. It also means that school districts have to find more ways to reach students that aren't reached by the most effective broad-based means. Those students who require more uniquely crafted strategies must be reached and it increases the number of teaching approaches that must be taken. This increases the demands on teachers, and it increases the fiscal pressures on districts to provide more varied

instructional approaches. Scarcity of resources becomes an even greater impediment in an environment demanding greater successes.

Responsibility for Funding for Public Education

Under the U. S. Constitution, the responsibility for education is assigned to the states. Funding for public education is largely an issue for states and local communities. Each state has developed its own funding strategy with a full gamut of options from predominantly state-funded systems, to predominantly locally- funded systems. Funding for public education may come from dedicated resources, or it may be annually allocated to education by the governmental entity that has the responsibility for funding of elementary and secondary public education among other public services – the state, the county or the city.

In the funding of public education, states frequently rely on property taxes that are dedicated to education. In Missouri, property taxes are the only form of tax that can be imposed by local jurisdictions. The state of Missouri provides the minority of the funding for most districts from general revenue collected by the state. Local property taxes generally account for 50 to 75 percent of the funding for public education systems. So, the preservation of local assessed valuation which is the factor that is multiplied by the local mill rate to generate property taxes is critical to the fiscal viability of public education. Because the abatement or diversion of property taxes is at the crux of this discussion, other taxing structures, like income taxes and earnings taxes, need not be considered in the ensuing comments.

Responsibility for Economic Development

The responsibility for fostering economic development generally is assigned to the state government and its department of economic development, and/or a city or county with

its own department of economic development. To complement that, the responsibility that is assigned to public education is the successful education of young people. Public education relies on other sources to provide the necessary funding to support economic development. There is no statutory responsibility that falls to public education in the economic development arena. No school board is charged with a duty to ensure economic development. Its role is a different one which is to fulfill its mission of education well, in a cost effective manner, and to ensure a trained workforce that will provide an adequate employee base to employers and industry, and an educated citizenry.

Unfortunately, the two different sets of responsibilities begin to conflict when we look at the current activities that are being undertaken in economic development. Frequently in an effort to attract new business or foster business expansion, economic developers eagerly propose granting incentives to developers and business leaders. The widespread rush around use of these incentives is exacerbated by the competitive environment among communities who vie for the same companies. Companies find themselves in a buyer's market and play one community against another in a way that prompts maximizing tax advantages to the company. These incentives which are granted frequently involve the trade-off of abating or diverting property taxes which are needed to support public education, public libraries, fire departments, ambulance districts, services for disabled persons and senior citizens, mental health services, and general health services. There is little consideration of the assumption of a community decision that says that fostering economic development is a greater good to the community than educating young people or providing libraries. In fact, the argument is generally made that economic development will benefit public education in the long run.

However, that “long run” may not kick in until the next generation of students are attending school.

In preparing this dissertation, that dichotomy became even clearer. There is a great deal of literature that addresses questions around funding of education and the interplay between educational resources and student performance. There is a paucity of research that has anything to do with the impact of economic development on public education. In fact, Johnson and Man, in the most definitive publication I have found on tax increment financing offer the following observation:

TIF policies in Indiana raise fundamental questions of fairness and honesty with regard to informing Indiana’s taxpayers about the use of public funds. If Taxpayers statewide were told that over \$15 million in general (education) revenues was spent, not on education but on economic development projects in a few local areas, would Hoosiers support such expenditures? If taxpayers in these sixty-seven districts were told that the school board raised property taxes to pay for local economic development, would they support such projects? These questions have never been posed to Indiana’s taxpayers, but it is appropriate that a more honest public debate about how public moneys are spent be initiated. Open discussion on the amounts of economic development spending hidden in Indiana’s school finance formula and in local property tax increases would benefit everyone since policy choices about the proper level of education funding could then be made in a more informed context. (2001, p. 153)

By contrast, in 2007, in Missouri, \$140 million in taxes was either abated or diverted away from supporting public education. An equivalent amount was diverted from other taxing jurisdictions. Indeed, when I have presented information about the impacts on public education in public forums, many refuse to believe the facts. Or, they choose to discount the facts because they see benefits to their self-interest from continued ignorance and don’t want to confront the facts.

Background of the Problem

A convergence of public policies and state statutes are adversely impacting the finances of public education authorities in Missouri (i.e., school districts). The school districts in Missouri are independent instrumentalities established by the state of Missouri. They are not a component of either county or city government. They have their own independently elected governing boards, and they have the ability to impose and collect taxes with the approval of the voters. This power of taxation for public education is limited to property taxes only. School districts also receive funding from other sources including the state and federal government. However, the primary funding source is local property taxes, both real and personal, that are collected from businesses and private individuals. There are some states where the education funding is mainly state funding, like Kansas. And there are some states that are mainly county-funded public education, like Maryland. Missouri is using neither of those models – their primary funding is locally generated through property taxes.

Thirty years ago, tax incentives were not widely used to entice business to either relocate into a community or to expand its activity within a community. As communities sought to develop a competitive edge, their leaders looked for incentives that would be material to business but would not require much negative impact to strained city and county budgets. They found that some abatement of future incremental taxes, or capture of future incremental taxes that were in turn used to underwrite the business activity, were very effective. By only dealing with the future incremental taxes, the leaders avoided criticism for diverting current resources away from their current uses. However, while politically adroit, the fact remains that the decision is made to award these incentives without ever apparently

considering the tradeoffs or informing the voters of the repurposing of property taxes they approved to support schools and libraries as well as other services.

In Missouri, the primary forms of tax incentives include the property tax abatement strategies of (1) Chapter 100 bonds, (2) Enhanced Enterprise Zones, and (3) Chapter 353 Projects. At the same time, (4) tax increment financing strategy involving the capture of new incremental taxes and their use in a manner different than the basis upon which they were levied is also becoming ever more prevalent (Missouri Department of Economic Development Annual Report on Use of Tax Increment Financing, 2010; 2011). The decisions for use of incentives are controlled by leaders of cities and counties. Nationally, the Institute for Taxation and Economic Policy (2002) reports that in 1977, nine states gave tax credits for research and development; in 1998, 36 did. In 1977, 13 states made loans for machinery and equipment; in 1998, 43 did. In 1977, 20 states provided tax-free revenue bonds; in 1998 44 did. In 1977, 21 states granted corporate income tax exemptions, in 1998, 37 did.

Public education systems are dependent on local property taxes for survival. In the early 1990s , the Missouri legislature gave cities and counties the right to either abate or capture the new incremental taxes without the consent of the public education system (RSMo Section 99.820 and 99.845). This process removes assessed valuation from the tax base of the school district. Costs for staff salaries and fringes in school districts are going up annually. School systems operate large physical plants that require utilities to heat, cool and light; and utility costs have tended to rise over time. Schools operate large transportation systems that consume significant fuel on a daily basis. In sum, these factors constitute more than 85% of the operating costs of most districts and tend to go up on an annual basis.

Therefore, it is necessary that school districts have increased revenues on an annual basis to do nothing more than maintain existing services. School districts in Missouri cannot raise the levy rate without a vote of the people. Thus, the growth of the tax base is vital to the continued ability of public education to provide adequate services year after year. When leaders in cities and counties exercise their right to unilaterally divert school taxes for economic development purposes, the financial well-being of school districts is likely to be affected adversely, at least in the short term.

Over the last sixty years, beginning in California in the 50s, and concluding in 2007, all 50 states have enacted tax increment financing statutes which allow for the establishment of tax increment incentives for the purpose of creating a stimulus for economic growth – but Arizona has repealed theirs (Kerth & Baxandall, 2011, p. 6). These incentives are created by either abating the incremental tax burden on the particular business or by capturing the new taxes and diverting them to support economic development, through either public infrastructure enhancements or financial support to the developer. The definition of economic development is quite broad and has been interpreted to include almost any new or expanding business. Tax burdens that are relieved or captured in tax increment financing include real property taxes, personal property taxes, earnings taxes and sales taxes.

Problem

Nationally, the state of Missouri ranks in the bottom third as far as support of K-12 education. In fact, the National Education Association, Washington, DC, Estimates of School Statistics Database, shows that in 2007, Missouri ranked 38th in average per pupil expenditures. From my research on public education impacts in 2007, the total amount of funding that was either diverted or abated from public education in Missouri was about

\$140,000,000 (Ward, 2008a). This represents about 4% of the funding of elementary and secondary public education being diverted from education to support economic development. That amount is growing dramatically each year. To date, more than \$1.3 billion in TIF diversions have been approved in St. Louis (East-West Gateway Council of Governments, 2009, p. 14) and more than \$3.3 billion in TIF diversions have been approved by the Kansas City TIF Commission (City of Kansas City, Missouri 2007 Tax Increment Financing Annual Report, 2007). In addition, there is abatement through other vehicles that approximately doubles the impact when all tax incentives are considered (Ward, 2008a). However, there is little public recognition that the city councils and county commissions are trading off the funding of public education for support of economic development and therefore the well-being of our youth for the benefit of alleged gains in employment (Johnson & Man, 2001). Locally, in Kansas City, there is a growing trend on the part of the Kansas City City Council to use TIFs as a way to garner more resources for the city by diverting future resources from public education and other taxing jurisdictions and using it to construct public infrastructure.

Part of the impetus for this dissertation is that there is little public knowledge about the impact of these actions on public education. There has been very limited analysis to date. The only definitive statewide study that has been developed in over seven years is the one that this author developed (Ward, 2008a).

Research Questions

There has been a great dialogue around the assertion that while there is a current loss of revenues by a school district as a result of economic development incentives, that the stimulated growth will provide benefits to the school districts that exceed the losses incurred. As a participant/observer in economic development policy and finance discussions, I have

heard assertions that without economic development incentives Kansas City will be at a competitive disadvantage, and that in fact jobs will be lost. There are assertions that there is no impact on the taxing jurisdictions because there is no loss of current revenues. However, most of these arguments are unsupported in that there has been no significant effort to gather definitive data and analyze it for significant findings.

Questions 1 - 3 (Data Analysis)

1. How much decrease in education funding in Missouri is associated with each type of economic development incentive in 2007 and 2009?
2. Was there an increase in the diversion and abatement of education revenues in Missouri between the two years and were there patterns of change?
3. Are the financial impacts on education correlated to Missouri school district demographic characteristics, like:
 - Do urban districts have a greater decrease in funding than rural districts? Is there a different pattern for suburban districts?
 - Do growing districts have a greater decrease in funding than non-growing districts?
 - Do large districts have a greater decrease in funding than small districts?
 - Do school districts with high percentages of students on free and reduced lunch bear more of the burden of these revenue impacts?
 - Do districts with high percentages of students from ethnic minorities bear more of the burden of these revenue impacts?

Questions 4 - 7 (Project Case Studies)

In looking at two specific TIF project cases and delving into the financial results are there any conclusions that were developed as a result of the data analysis that can be elaborated through in-depth analysis and interviews? Questions that will be probed include:

4. Does the analysis of the two projects support or refute the conclusions that were reached as a result of the data analysis?
5. Does a TIF create a positive financial return for a school district within a thirteen year planning horizon?
6. Does seventy-five percent of contiguous development occurring within 13 years of the establishment of a new TIF project also receive tax subsidies?
7. What is the return on investment to the public investors in the projects?

Literature Review

Among the powerful influences on public education are those of politics and policies relative to educational finance. In Missouri, as in other states, economic development incentives are frequently structured around the abatement or diversion of property taxes which results in a curtailment of revenue for public education for a period of 10 to 25 years. Literature in two research areas will be reviewed.

The first review will look at the nature of economic development incentives, their evolution and their current use. The Review will offer conclusions about changing use of development incentives, economic effects of such incentives, the politics of development, and the impact of development incentives on school finance.

The second review will explore important findings from recent research literature that investigate the relationship between student achievement/ performance and restriction of

fiscal resources and offer conclusions. In addition, the impact of No Child Left Behind (NCLB) legislation will be reviewed because of the heightened demand for education performance that is exacerbated by the political context.

Research Methodology

Quantitative Research

A census of all of the impacted assessed valuations across the state of Missouri will be developed for the 2007 tax year, as well as for the 2009 tax year. This will provide two snapshots of the impacts as well as a measure of incremental change. These two data bases will contain the assessed valuation of projects for which there is either an abatement of taxes through the use of Chapter 100 financing or Chapter 353 or EEZ abatements, as well as projects for which the tax revenues are diverted through the use of TIF. The source of the information will be the county clerk or the county assessor for each county. This information will then be integrated with relevant district demographic data drawn from the core data reports from the Missouri Department of Elementary and Secondary Education (DESE) for the purpose of exploring correlations between absolute diversions, incremental changes over the two-year period and district demographics to ascertain key relationships. Through a panel analysis changes over the two years will be analyzed.

Initial data analysis will explore correlations with the 2007 and 2009 census data and the demographic data drawn from the state data base. While the two years represent a full census of all counties it is only at two different points of time. While the panel study will look at the two points, it certainly does not represent an extended longitudinal study. Independent variables that will be tested are poverty levels, ethnicity, school district size based on enrollment and the urban/suburban/rural character of the district. The dependent

variable will be either the absolute impacted abatement or the change in impacted abatement. Both of these dependent variables will be tested because this research is exploratory and there is no certainty about which will demonstrate the dependency to the greatest degree.

Qualitative Research

Two significant TIF projects with diverse characteristics will be selected in an effort to provide greater depth of understanding around the dynamics of a TIF project. It is expected that insights will emerge that validate or expand the apparent correlations drawn from the original regression analysis.

For each of the two projects the following information will be sought:

1. Project description, including amount of tax incentive, number of jobs created, nature of project, total project costs. For TIF projects, this information is supposed to be reported to the TIF Commission by the developer. The nature of the project and the total project costs should be relatively reliable. The number of jobs created is not well audited, and may be subject to significant reporting error. In the data collection, there will be an effort to determine the validity of the reported jobs created.
2. Quantification of the amount of taxes diverted or abated. This will be done by exploring the records of the county and the TIF Commission, where relevant, to determine the amount of assessed valuation that was in place over the 13 years, and then identifying the amount of tax that was either abated or diverted.
3. The developer's satisfaction with the tax considerations received and the developer's sensitivity to school district impacts.

4. For TIF projects, the use of the funds will be identified through an inspection of the records of the TIF Commission.
5. Analysis of subsequent development projects within 1/4 mile, including whether they are subsidized or not. It is envisioned that an inspection of the contiguous area to the TIF project will be conducted to assess the extent of additional development. The projects identified will then be reviewed in light of the critical questions . Where there has been no additional development occurring, changes in property values will be analyzed to determine whether assessed valuation in proximity to a project increased more rapidly than those not in proximity.
6. Documentation of the degree of involvement by the local school district in the establishment of the tax incentives, if possible.

Glossary of Terms

Abatement. The regulatory process whereby a property owner is excused from paying taxes.

Assessed Value. The County Assessor is obligated to determine a real value and an assessed value for each parcel of real property in the county as well as the personal property in the county. The assessed value is a percentage of the real value and is the value to which the tax rate is applied in determining the taxes payable on the property.

Diverted Taxes. The regulatory process whereby taxes are collected, but they are redirected to a different use than was intended when the tax was levied.

Impacted Assessed Value. The assessed value of property for which the taxes are either abated or diverted.

CHAPTER 2

REVIEW OF LITERATURE

In developing the literature review, the emphasis will be on looking at two major research areas. Local economic development policies are entwined with the funding of public education. Many of the incentives are created through the diversion or abatement of property taxes which are at the heart of the funding of public education. So, while they are not necessarily linked in purpose, they are in fact linked through the efforts to use the same resources for alternative purposes. And the second area which was explored is the linkage between change in resources that are made available to public education and the resulting change in performance.

First, literature will be reviewed that looks at economic development incentives. Definitions of the various incentives to be studied will be presented and then the rationale and use of those incentives, both historic and current. Also, some of the literature discussing the fundamental incentives that underpin this dissertation will be explored. The review suggests four general conclusions.

1. The use of economic development incentives has been transformed from a tool of the city planning staff to direct development and remedy blight, into a financing tool to attract and assist developers.
2. Economic development incentives seldom provide the net economic gain that was anticipated when they were granted.
3. Economic development incentives are politically important, even if the economic benefit is questionable.

4. Though the study to date has been limited, the evidence thus far is that diversion or abatement of taxes away from public education and to use for economic development is largely detrimental to public education and other taxing entities that are dependent on property taxes.

Secondly, a review of literature will focus on the effect of funding levels on educational efficacy. The review will focus on the literature relevant to two basic issues: the relation between educational funding and student outcomes and the fiscal implications of No Child Left Behind standards. The review suggests three general conclusions.

1. Early research on the effects provided inconclusive, with mixed results in measuring the impact.
2. Meta-analysis has more definitively shown that there is a relationship and that if changes in funding levels produce different results that move the same direction as the funding change.
3. In the current environment where No Child Left Behind (NCLB) legislation has placed a federal mandate on performance, a diversion of funds can have significant adverse impacts on student performance.

Financing Public Education and Local Economic Development Incentives

Cities and counties compete to attract and retain businesses and the jobs and investments that come along with those businesses. Each community is always seeking to find the right tool that will help them win the business decision. Or, similarly, they are making sure that they aren't losing businesses because they don't have the tools that are necessary to compete with other communities. Among these tools are job training, site

assembly, utility concessions, and other financial incentives. Of the financial incentives, one that has become increasingly widespread is special tax treatment. The research will examine four primary types of tax advantaged treatment – Chapter 353 abatement, Chapter 100 bonds, Enhanced Enterprise Zones (EEZ) and Tax Increment Financing (TIF). Each of these has its own special set of tax breaks that are offered to businesses, and each one has special attributes and qualifying requirements. However, all have an impact on public education because each of them prevents the tax benefits of new investment from reaching the schools.

What follows is a brief description of the specific provisions of each.

Chapter 353

Chapter 353 is the oldest of the tax abatements. It was created as an incentive for businesses to build projects that would eliminate blight. That original intent has been broadened through administrative interpretation of the term “blight.” The original intent was the same as what any person would see as blight. However, the legal interpretation now includes “economic blight” which is any project that converts the current use of a property to a “higher and better use.” In general, that means if there would be greater assessed value and tax flow created, it is a higher and better economic use, and would be deemed to be relieving economic blight. The tax incentive is a 100% abatement of new taxes for real property for ten years and a succeeding abatement of 50% for another 15 years. There are provisions for effectively lower percentages and shorter timeframes, but those are seldom used in practice. Approval is granted by the city council.

Enhanced Enterprise Zones

The primary purpose of Enhanced Enterprise Zones is to designate an area where a city wants to have development and new employment, and where it is willing to forego part

of the taxes for anyone who is willing to move into the zone. The abatement is 50% of the new real property tax for ten years. The zone is approved by the city council with no requirement for input from other taxing jurisdictions. After that there is an oversight committee established for the approval of projects that want to move into the zone. There is an administrative approval process and the school district has one of the seven seats on that oversight group. Generally, there is little resistance for anyone who wants to move in and accepts the abatements.

Chapter 100 Bonding

Chapter 100 bond financing is a little more complex. It provides not only special tax treatment, but it also provides financing assistance for a business. Where a business is interested in making a capital investment, the city can assist through the issuance of Chapter 100 bonds. They are issued by the city, but they are collateralized by the asset that is being purchased with the proceeds. The bonds are generally purchased by the business that is going to use the asset acquired with the bond proceeds, and the business has to agree to pay off the bonds that are issued. Because of this, the bonds are not considered to be part of the city's debt structure and they have no impact on the city's financial statements. So the city has little reason to resist this vehicle except for the administrative burden in creating the bonds. The city's costs are reimbursed from the bonds.

For the business, the process has two benefits. First the asset is purchased with city debt which means the interest rates are more favorable than what could be secured through most other types of financing – often by as much as 2% to 3%. Secondly, for the period of time that the bonds are in place, the asset is owned by the city. Assets owned by the city are not subject to property taxes. While the original use was limited, the use of these bonds is

becoming more widespread. A recent bond authorization was for \$500 million and gave the business the right to have the bonds issued in tranches as they needed them over a ten year period. The state statute for Chapter 100 allows the bonds to be issued for up to 20 years and to cover up to 100% of the asset value. In Kansas City, there is a local ordinance that restricts the bonds to 10 years and 50%. The city can enter into the agreement to issue the bonds with no input from any other taxing entity.

Tax Increment Financing

Tax Increment Financing (TIF) is currently one of the most frequently used economic development incentives used for attracting new businesses to a community or to encourage expansion of an existing business. A Tax Increment Financing District is generally created by a city and represents an area with specified boundaries where new incremental taxes are going to be captured, but diverted for uses other than those intended by the voters. Improvements in the TIF district may be funded with the incremental proceeds. The first TIF statute in this country was written in the early 1950s, and the last state to adopt a statute did so in 2007. Every state law authorizing TIF requires that a plan be created for the TIF district. Twenty eight states specifically allow TIF to be used for residential, commercial or industrial development. Eleven states prohibit one or more of these types of development. Thirty-seven states limit TIF use to blighted areas and must meet the “but-for” test which demonstrates that the proposed project would not occur without the added incentive of a TIF (Gibson, 2003).

Generally, little has been published on the topic of TIF. It is a fairly narrow band of a broader array of economic development incentives used by many jurisdictions in all 50 states. Its use varies widely, but the use is growing rapidly. The statute went on the books in

Missouri in the early 1990s. Between then and 2004 about \$2 billion was approved for reimbursement. Between 2004 and 2007, another \$3 billion was approved for reimbursement. And by 2010 another \$1.3 billion had been added (Missouri Department of Economic Development Annual TIF Report, 2007; 2008). Of that amount, about 60% of the money captured in the property tax increment was collected based on the local school district mill levy. The impact of any TIF on overlapping taxing jurisdictions is significantly affected by the structure of the specific state statutes and the relative reliance of each taxing jurisdiction on property tax as a portion of its revenue stream. School districts have little real power to affect the granting of these tax incentives. In most states, all they can hope for is the ability to informally influence the decision makers. However, “at the most restrictive end of the continuum, states may require approval from affected tax districts to establish a TIF project” (Johnson, 2001, p. 42). In Missouri, the decision rests with the City Council or the County Commission. With an advisory TIF Commission of eleven members, six of whom are appointed by the mayor and approved by the city council and only two appointed from the school district, the council remains in control. The TIF commission provides advisory recommendations to the city council, but they are not binding. All new “incremental” real property taxes may be captured in an approved plan for up to 23 years.

The TIF statute in Missouri also includes a provision that is not widely included in other states. It provides for not only the capture of property taxes, but also the capture of Economic Activity Taxes (EATS). These are taxes that are obviously tied to activity that occurs within the TIF development, namely sales taxes, earnings taxes, and hotel and restaurant taxes. Most of those are levied by the city, but there are also some of the EATS that are levied by the county. The capture of EATS is limited to 50% of the new increment.

There are also provisions to expand the capture to go up to 100% of EATS and also 50% of new incremental state taxes in special circumstances and with additional approvals. The additional local EATS tax diversion does not impact schools. The state diversion impacts the general revenues of the state, and so it does have an indirect impact on education to some degree.

Comparisons of Development Incentives

An important distinction between the first three special tax treatment tools and TIF is the way the tax favored treatment occurs. In the case of the first three, the taxes are abated. There is no tax levied and no tax collected. Therefore, there is nothing to distribute. In the case of TIF, the tax is collected, however, it is diverted into a special allocation fund. The funds in the special allocation fund are disbursed in accordance with the TIF plan that was presented by the developer, recommended by the TIF Commission and approved by the City Council or County Commission. From earlier studies by the Kansas City TIF Commission staff about 80% of the funds that are diverted are eventually used to construct public infrastructure – things like streets, roads, and sewers. These are assets that become public property and assets that would normally be the responsibility of the city to build. Thirty years ago, the city would have offered to build these infrastructure enhancements as part of the “package” of incentives that would have been offered to a prospective business. As city budgets have become more stressed, these enhancements are now offered through capturing future money generated by the project to pay for them.

The second major distinction is the approval process. In Chapter 353 and Chapter 100 incentives, the control is with the city, and the other taxing jurisdictions have no formal input in the process. In the case of EEZ, the city approves the project, but there is an

advisory committee of seven persons appointed to oversee the specific development proposals. One of those seven is a school district representative. In the case of TIF, there is an eleven person TIF Commission which reviews proposals and makes recommendations to the city council. This advisory body includes six city representatives appointed by the mayor and approved by the city council as well as two from the county, two from the school district and one representing all of the other impacted taxing jurisdictions. With this newest form of incentive, other taxing jurisdictions have legal standing to participate in making recommendations to the City Council prior to their approval, but the control is still totally vested in the city council with the six person majority on the advisory board and full control of the approval process.

In the rest of this literature review, the conclusions that were reached will be presented and then followed by the literature that supports those conclusions.

Historical Perspective

The use of economic development incentives has been transformed from a tool of the city planning staff to direct development and remedy blight, into a financing tool to attract and assist developers. The information presented by Sam Casella in *Tax Increment Financing* is somewhat out of date, having been published in 1984. However, it provides important context for what has followed in the ensuing 25 years.

The book was published as a guide for city planners to use in developing policies and practices around the use of Tax Increment Financing. Casella's premise is that a city planner will be the one who initiates the use of TIF (1984). So, the original legislative intent was for the planner to do city planning and use the TIF tax incentive as part of a marketing strategy to entice developers to build what is desirable from the city planning perspective in the

location chosen by the city planner. Instead, today TIF is used in Missouri as a tool of the economic development team to recruit or retain a business through the offer of a tax-advantaged project. The location is selected by the developer based on his desires rather than on the city's strategic plan.

Casella makes the point that the original premise for a TIF is the remediation of blight, and that is still in most current statutes. However, he also points out that some jurisdictions have expanded the definition of blight to include economic development areas and conservation areas. The law in Missouri currently defines blight very broadly, and what isn't captured there can be captured in Missouri's statute that includes the provision for conservation areas. Casella presents a financial prototype which shows TIF as a starter for a redevelopment project and then the market forces are supposed to take over to continue the broader development with a lesser subsidy. Current references or research findings by the other authors demonstrate that this concept is active today as a consideration. The perspective of TIF as 'priming the development pump' is still offered by some leaders in the community to justify an ever-increasing number of new TIF projects. Casella asserts that if a TIF does not stimulate growth in assessed value in the area surrounding the TIF, then the TIF has not been successful. Even in 1984, Casella raised several concerns about the use of TIF.

1. He was concerned that debt issued in conjunction with a TIF was not part of the debt structure of the City. He warned that such a determination could provide less restraint in entering into such agreements.
2. He suggested to city planners that they should exercise care in defining the use of TIF revenues to make sure there is definitive specification of how the funds are to be applied to assure that funds are not widely or indiscriminately applied.

3. He recommended that no bonds should be issued, except in unusual circumstances.

Indeed, history has proven that these warnings were prophetic, but unheeded.

Current Practice

Michael P. Kelsay, Department of Economics, UMKC, took a critical look at the use of TIFs in Kansas City (2007). He points out three areas where the original intent is being abused. Dr. Kelsay notes that the poorer areas of the city aren't generally accessing economic development incentives. His recommendation points out the fact that the developers are driving the process rather than the city planning department.

His second recommendation highlights the lack of planning effort, in that he recommends "The city needs to implement a comprehensive TIF policy." Third, he points out that the benefit to the Economic Development Corporation is to put new projects in place because they effectively work on a commission. Dr. Kelsay points out that the incentives are granted with little accountability on the part of the developers. Their failure to perform frequently falls back on the city to remedy. His analysis of the TIF process in Kansas City points to a lack of rigor and a mostly opportunistic use of the tool.

Julie A. Goshorn (1999) criticizes the current TIF statute in Missouri. She suggests two changes. First, she asserts that the definition of "blight" is too broadly constructed to provide meaningful restrictions on the use of TIF. She also suggests that any TIF bonds that are issued should be treated as part of the debt structure of a municipality and subject to statutory limitations. Because of the invisibility of the TIF bonds issued by a city and because they require no voter approval, there has been unfettered use of TIF without regard to statutory debt limitations placed on municipalities. Indeed, the cautions that were voiced

two decades earlier by Casella are being realized. Johnson and Man also shared their concern about the extent of potential abuse since there is no public oversight over the increased bond indebtedness.

Financing Economic Development in the 21st Century (White, Bingham & Hill, 2001) gathers and presents articles which reflect more current thinking and a deeper and broader analysis of the current use of TIF. This collection of articles examines most of the methods that the public sector uses to finance business development in the 21st century. They offer a clear distinction between economic development, which is a public sector activity, and business financing strategies which are far more heavily reliant on private sector strategies. However, business has flipped the theory. TIF is seen as a financing stream open for use by any developer as a relatively inexpensive form of project financing. Thus, TIF financing is built into the project financing strategy, but with no intent to reflect or embrace any public policy considerations. “TIF was originally designed to provide money to finance development projects in blighted areas. It now appears, however, that TIF is used to finance capital projects – in blighted and non-blighted areas” (Johnson & Man, 2001, p. 72). TIF use is widespread and the current bias is to use it as the incentive of first choice.

Dye and Merriman (1999) try to delve into the reasons for creating TIFs. They pose four justifications:

1. Market failure as demonstrated by a need to create an incentive for businesses to locate together rather than making independent decisions,
2. Attracting business to an area for the additional purpose of overcoming blight,
3. Creating a competitive advantage in trying to entice new businesses to locate in the TIF district rather than the alternative location,
4. and intergovernmental revenue shifting. (p. 1)

Dye and Merriman's (1999) research focuses on an analysis of TIFs in the Chicago metropolitan area. They find that the blighted area argument is the one most consistent with current practice. Neither the market failure or the competitive bidding advantage hold up. The issue of revenue shifting did appear to be an outcome, but it wasn't a clear impetus. While the municipality did tend to reap the benefit of capturing revenues from overlapping districts, they did not measure any intentionality about it.

A trend in TIF use in Missouri has emerged since its initial introduction in legislation. The statute in Missouri makes provision for TIF Commissions to issue bonds to assist with approved projects. "If the goal is to use a large initial capital improvement to jump-start development, such as a shopping mall or rail station, the municipality will likely issue bonds to help fund the improvement and then pay them back with revenue from the tax increment" (Kerth & Baxandall, 2011, p. 7). A TIF project must present a plan at the time of approval and it such plans project generating a new incremental revenue stream that is not currently part of the operating budget of any taxing jurisdiction. However, the new incremental taxes are gathered in small annual installments. By observation of multiple TIF proceedings, I know Kansas City has used the stream of expected diverted taxes that are captured in the Special Allocation Fund as an expected source of funding for retirement of revenue bonds that are issued by the TIF Commission on a number of projects. Though contacting every county in the state, I also know anecdotally that other jurisdictions are involved in the same practice. By issuing the bonds, the infrastructure investment for the project is completely funded by the bond proceeds as the project is launched with TIF revenue bonds and the bonds are retired before the completion of the TIF. As Anderson points out, "It substitutes current borrowing for future revenue and may be an attractive funding mechanism for cities

with high current tax rates” (1990, p. 158). This growing trend isn’t unique to Missouri. “From 1990 through 1995, American cities sold \$10.2 billion worth of bonds backed by TIF. In the late 2000s cities sold nearly \$20 billion worth of TIF bonds. TIF bonds in other states (than California) grew by 260 percent” (O’Toole, 2011, p. 2).

In the implementation in Kansas City, a second twist has been added. I have observed that there have been a few projects created where the city has applied for a TIF where it sought to be named itself as the developer of the project. On these projects, there is no independent private developer that is trying to create a project. Since they control the majority of the votes on the commission and all of the votes on the council, every such instance I am aware of has led to approval. So the city has the roles of applicant, recommender through its role on the TIF Commission, approver through the City Council, and monitor through the TIF Commission. The multiple roles provide little separation of responsibilities, and questionable oversight. What it also means is that in the project area, the city puts in 17% of the property taxes that are collected, but has control over the disbursements of 100% of the property taxes that are collected. The other taxing jurisdictions provide the remaining 83%.

Promise Unfulfilled

Use for Sports Facilities

While Ziona Austrian and Mark Rosentraub (2001) make the argument against investments in sports facilities based solely on the economics, they recognize that local decision-makers may believe that having major league sports in the city is a value worthy of public investment. The discussion of professional sports teams indicates that straight

economics cannot justify huge public investments in professional sports facilities. The justification must come down to the non-economic values that are created.

Much discussion around investments in sports facilities has occurred in Kansas City over the last decade as the community has considered the Sprint Center and further investment in Kauffman Stadium and Arrowhead. We currently are seeing the use of TIF in the construction of the hockey arena in Independence and a TIF was approved for the proposed new soccer stadium at Bannister Mall. So, in the zeal to secure the selected franchise, the non-economic factors of having a professional sports franchise tends to swamp any other public policy consideration.

Use for Retail Development

Economic development incentives are frequently proposed for retail development. William M. Bowen, Kimberly Winson-Geideman and Robert A. Simmons (2001) assert there is no good economic justification for the investment in retail because it usually does not provide any new economic capacity in the community or region, but mainly just redistributes what already exists. The only justification that they assert is where such redistribution is the purpose of the incentive.

Currently such redistribution needs are frequently considered either as part of a downtown redevelopment effort or as a way to create additional retail capacity in proximity to areas, frequently blighted, where there is little nearby retail activity. When East-West Gateway Council of Governments (2009) did their analysis of TIFs in St. Louis, they concluded “focusing development incentives on expanding retail sales is a losing economic development strategy for the region” (p. v).

In the Zona Rosa development in the Northland of Kansas City, the major anchor tenants are Dick's Sporting Goods, Barnes and Noble and now, Dillard's. All of these represent movement of stores that were already in the Northland from one location to a new location that has the advantage of being tax favored. No new retail capacity or new employment was created.

New retail is being attracted to the Power and Light District downtown. There are concerns that it is drawing customers away from Crown Center, the Plaza and the River Market. There are a number of closures of retail establishments where the market demand has clearly shifted a few blocks and made continuing operations of restaurants and other retail no longer viable. These concerns exemplify the point that was being made by Bowen et al. (2001). Retail TIFs just relocate retail activity from one area to another, but there is no real gain in regional economic activity.

TIF Results

Studies of TIF efficacy produce conflicting results. However, the econometric modeling indicates that TIF does not generally produce a positive economic outcome. Generally the studies are not able to be conclusive because of the number of variables that cannot be controlled. It is always hard to measure a differential between what did happen and what might have happened if the incentive had not been provided. Poor data combined with limited research provides mostly inconclusive results.

Growth in TIF financing has been further stimulated by the reduction in the federal revenue sharing, particularly funds directed to urban redevelopment. Without the influx of federal funds, cities need to find a new financing source. Because TIF offers the opportunity to use future revenue growth to fund current infrastructure development, there is a strong

incentive for city leaders, particularly those in cities with limited revenue growth, to use the TIF vehicle. In Byrne's (2007) analysis of TIFs in Chicago, he found evidence that supported the use of TIFs to promote economic development. He indicated that the districts, on average, are located in areas that are more economically disadvantaged than the municipality as a whole. His findings are that blight is being addressed, vacancy rates are dropping and new structures are being built while older ones are demolished, and there is a subsequent increase in the property value in the TIF district.

One question that researchers have tried to measure is whether TIF actually serves to stimulate growth in property values. Byrne (2007) notes that those studies are frequently done at a macro level by comparing the growth of values in a city with TIF and those in a city without TIF. Those studies generally show a positive correlation – a correlation and not causation.

Man and Rosentraub (1998) used a slightly different approach and tried to look at it at the valuation level of the TIF district. They looked at the growth in median house value and drew the contrast between municipalities with TIF and those without. They found that TIF adoption again had a positive correlation with valuation growth. However, again, these studies document a correlation, and there isn't any indication of causation. Frequently a TIF district is created because a developer has a project in mind and is seeking a TIF for the purpose of helping to finance the project. So, by completing the financing, the project occurs. It might be more accurate to look at a TIF as enabling valuation growth rather than causing it. Or, another way of looking at it is that the developer saw a project opportunity and community growth occurring that would support it, and the developer was really a follower rather than a leader.

Diane Gibson raises an interesting issue in her discussion of Chicago TIFs. She tried to test whether a TIF was created for the purpose of causing growth, or for the purpose of capturing growth (2003). Indeed in looking at several TIFs that are currently being activated by the Kansas City TIF Commission, one can see that several TIFs that have been activated since 2006 appear to be for the purpose of capturing growth in taxes, or at least the incremental revenues from that growth, rather than causing the growth. This would seem to be true for the North Oak Project 2, The Savoy Projects 2 and 3, and the Antioch Project 10. This has serious implications when the capture is done by the city, and the ones whose incremental revenues are being captured are independent taxing jurisdictions including school districts.

This question of economic benefit was also addressed by Dye and Merriman (2000). The statistical outcome of their analysis was that TIF had the effect of depressing growth in assessed valuation. However, they suggested a couple of factors that might be masked by the data analysis. TIF districts can be established in areas of the city where the city planning effort has laid out an objective of remediating blight. In this scenario, a successful TIF drives the development into the blighted areas of the city, and they may not have the increase in assessed property values from development that would be seen in areas perceived to be sound. They also found a significant effect of growth in TIF districts coming at the expense of decline in non-TIF areas of the municipality. So, in fact, there was a shifting of investment with a declining revenue for the municipality because of the decline in total assessed valuation.

In Kansas City, rather than assert TIF increases property values, the primary policy rationale put forth by city officials is that TIF is a necessary tool for attracting and retaining

businesses and the associated employment. The argument put forth by Kansas City elected officials generally has three components.

1. They assert that the property will be more valuable after the TIF process than it was before being included in a TIF. However, since most TIFs are in place for 23 years, and few have been in place long enough to be terminated, there are few examples where that can be measured.
2. The second assertion is that the other taxing jurisdictions whose revenues are captured to support economic development will see increases in property values surrounding the TIF. There are no examples that have been identified to substantiate this. Weber asserts,

It is possible that TIF designation will not cause property values to grow; in fact TIF designation may even suppress property value growth. TIF could suppress property values if governments subsidize unviable business development and crowd out more profitable uses. (2003b, p. 2003)

3. The third assertion that was drawn from some of the qualitative interviewing from the developers, their lawyers, and some city officials is that nothing is lost since the only property taxes that are impacted are those created by the project.

City officials often present TIF as “free money” because, they suggest, the tax increment would not have taken place without the bond-funded improvements to the area. But this is far from true. First due to inflation, tax assessments within the district would likely have increased even without any actions by the city. Second, studies show that urban renewal is not a positive-sum game. In other words, the developments stimulated by TIF-supported urban renewal projects would have happened somewhere in the urban area. (O’Toole, 2011, p. 8)

In other words, if there was no project, then there wouldn’t have been any tax increment, so there is no loss of revenue. This argument has two problems. First, the other taxing jurisdictions such as school districts are expecting growth in the economy to increase

tax revenues so they will be able to provide the additional services that are demanded and which they are required to provide in many instances. Second, there are projects like the Antioch TIF and Power and Light District that have created a new increment. But in the process of creating the new increment, much of the activity is a replacement for business activity that was occurring somewhere else and where the business was paying its full taxes. So the increment is diverted, and the taxes that were originally being paid elsewhere are lost. In fact, most taxing jurisdictions are losing revenue, rather than just foregoing an increase.

In Missouri, most municipalities do not rely on property taxes as a primary source of funding. However, most school districts do, as do many library districts, health departments, fire districts, senior citizens programs and mental health programs.

Much of the appeal of tax-increment financing to cities is that the subsidy appears to be “free money” – that is, the tax increment that is invested in a given development project would not have been available to the municipality otherwise. The appearance of “free money” is magnified given the potential of municipalities in many states to “capture” the tax increments of overlapping jurisdictions – such as county governments and school districts – for use in the financing of TIF projects. (Kerth & Baxandall, 2011, p. 9)

In the Kansas City metro area, of the property taxes collected, less than 20 per cent are collected based on the city mill levy. So the establishment of the TIF allows the city to immediately capture the other 80 percent of the incremental property tax revenues and use them to augment city resources and provide infrastructure improvements. While this is true of the property taxes; , when you also consider the Economic Activity Taxes that are captured, the percentage of city funding contributed does increase.

From Table 1, it can be seen that the major portion of the taxes that were assessed on residents and businesses in the North Kansas City School District were collected on behalf of the school district, and the district relies on the property tax for seventy percent of its

revenue. It can be seen that while the amount of tax collected by the handicap tax, the senior citizen tax and the library tax is smaller than the school district, they are, in fact, most highly dependent on the property tax for their annual operations.

Table 1

Breakdown of Property Taxes in NKCS

	2010 Levy	Percent	% Dependence
North Kansas City Schools	5.8898	71 %	70%
State of Missouri	.03	< 1 %	
Clay County Health Levy	1.00	1 %	62%
Handicap Tax	.1191	1 %	98%
Mental Health Tax	.0963	1 %	30%
Clay County – Roads	.24	3 %	
Senior Citizen Tax	.0499	< 1 %	99%
Community Colleges	.2329	3 %	25%
City of Kansas City	1.5294	17 %	
Library Tax	.32	4 %	95%

Dye and Merriman (2000) explain the decision to create a TIF district at a particular site might be made in order to capture incremental tax revenue from overlying governments in an area that is expected to develop or to assist a blighted area that has little potential for generating additional revenue. In fact, a practice that is starting to emerge in Kansas City is the creation of multi-parcel TIF districts. The initial parcel is used to establish the district and meet the requirements for proving blight and the “but-for” test. The other parcels are left for activation at a later date, but required by statute to be done within ten years. The later parcels may not seek or require TIF support for their development, but the activation of the TIF in that parcel allows the city to capture those additional revenues for infrastructure improvement. Anderson (1990) points out that consideration of the impact on schools and

school finance is not a consideration by cities making a decision to create a TIF district (p. 161).

In 2008, East-West Gateway undertook a local study to quantify the magnitude of local tax incentives in St. Louis City and St. Louis County, and then to evaluate the impact of those tax incentives. They determined that over \$1.3 billion had been committed through local TIFs to local economic development. They concluded that such massive tax expenditures to promote development have not resulted in real growth. There have been no studies done on the Kansas City TIFs which attempt a similar evaluation of “success.” The tendency is to measure and report output while ignoring the investment of public funds necessary to achieve success or making any attempt to measure a return on the public investment. In fact, in Kansas City, the tendency is that if one project required TIF financing, then other projects in the same area request and expect to receive the same favored treatment. The argument for the second award is equity of treatment, even though the argument for the first TIF centers on economic stimulus that should mitigate the blight and the need for subsequent subsidies. “Once one hotel, office building, or housing complex is built with TIF subsidies, developers are not likely to want to build competing projects without similar subsidies” (O’Toole, 2011, p. 8).

The research reviewed here that has examined the economic development impact of TIF, largely indicates no net economic gain to an area. The greatest benefit would seem to be moving development around within a city. The other benefit would be that business has been supported in their efforts to make financial investments for business expansion and relocation. By practice today, businesses seeking to make major investments are looking to

the public sector to be an investor in their business, and they make decisions based on the financing package they can put together to support their business plans.

Public Education Implications

Much of the research to date has been on the primary relationship between incentives and economic activity. School districts are a secondary player with two major roles. First, they are the primary contributor to most TIFs. Of the property taxes that are impacted, the largest percentage – generally about 60% – are funded with taxes collected for school districts and then diverted to other uses. Secondly, schools frequently have increased demand for services in that additional students are attracted, but the funds to provide the education are diverted. The study to date on the relationship between economic development incentives and the second order impacts on education and other jurisdictions dependent on property taxes has been limited. However, as will be shown, the evidence thus far is that diversion or abatement of taxes away from public education and to use for economic development is largely detrimental to public education and other taxing entities that are dependent on property taxes.

Rachel Weber, in *Equity and Entrepreneurialism: The Impact of Tax Increment Financing on School Finance*, (2003a) refers to TIF as an entrepreneurial funding strategy that provides the economic developer with many variables to use in crafting a plan. She clearly indicates that TIF considerations are around project financing and that secondary impacts around the source of the funds are not considered.

In looking at the impact on school districts and other overlapping jurisdictions, there is little information available. Johnson and Man (2001) commented on this, saying “One unanticipated outcome of this limited survey was the finding that many states do not monitor

their TIFs from a public education perspective, nor do they have information systems designed to access the impact of TIF on school districts” (p. 139). In 34 states, the School Districts receive none of the incremental property tax revenues that are created through new development within a TIF district. While in 14 states, school districts have either a total or partial exemption from the diversion (Gibson, 2003). The Institute for Taxation and Economic Policy reported that “today’s development subsidies may be enriching corporations at the cost of the education of tomorrow’s work force” (2002, p. 2).

Rachel Weber (2003b) studied the varying application of the TIF statute in all of the suburban Chicago school districts in Cook County and reported on her analysis in the article, *Equity and Entrepreneurism: The Impact of Tax Increment Financing on School Finance*. It is referenced by Johnson and Man as one of the few studies where significant data was used for solid analysis. It provides some insight for understanding of the implications of TIF decisions on the funding of school districts. She asserts that there may be undue burdens imposed on the overlapping school districts which would mean that the city was better off because of the growth, but the school district was not. She also points out that because of the nature of TIFs, they can alter the nature and civility of the relationship between various jurisdictions. “In other words, the larger the share of the tax base that a school district claims, the greater incentive the municipality has to capture this share and use it to pay off its own development project costs” (p. 626). The Institute for Taxation and Economic Policy points out that “School officials have very little say over these (economic incentive) programs. Except in a small handful of states, local school officials have no voice in how substantial portions of the monies originally intended for schools are ultimately spent” (2002, p. 2). Statewide, the total abatements and diversions from public education funding in

Missouri in 2007 totaled \$140,000,000, which represented about 4% of the total funding for public education (Ward, 2008a). A similar analysis showed that the Kansas City Public Library had about \$3,000,000 diverted or abated, and that represented about 17% of their potential revenues. The surrounding Mid-Continent Library System had \$1,700,000 diverted, which represented a little more than 4% of their revenues (Ward, 2009). The resources that are being captured by cities and diverted from schools, libraries and other social services are becoming more dramatic. The largest diversions are in the urban areas where there is the greatest development, but also where those educational and human services are under the greatest strain.

Indeed, it would appear that while school districts in Kansas City are the primary contributing jurisdiction to TIFs – to the extent of providing between 55% and 75% of the Payments in Lieu of Taxes (PILOTS) that are captured for the Special Allocation Fund – there is little known or discussed about the impact on the school districts. The Special Allocation Fund is the account that receives the captured incremental taxes and holds them for disbursement in accordance with the approved TIF plan. Sixty to seventy percent of school revenues are produced by property taxes. Other taxing jurisdictions are even more dramatically impacted by the diversion or capture of property taxes. The library systems, the sheltered workshops for disabled persons, and senior citizen programs are over ninety percent dependent on property taxes. Others who have some dependency on property taxes are the junior colleges, the county health departments, some fire districts, some mental health agencies, the cities and the counties. In 2007, as the city of Kansas City re-evaluated its use of economic development incentives, the impact on our education systems and other services that support the community were described in modest detail. But the citizens group was city

appointed and in the view of observers who represented the donor taxing jurisdictions they didn't really want to fully delve into the collateral impacts.

There are other more global considerations that seem to be getting swept to the side by this near feeding frenzy on tax incentives.

But it is not only the business community that defends corporate tax breaks. State and local governments also protect those subsidies when they adopt a 'jobs at any cost' philosophy that forgoes fiscal break-even or economic cost-benefit analysis and pays little if any attention to the real costs of the subsidies or of costly externalities that they may involve, such as pollution or poverty-level wages. (Institute for Taxation and Economic Policy, 2002, p. 8)

And both the Congressional Research Service report (Maguire, 2000, cited in Protecting Public Education, 2002) and Gardner (2006) have documented that the property tax burden is shifting from the corporate tax payer to the individual taxpayer. And all of this is happening at a time when the pressure on senior citizens with a fixed income is increasing.

Political Value of Economic Development Incentives

To this point, the review has focused on the economic impacts and implications of the use of tax incentives. However, the political lens provides additional understanding of the dynamics of the use of incentives. It is asserted that the political efficacy of TIF outweighs the economic efficacy of TIF.

William M. Bowen and colleagues (2001) say that there are two other attractive aspects of TIF for elected city officials – the fact that they can fund infrastructure projects without a vote of the people and the fact that TIF debt financing can generally be obtained without a vote of the people. Since most people do not like property taxes, and strongly dislike property tax increases, the ability to use TIF to fund needed improvements while avoiding the discussion with taxpayers is particularly attractive to elected officials. In a

climate of a growing population of people with fixed incomes, there is a propensity for the electorate to vote against any additional property taxes.

Paul Byrne points out,

although the marginal benefit of a project may be greater than the marginal cost, citywide support may be lacking because the benefit is concentrated in a small portion of the municipality. Because tax increment financing circumvents this problem, it has become a popular tool for city managers in financing public spending for projects that may not benefit an entire municipality. (2007, p. 317)

In Kansas City, taxes captured by a TIF get used in accordance with the TIF plan and are not part of the city budget or the city budgeting process, although their dominant use is funding of public infrastructure. All of this happens where the electorate is not really aware of the trade-off in public priorities that is being made. In addition, although the benefit is at a specific location, and in a specific council district, council members assume that they will get projects in their district in due time, so it isn't a matter of particular concern. There is an element of "If I don't support your project, you might not support mine."

In Missouri, there is access to greater forms of revenue to support TIF than are available in other states (Kerth & Baxandall, 2011). Most states have only property taxes that are subject to capture, but in Missouri, local and state income taxes can be captured, as well as sales tax, hotel taxes, earnings taxes and utility taxes. "The more sources of revenue that can be tapped, the greater the potential for governments to make bigger, riskier bets on proposed development schemes and to engage in economic subsidy 'arms races' with neighboring jurisdictions" (Kerth & Baxandall, 2011, p. 11).

There is an open question about whether there is conscious effort on the part of cities who are strapped for infrastructure improvements to capture funds that were voted by the citizens for other purposes,

The benefits of tax increment financing are questionable. Originally created to solve a problem that no longer exists, TIF is now being used by cities to capture funds that voters think they have allocated to schools, fire department and other purposes in order to spend them on grandiose projects that have little net benefit. (O'Toole, 2011, p. 13)

Reforming the use of TIF is clearly a contentious policy issue. Most actions occur within a framework of competing forces and competing needs. The relative ranking of those forces depends on the role the leaders are asked to play. Successful utilization will rely on elected officials with a holistic view toward problem solving rather than one that is limited to those areas that they are elected to directly impact. "In the short run, eliminating TIF will help state close critical budget gaps. In the long run, eliminating TIF will prevent cities from taking ever-increasing amounts of money from schools and other programs that are supported by property taxes" (O'Toole, 2011, p. 13).

The Impact of Funding on Education Performance

The problem of creating public discussion about curtailing the use of economic development incentives is made all the more difficult because of performance failures of public education in Missouri's major urban areas. Both the Kansas City School District and the St. Louis School Districts are currently unaccredited based on student performance, but they also have some of the highest revenues per student. So, there are many in Missouri that have become insensitive to the issue of the adverse impact of diverting funds from schools. And those who want to deflect critical attention away from the impact of diverting or abating funds away from public education use these two examples as their "proof" that money won't solve the education problems, so diversion of resources is not a deterrent to quality education. There is a public debate about whether or not public education is disadvantaged by the diversion of resources. This question is worthy of review, since a lack of adverse

impact would make the concern about use of economic development incentives that divert funding from public education moot. Without clarity on this question, the question of the damage done by diversion of resources cannot be substantiated unequivocally.

Early Research

Unfortunately, it has proven difficult to determine the relation between school expenditures (the things that money may buy) and student achievement. Systematic efforts to do so began 35 years ago with Project Talent and reached widespread public awareness with *Equality of Educational Opportunity* (Coleman et al., 1966). (Greenwald, Hedges & Laine, 1996, p. 361)

The information is very mixed and the results lead to contested interpretations. In fact, there are assertions that the research either lacks rigor, or it is so highly influenced by political persuasion that it lacks impartiality.

The Coleman Report

The pursuit continues for an answer to the question of whether student performance is tied to the financial resources of a school district and their derivatives – teacher salaries, class sizes, and physical plant. Many authors trace the origins of this inquiry to the Equality of Educational Opportunity Report developed by James Coleman and others. The Coleman Report was issued in 1966 as a response to the Civil Rights Act of 1964. The report was developed by the United States Department of Education to begin to assess the learning deficit that existed for minorities, and to begin to assess the amount of incremental funding that would be required to achieve equity in education.

Some of the findings still seem to be reflected in the policy development of today, and some seem to have been surpassed during the intervening 40 years. However, the self-described purpose of the study was to

attempt to describe what relationship the school's characteristics themselves (libraries, for example, and teachers and laboratories, and so on) seem to have to the achievement of majority and minority groups. This indicates that it is for the most disadvantaged children that improvements in school quality will make the most difference in achievement. (Coleman, 1996, p. 22).

Although it may not be a controlling factor based on other more fundamental drivers of success in school, it remains that attacking the disparity in schools will still require additional resources.

In looking then for ways to impact the performance gap that existed at the time of the Civil Rights Act of 1964, the study makes several observations:

1. The quality of teachers shows a stronger relationship to pupil achievement. (Coleman, 1996, p. 22)
2. Attributes of other students account for far more variation in the achievement of minority group children than do any attributes of school facilities and slightly more than do attributes of staff. (Coleman, 1996, p. 302)
3. The residual relationship shows the higher achievement of children who report similar backgrounds in schools with high per pupil expenditure. (Coleman, 1996, p. 312)
4. The general picture that all these results give of schools that come closest to taking full advantage of their student input is one with generally greater resources. The relations are not large, but they are all in the direction of somewhat higher achievement: higher per pupil instructional expenditure, a curriculum that offers greater challenges, more laboratories and more activities. (Coleman, 1996, p. 316)

The Coleman Report clearly indicates that pupil/teacher ratios and quality of teaching are pivotal to success. Decreasing class sizes requires greater resources. In addition, to address the disparity between schools something will be required to attract teachers to work in circumstances that are more challenging than the other options where superior performance is measured. Some will do so from a sense of challenge or a calling. For others it will require at least parity in pay with other districts and some will require a

premium differential. All alternatives will require additional resources beyond those currently available in many inner city districts. High quality teachers can find opportunities with the greatest compensation. Attracting high quality teachers requires resources. The Coleman report clearly shows that resources are important to educational success.

However, Eric Hanushek is not convinced, and in fact has spent over two decades trying to demonstrate through research and published reports that resources do not cause better student outcomes. He asserts,

The Coleman Report appeared to demonstrate that differences in schools had little to do with differences in students' performance. Instead, family background and the characteristics of other students in the school seemed much more important. Today, even though it remains the most cited analysis of schools, the Coleman Report is commonly held to be seriously flawed, and its importance is more in terms of intellectual history than insights into schools and educational process. (1986, p. 1150)

The Production Model

Much of the analysis around measurement of resource effectiveness is developed around a framework of an industrial production model. That model assumes that there are inputs, there is a process that occurs in the schools and then there are outputs of students who perform well or not. It is a useful framework for thinking even though it is clear that the educational process is not one where there is an ability to truly control, in an industrial sense, either the exact nature of the input or the “manufacturing” process that is applied to the student by teachers, the school district and the living environment that surrounds the student. The inability to specify and control the externalities is at the root of some of the challenges in developing meaningful research that provides unassailable conclusions. If the goal is measurement of effectiveness of a production model, and neither the inputs nor the production processes can be controlled and measured, then the nature of the output and its

measurement are highly problematic. So, the production model does not lead to definitive answers.

Resource Distribution

However, the question remains open as to the extent to which resources available are a determinant of student performance – even given all of the variables that are at play. From my experience on the school board, for the last sixteen years, the total budget of the district can be significantly impacted with just two variables – the salary schedule for teachers and the class sizes.

Odden, Archibald and Fermanich (2003) state,

A series of empirical studies conducted with national, state, district, and school databases in the first part of the 1990s found that across states and districts with widely varying characteristics and spending levels, functional resource use patterns were quite consistent. Though there was some variation, in general, 60% was spent on instruction, about 10% on instructional and student support, about 8-10% on administration (with the bulk of administrative costs at the site and not central office level), about 10% on operation and maintenance, about 5% on transportation, and about 5-7% on debt service, food and miscellaneous. (p. 98)

With the allocation of resources generally consistent across most districts, it doesn't appear that significant resources to address deficiencies are likely to be derived from reallocation within existing budgets. That drives to a conclusion that resource constraints will prevent progress if resources cannot be expanded.

According to conventional wisdom, each tabulated factor should have a positive effect on student achievement. More education and more experience on the part of the teacher both cost more and are presumed to be beneficial; smaller classes (more teachers per student) should also improve individual student learning. (Hanushek, 1986, p. 1160)

Hanushek (1986) analyzes numerous variables to try to find a significant correlation that would shed light on key determinants which influence student outcomes. In the end, he

finds an overwhelming amount of data that is inconclusive or produces correlations that are not statistically significant.

If these specific factors were in fact central to variations in student achievement, the tabulations would almost certainly show more of a pattern in the expected direction. While individual studies are affected by specific analytical problems the aggregate data provided by the 147 separate estimates seem most consistent with the conclusion that the expenditure parameters are unrelated to student performance (after family backgrounds and other educational inputs are considered). (Hanushek, 1986, p. 1163)

He looks at key items like level of education of the teacher, experience level of the teacher, and average class sizes correlates them to student test scores or graduation rates as proxies for output measurements.

Current Research

Recent meta-analysis has more definitively shown that there is a relationship and that different funding levels produce different results. In 1994, a team composed of Larry Hedges, Richard Laine and Rob Greenwald revisited the research that had previously been done by Hanushek (1986; 1994). They went back to the research data in the studies that Hanushek had used and delved into the data using a statistical meta-analysis. They suggested a different result from analysis of the same data.

Over the last decade a series of influential reviews of this literature have suggested that there is no systematic relation between resource inputs and school outcomes when controlling for student characteristics such as socioeconomic status. This study is a reanalysis of data from these earlier reviews, using more sophisticated synthesis methods. It shows systematic positive relations between resource inputs and school outcomes. Moreover, analyses of the magnitude of these relations suggest that the median relation (regression coefficient) is large enough to be of practical importance. While this reanalysis suggests that previous data do not support the conclusions that Hanushek and others derived from it, limitations of their data set warrant caution in using it for policy formation. (Hedges et al., 1994, p. 5)

They provide additional commentary on the work of Hanushek and others.

This work has been the pillar upon which the counter-intuitive notion that money does not matter in schools has been constructed. Yet the data upon which this conclusion is based support exactly the opposite conclusion and demonstrate that expenditures are positively related to school outcomes. (Hedges et al., 1994, p. 5)

They share the statistical basis for their analysis and conclusions, as well as describing why the same data provided another interpretation. Hedges and his colleagues (1994) suggested that by using meta-analysis techniques, a clear relationship could be demonstrated and, in fact, with some significant implications. They focused on the results produced for the relationship between per pupil expenditures (PPE) and outcomes.

The median half-standardized regression coefficient for PPE computed over all studies is .0014. This coefficient is large enough to be of considerable practical importance. It suggests that an increase of PPE by \$500 (approximately 10% of the national average) would be associated with a 0.7 standard deviation increase in student outcome. By the standards of educational treatment interventions, this would be considered a large effect. Taken together, the effect size analyses suggest a pattern of substantially positive effects for global resource inputs (PPE) and for teacher experience. The effects of certain resource inputs (teacher salary, administrative inputs, and facilities) are typically positive, but not always. The typical effects of class size (expressed as either pupil/teacher ratio or teacher/pupil ratio) are decidedly mixed. (p. 11)

In 1996, they continued their research in an effort to further refine the findings of their work in 1994. They expanded the data base to over 2000 published reports, and carefully culled that data base to identify the most complete and statistically sound studies.

The more thorough analysis led to the conclusion that a broad range of school inputs are positively related to student outcomes, and that the magnitude of the effects are sufficiently large to suggest that moderate increases in spending may be associated with significant increases in achievement. When the results of the combined significance tests and the effect of magnitude analyses reexamined together, the findings suggest a substantially positive relation between educational resource inputs and academic achievement. (Greenwald et al., 1996, p. 362)

These results are similar to those obtained in our earlier reanalysis (Hedges et al.). However, the present results seem to suggest even stronger and more consistent relations between educational resources and student outcomes. (Greenwald et al., 1996, p. 381)

We believe that this presents a more significant contribution than our earlier work (Hedges et al.) on the question of whether school resources and student achievement are related. The general conclusion of the meta-analysis presented in this article is that school resources are systematically related to student achievement and that these relations are large enough to be educationally important. Global resource variables such as (per pupil expenditures) show strong and consistent relations with achievement. Smaller schools and smaller classes are also positively related to student achievement. In addition, resource variables that attempt to describe the quality of teachers (teacher ability, teacher education, and teacher experience) show very strong relations with student achievement. (Greenwald et al., 1996, p. 384)

The meta-analyses have convinced most researchers that there is a relationship between funding and the ability to enhance student performance. While Hanushek (1997) has not conceded the findings from Greenwald (1996), most of the debate now centers on incremental funding and incremental gains from those funds.

Exacerbation of Impacts by the Enactment of No Child Left Behind

In the current environment where No Child Left Behind (NCLB) legislation has placed a federal mandate on performance, a diversion of funds can have significant implications. However, there is a changing environment that started with the passage of the No Child Left Behind Legislation (NCLB). “President George Bush highlighted the ‘academic achievement gap that exists between students from rich and poor families and between white and minority children’ (Bush 2001)” (Reschovsky & Imazeki, 2003, p. 264).

Long focused on fiscal *equity*, school finance is shifting towards fiscal *adequacy*. . . Under standards-based education reform, the benchmark test of school finance policy is whether it provides adequate revenues per pupil for districts and schools to employ strategies proven successful in educating students to high performance standards. (Odden et al., 2003, p. 83)

Odden et al. (2003) go on to argue,

the legal test, usually originating in the state education clause, begins with the question of whether a state’s school finance system provides adequate revenues for the average school to teach the average student to state determined performance

standards. It goes on to ask whether adequate revenues are available for extra help to raise the performance of struggling and special needs students to the same standards. The legal problem is not whether District A has less or more than District B. Rather, the question is whether both districts – indeed all districts in the state – have adequate revenues for the programs and strategies needed to educate students to high achievement levels. (p. 83)

This begins to adjust the considerations that are relevant. If the goal is to move all students to proficiency, then the number of interventions required continues to go up. So, the question is transforming into one of whether or not there are sufficient teaching strategies and financial support of them to reach proficiency for all, and whether there are sufficient interventions to catch and remediate those that are failing under the direct strategies. This modifies the standard from each student receiving an adequate education to one where the standard is that each student must be educated until proficiency is achieved.

Now, the financial objective has moved to providing sufficient resources to reach every student with a strategy that matches their needs, skills and learning styles. If the question was posed as to whether the current resources, in most school districts, will meet that objective, the obvious response would be in the negative.

In 2003, Reschovsky and Imazeki took the NCLB legislation and worked with the performance and cost data from the districts in Texas to construct a model that would indicate the level of funding that would be required to meet the performance standards.

To determine the characteristics that lead to variations in the costs of achieving a specified improvement in student performance, the authors estimated an educational cost function using data from elementary and secondary school districts in Texas. Results indicate that cost differences across districts can be quite large. The cost function results are summarized into a cost index that can then be used in a simple formula to guarantee that every district has sufficient fiscal resources to achieve state-imposed performance goals. (p. 263)

In analyzing district performance, they determined:

student performance in school districts with a high percentage of poor children and districts with a high percentage of minorities was substantially below average. For example, students in the 55 school districts where more than 75% of students came from poor households had composite test scores that were one and two-thirds standard deviations below average. (p. 267)

In then developing their cost function they made some significant observations.

First, there is considerable evidence that there are higher costs associated with the education of children from low-income families. Second, there is substantial literature that documents the extra costs associated with educating students with various kinds of disabilities and students who enter schools with limited knowledge of English. Third, to reflect the possibility that more resources may be needed to provide a high school as compared to an elementary school education, we also include the proportion of each school district's student body that is enrolled in high school. Finally, to reflect potential diseconomies of scale associated with both small and large school districts, we include each district's enrollment and enrollment squared. (p. 272)

Finally, they observe,

In summary, our estimated cost function suggests that in Texas, characteristics of school districts beyond the control of local school officials contribute to the amount of money needed to achieve any given level of student performance. This implies that equal per-pupil spending should not be expected to result in equal student performance gains in all districts. (p. 276)

In fact, in Missouri, the legislature is dominated by rural interests, and major urban adjustments are problematic to them. Because they have assessed valuations that are artificially low, rural districts are always struggling for adequate funding for their schools. Rural school districts have a strong reliance on the state to subsidize their cost of education. However, state educational support allocation is a zero-sum game – if the legislature provides too much weight to meeting urban challenges, then funds for rural communities will be diminished by the same amount. Also, the court-ordered desegregation effort in the Kansas City School District took billions of dollars out of the state to fund a district that is still not performing to standards. One residual effect of the extraordinary investment in the KCMSD

is that the rural legislators haven't forgotten that funds were diverted into Kansas City, and they are loathe to do anything that would repeat that capture of funds away from their financially starved districts.

“There is considerable evidence that there are higher costs associated with the education of children from low-income families” (Reschovsky & Imazeki, 2000, p. 6). “It is important to emphasize that even after adjusting cost indices for inefficiency, the variation in costs across districts remains substantial, and large city school districts continue to have high costs” (Reschovsky & Imazeki, 2000, p. 10). “Our results indicate that large cities in both Texas and Wisconsin will require substantial infusions of new financing if they are to raise student performance to adequate levels” (Reschovsky & Imazeki, 2000, p. 14).

Odden et al. (2003) suggest, “But at their core, these new approaches to school finance seek to link spending levels with student achievement results, a necessary objective for a school finance system that would be adequate for standards-based education reform” (p. 95).

The results presented indicate that costs (at least in Texas and Wisconsin) differ substantially among school districts. Thus, to guarantee the provision of adequate education, it is necessary to develop a foundation formula where the foundation level of spending varies according to differences in costs across districts, and where the average foundation level equals the dollar amount necessary to meet the performance standards associated with educational adequacy in districts with average costs. (Reschovsky & Imazeki, 2000, p. 11)

Starting around 2000, there was a shift in many of the published articles. There was a growing concern about accountability that has culminated in the federal funding reauthorization in 2001 known as No Child Left Behind.

We find that states where the school finance system was declared unconstitutional in the 1980s increase the relative funding of low-income districts. Increases in the amount of state aid available to poor districts led to increases in the spending of these

districts, narrowing the spending gap between richer and poorer districts. Using micro samples of SAT scores from this same period, we then tested whether changes in spending inequality affected the gap in achievement between different family background groups. We found evidence that equalization of spending leads to a narrowing of test score outcomes across family background groups. (Card & Payne, 2002, p. 49)

After carefully looking at all of the cost function data and the performance data in Texas, Reschovsky and Imazeki offer this conclusion: “Our cost function results clearly indicate that improving student performance requires additional resources” (Reschovsky & Imazeki, 2003, p. 284). They go on to say,

If states are going to require their students to meet these more rigorous educational goals, they must recognize that achieving these goals will require more resources in some school districts than in other districts for reasons that are outside the control of local school officials. This implies that a necessary, though not sufficient, condition for achieving any given performance goal is that state fiscal assistance to local school districts account explicitly for differences in costs across districts within a state. (p. 285)

In conclusion, they offer the following:

There are still many issues to resolve in how educational costs and school outputs are measured and in how to reform policy to account for these costs, but it is clear that improving the educational performance of all students requires the annual measurement of student performance, the setting of reasonable goals, and the allocation of state and federal aid to school districts in a way that recognizes differences among school districts both in fiscal capacities and in the costs of providing education. (Reschovsky & Imazeki, 2003, p. 288)

A Practitioner’s View of NCLB Implications

Drawing on my service on the school board, I would offer another explanation. There is no definitive solution for how to educate every student successfully. There are new theories evolving every day and they are being tested in university settings, and then tested in real classrooms with real students. Success varies, and it is correct that success measurements are imperfect. It is also true that student diversity drives complexity and it is

difficult to define any solution that solves the challenge for every student. What seems definitive is that every year school boards in Missouri have the responsibility to approve a balanced budget. Every year, the professional staff in the districts look at strategies and interventions to determine those that are more effective for more students than others, and that means that there are some that have to be eliminated based on limited resources. Some of those that are eliminated had success with some students. As school boards consider programs for each coming year, there are always more programs that hold potential than can be funded. The research demonstrates that part of the key to success is managing externalities that are not in the purview of the classroom teacher, but have to be considered in creating a successful learning environment. Some proposed programs are adopted and some are held in abeyance. With NCLB putting ever-increasing pressure on school districts to have each and every student reach a level of proficiency, more solutions are needed for more of the pockets of students that are not being reached by those solutions that work well for most students. It is somewhat like the discussion concerning orphan drugs that don't have enough people with a certain disease to provide financial viability, and therefore the drug isn't developed commercially. NCLB puts another onus into the equation. Effectively, school districts are obligated to fund "orphan drugs" if we are going to avoid missing the targets in selected populations. This requires resources. If the standard of NCLB is used as the measure of success, then this author believes it can be definitively asserted that increased resources are necessary to meet the demands of NCLB accountability. The places where this is most true are urban settings where there is more diversity of students, of student families and of student environments. Withholding or diverting resources through economic development incentives helps to create the factors of failure within the NCLB rubric.

Summary

From this discussion, it is clear that there is a major dilemma that is emerging. There are competing and conflicting forces:

1. We are in an economic recession. Cities are desperate for job growth and are eager to provide incentives to attract or retain businesses.
2. Few political leaders are willing to acknowledge that the primary source of funding for economic development incentives are the education and social services that are drawn on more heavily in a recession.
3. Because of pressures of international competitiveness, our schools must perform at a higher level. NCLB dictates that every student must reach proficiency by 2014.
4. This requires dramatic resource commitments if the unfunded federal mandate is going to be met and if we are going to achieve parity with the best performing systems around the world.
5. The legislative process is one that calls for compromise in setting allocations of state educational dollars. While there is some fairly clear documentation of differentials required to educate disadvantaged students in the urban core, there is resistance to even considering anything that would allocate resources to meet the measured requirement. Further, the funding in rural areas is held artificially low because of prescribed assessment rates, so the ability of rural school districts to raise funds is limited. “Unless school finance formulas account for the differences in costs, school districts with high costs will face nearly insurmountable burdens” (Reschovsky & Imazeki, 2000, p. 2).

6. Competition for state funding is fierce and restricted state budgets will continue for a number of years. Therefore, local school districts have to rely heavily on local funding. But that local funding is the same resource that is being diverted to support job growth.
7. The use of economic development incentives continues to expand because the business community and the development-supporting legal community do not want to give up a tax benefit that is helping many companies. Few business leaders are willing to forego tax breaks to which they currently have access even if they believe that it may be harming the greater good. If the impacted business is not sustained in a stronger financial basis, its ability to contribute to the economic well-being of the community will be deterred.

It is absolutely clear that the goals of NCLB will not be met and that state and local financial resources will not be provided to enable them to be approached. Local education districts are struggling to meet the heightened standards, and their public relations challenges are being expanded dramatically as school district after school district is declared to be “failing” in the eyes of NCLB, even though their true performance is advancing.

The powerful forces of politics, policy and leadership around economic development and public education finance have never been tested like they are being tested today. The literature has not caught up with the emerging crisis in property tax diversion in favor of economic development rather than the intended purpose of public school funding. This is one of the first times that there has been an economic downturn that caused property values to decline broadly. Further, the constriction in economic activity reduces sales tax receipts, income tax receipts and other economic activity taxes. This puts pressure on most, if not all,

of the public budgets. The research that follows is intended to provide accurate information to inform meaningful public consideration of public priorities.

CHAPTER 3

METHODOLOGY

In designing the research to create a better understanding of the impacts of economic development incentives of public education financing, a mixed-methods design was utilized. As Ercikan and Roth (2006) point out, “Research can be classified according to three types of questions that it may answer. ‘What is happening?’ ‘Is there a systematic effect?’ and ‘Why or how is it happening?’” (p. 21). My design moved us through these three questions. Through the quantitative research the first two questions were addressed and insight drawn. With the qualitative research we developed greater understanding of how the effects are created.

The initial quantitative research involved a census of the economic development incentives that are in place in Missouri at two different points in time, 2007 and 2009. No sampling was involved, it was the full universe of information about the financial impacts of the incentives that are in place. This involved the development of assessed value amounts for TIF diversions as well as abatements granted through chapter 353 projects, economic enterprise zones, and chapter 100 financing. After data collection, various statistical analyses were performed and since I will have data on the same units at two points in time analyses of panel data is included. After that, a qualitative study was undertaken through a case study of two specific TIF projects, to understand the dynamics at work at the time of creation and over time since the creation of the TIF.

Quantitative Data Analysis

In the state of Missouri, tax incentives have been used for more than 30 years to promote economic development. There is a requirement that these incentives be reported to the Missouri Tax Commission every two years, but the reporting is only for Tax Increment Financing, Chapter 353 abatements and Economic Enterprise Zone Abatements. Because there is no requirement in Missouri for reporting the amount of Chapter 100 bonds that are issued or the impact on property tax collections, there is no existing repository for all of the economic development abatements and diversions. In addition, the information accumulated by the Tax Commission is an accounting of the amount of impacted assessed valuations and not the resultant impact on property tax collections by school districts or other taxing jurisdictions. This lack of a comprehensive information system makes the assessment of the fiscal impact of property tax abatements and diversions problematic at best.

The quantitative methodology for this study begins to fill that informational void. It was designed to measure the actual amounts of assessed values from the four identified incentives and to calculate the amount of funds that were diverted or abated from public K-12 education in Missouri in 2007 and 2009. Patterns of incentive use and patterns of incremental change were explored. This information provides the only comprehensive analysis of tax incentives and their impact on property tax collections for education developed in the state of Missouri.

Collection of Assessed Value Impacts

The first step in the quantitative data-gathering process for this study was to gather all of the base data for the two selected years. The years 2007 and 2009 were selected because those are the two most recent years for which this data has been assembled by the

county assessors and reported to the state. Further, because these data represent two points in time and a full census, it is believed that the dataset will be comprehensive and sufficient to provide some clear insights about the fiscal impact of economic development incentives on various taxing jurisdictions.

The study determined by school district the assessed value of property shown on the books of each County that was impacted by Tax Increment Financing (TIF), Chapter 353 abatement (353), Chapter 100 bonding and its subsequent abatement, and Economic Enterprise Zones (EEZ). To secure this information by school district and county, each county in the state of Missouri will be contacted through either the County Assessor's Office or the County Clerk's Office. By using the information provided directly by the county official responsible for its creation and capture, the accuracy should be as great as possible. This provides the total amount of impacted assessed valuation for each of the 524 school districts and 114 counties plus the City of St. Louis.

Property tax rates were acquired for each of the school districts, and then correlated with the impacted assessments. The tax rate was multiplied by the impacted assessed valuation to determine the amount of taxes that were diverted or abated through the use of tax incentives.

This study measured the actual amounts of assessed valuations for which funds were either diverted or abated in Missouri in 2007 and 2009. This information for every school district and each county in the State of Missouri was gathered by contacting either the County Assessor's Office or the County Clerk's Office for each county. The data captured included the assessed value of property within the County impacted by Tax Increment Financing (TIF), Chapter 353 abatement (353), Chapter 100 bonding and its resulting

abatement, and Economic Enterprise Zones (EEZ). The total amounts which were reported were checked against the total amounts reported by the State Tax Commission. This provided the total amount of impacted assessed valuation by school district.

When the counties were contacted, this information was generally something that had to be assembled and was not readily available. That would certainly suggest that no one was looking at the total impact. Many of the considerations for these incentives are isolated to the particular development project that is under consideration, and few people who were contacted really had a sense of the total amount of abatements granted in their county.

While this methodology provides an important view of this issue that has not been assembled before, there are some circumstances that must be considered in interpreting these data.

- “But for.” The impacted revenues that are reported here are based on projects that were built. In many of the tax incentive determinations, there is an assertion that the project would not have been built if the special tax treatment was not put in place.
- Chapter 100 assessments. The amounts of assessed valuations impacted are those that were reported by the specific county. Since property acquired with proceeds from Chapter 100 bonds are owned by the issuing government entity, some County Assessors have a practice of not assessing those properties until the property comes onto the tax rolls. Some of the assessed values were developed in conjunction with the Assessor given that the amount of bonds that were issued to purchase the asset was known. That could mean that the impacted assessed amounts reported are understated.

- Partially abated properties. Also, it is assumed that the amounts that are reported are the assessments for the abated property only and not the total property. That is what was requested. However, if the Assessor provided the total value of the property rather than the part that is abated, there would be some minor effect of overstating the impact. Since personal contact was made with each of the County Assessors or County Clerk, it is thought that the impacts of the understating of the Chapter 100 reporting and the overstating of the abatement reporting are offsetting effects and are not significant to the total analysis here.
- Timing. The amounts gathered here are the actual amounts that were impacted in 2007 and 2009. In a project where there are multiple phases and some phases have not yet started, there is no attempt to estimate or include any future impact. There were frequent comments made by the county people, though, that there was an approved TIF project or an approved Enterprise Zone, but there were no projects that were started in the area yet. Similarly, if a project has been approved and construction is under way, but the assessed valuation in 2007 or 2009 was zero, then the anticipated impacted revenues are not reported. Thus, we know that the impact in 2010 is likely to be greater than it was in 2007 or 2009, because many of the existing abatements and diversions will be repeated in 2010 and beyond, and there is no reflection of prospective diverted or abated revenues, only the actual impact in 2007 or 2009.
- Taxing jurisdictions. The amounts that are reported here are the amounts of assessed value for which the property taxes are either diverted or abated. When the tax rate is applied to these assessed values, the amount of revenue impact can

be determined. The tax rate of the impacted organization would vary depending on whether you are talking about the library district, the school district, the community colleges, the ambulance district, the senior citizens levy, the sheltered workshop or any of a host of other entities that are at least partially dependent on property taxes for their operating revenues. The degree of dependence varies from less than twenty percent for many cities and counties, to over ninety percent for many libraries, senior programs, sheltered workshops and other special entities. This study reports only the impacted assessed values, and includes no projections.

Collection of Demographic Descriptors

To the data base of assessment information that had been captured, additional demographic data was attached. The basic unit of data gathering was the school district, and that was the basis for the assembly of the cells of data that were in the analysis file. The information was manipulated slightly to accommodate two factors and to create a better base of analysis.

1. For those districts that were in two counties, the data was combined into one listing for the school district.
2. For those school districts that were in St. Louis County, their tax rate was adjusted to include the taxes for the Special School District. In this manner, the tax impact in that geographic segment could be tied to the characteristics of the school district. It did not change the total impact amounts.

The basic descriptor for each line of the file included:

- Missouri County where the school district is located. (Where the district is in more than one county, the information was placed in the file for the dominant county.)
- Name of the School District
- City where the School District Headquarters is located.

The next set of cells that were assembled for each of the school districts in the state was the information about the abatements that were existent in each district. These are the amounts that were reported by the resident county holder of the information for each county and were reported in dollar amounts.

- 2007 Amount of AV captured for diversion with TIF
- 2007 Amount of AV abated with 353
- 2007 Amount of AV abated with Chapter 100 bonds
- 2007 Amount of AV abated with Enterprise Zones
- 2007 Total amount of impacted AV – This was calculated by summing the four parts that were assembled.
- 2009 Amount of AV captured for diversion with TIF
- 2009 Amount of AV abated with 353
- 2009 Amount of AV abated with Chapter 100 bonds
- 2009 Amount of AV abated with Enterprise Zones
- 2009 Total Amount of impacted AV – This was calculated by summing the four parts that were assembled.

In addition to the assessed valuation data, selected data was drawn from the DESE data base to enable an understanding of the impacts. The data that was drawn included:

- 2007 Total School Tax Rate
- 2009 Tax Rate – Incidental Fund
- 2009 Tax Rate – Teachers Fund

- 2009 Tax Rate – Debt Service Levy
- 2009 Tax Rate – Building Levy
- 2009 Total Tax Rate – This was created as a summation of the four component tax rates.

With the assessed value information, the school revenues that were either abated or diverted were determined. Thus additional cells were created for each school district.

- 2007 Impacted School Revenues from TIF – derived by multiplying the TIF AV by the total 2007 school district tax rate.
- 2007 Impacted School Revenues from 353 – derived by multiplying the 353 AV by the total 2007 school district tax rate.
- 2007 Impacted School Revenues from Chapter 100 bonds – derived by multiplying the Chapter 100 AV by the total 2007 school district tax rate.
- 2007 Impacted School Revenues from Enterprise Zones – derived by multiplying the Enterprise Zone AV by the total 2007 school district tax rate.
- Total 2007 Impacted School Revenues – created by summing the four components
- 2009 Total Impacted School District Revenues Zones – derived by multiplying the Total 2009 impacted AV by the total 2009 school district tax rate.

With these amounts calculated for each school district, additional variables were created to assist with further analysis.

- Growth in abatement. This was a calculated by subtracting the abatement in 2007 from the abatement in 2009.

- 2007 Total Assessed Value for each school district – this was drawn from the DESE data base.
- 2009 Total Assessed Value for each school district – this was drawn from the DESE data base.
- Percent Change in Assessed Value – 2007 -> 2009 – this was calculated by subtracting the 2007 total AV from the 2009 total AV and then dividing by the 2007 total AV and converting to a percentage.
- 2007 percent of Assessed Value Impacted – this was a calculation comparing the amount of impacted assessed value to the total assessed value in the district using the data from 2007.
- 2009 Percent of Assessed Value Impacted – this was a calculation comparing the amount of impacted assessed value to the total assessed value in the district using the data from 2009.
- Change in percent impacted – 2007 -> 2009 – this was calculated by subtracting the 2007 percent of AV impacted from the 2009 percent of AV impacted and then dividing by the 2007 percent of AV impacted and converting to a percentage.

From the Department of Elementary and Secondary Education (DESE) data base of core data, I extracted selected information. Again, this had been previously collected by DESE on a district by district basis and my evaluation matrix of information was populated with the district level data.

The first set of information extracted was intended to capture information about the school district community. This data was captured and added to the record in the data base of each school district.

- Total Population of the district – a measure of the size of the community served by each district.
- Urban Population of the district – this is an amount reported by each district as part of its core data report.
- Rural Population of the district – this is an amount reported by each district as part of its core data report.
- Percent of population in the district that was rural. This was calculated by dividing the rural population into the total population and then converting to a percentage. This was created so that the relationship could be scaled rather than using exact student counts.
- Percent of families living in the same house they did 5 years ago
- Percent of families living in the same county as 5 years ago
- Percent of persons below 185% of the poverty level - this was included as an effort to determine the degree of poverty present in each district.
- Median house value
- Average House Value

Then I extracted data from the DESE data base that would be descriptive of the students living in the district. This was also done on a district by district basis.

- Number of students who speak English less than very well
- Number of students that Do Not Speak English
- Percent of students who either speak English less than very well or not at all.

This was a calculated amount. This variable was developed because each of the two previous descriptors identify persons who are likely not from this country

originally or whose family is not likely from this country. The reason that the data is captured by DESE is because there is a differential payment that is given to school districts for their students who are English Language Learners (ELL). It is also a category in the No Child Left Behind legislation that is measured as a separate subgroup. However, in each case, the practice is to combine the two groups into a single subgroup generally designated as ELL students. Also, this variable was scaled by calculating the percent of the student population in a school district that is ELL.

- Percent of students that indicate their race is white in 2010 – this data provides a description of the diversity present in a district.
- Students eligible for free and reduced lunch – this is another measure of poverty. It is determined according to federal guidelines and is a standard measure across all districts in the state and country.
- Percent of students eligible for free and reduced lunch – this was calculated by dividing the number of students eligible by the number of students and converting it to a percentage.
- Average expenditure per pupil in 2010 – this is calculated by the state. The amount does not include expenditures for transportation or for food service.
- Number of students in 2006
- Number of students in 2010
- Percent growth in student population. This was a calculated amount. This was done so there would be the capability to looking at the growth in student population across as broad a range as was available in the DESE data base. Their

range of data was five years, from 2006 to 2010. The amount represents the difference between the student population over the five year span as a percent of the 2006 base. The five year span was the maximum available and was thought to be a better representation of the change in the district than a more restricted two year span.

And finally, I wanted to test the degree to which the local school district was dependent on property taxes, and consider that a proxy for possible sensitivity to the abatement of property taxes.

- Percent locally funded in 2006
- Percent locally funded in 2010

In addition to those considerations, there are other collateral impacts that are not included in this quantitative analysis. These considerations are extremely difficult to measure reliably. The primary cause is that the data is not collected or reported at the county level or the state level. So, to have a full census would involve prohibitive man hours. Secondly, it would require a determination of causality that would be arbitrary at best. However, the capture and reporting of the information reported here advances our understanding significantly.

- **Personal property taxes.** It should be noted that measurement of some of the secondary impacts of these tax abatement efforts could be significant. This inquiry could be part of a subsequent study. In several of the abatements and diversions, the values that are impacted are the real property taxes. There is a corresponding increase in personal property taxes. Since that is not assembled

and reported by the counties, and since this was not part of the scope of this study, there was no attempt to measure this collateral effect.

- **Stimulated non-abated development.** There is also no attempt to measure unabated projects that were stimulated by the execution of the abated projects. There are assertions that adjacent, unabated projects are stimulated, but there is no data available to measure that. Future study could determine the impacts from selected projects that could provide insight.

The Missouri Department of Elementary and Secondary Education maintains a data base which captures the core data for each school district. This includes information such as the number of students, racial makeup of the students, degree of poverty as measured by the percent of students on free and reduced lunch, students per teacher, average daily attendance, breakdown of funding sources, tax rates, graduation rates, assessed value per student, household information and urban/suburban/rural nature of the district. This district information was then added to the data base of tax impacts so there were descriptors appended to each district abatement and diversion record.

Qualitative Data Analysis

Once the data base covering all 524 school districts in Missouri in 2007 and 2009 is assembled, regression analyses were performed that explored relationships to begin to identify disparate applications and impacts of economic development incentives. The dependent variable considered in this analysis was both the abated/diverted assessed value and the change in abated assessed value for a school district over the two year period. Independent variables explored include poverty levels, school district size, the community wealth, the support for the schools, and the urban/rural/suburban character of the district.

Since the data for each school district was captured at two different points in time, a panel analysis will be conducted using the two complete data sets.

The overarching question for this quantitative data analysis is as follows: What are the fiscal impacts of economic development incentives on public education in Missouri and are there any trends? In delving into the research data that is collected, there will be more finite specific inquiry around a several questions:

1. How much decrease in education funding is associated with each type of tax incentive in 2007 and 2009?
2. Was there an increase in the diversion of revenues between the two years and were there patterns of change?
3. Are the financial impacts correlated to school district demographic characteristics like:
 - i. Do urban districts have a greater decrease in funding than rural districts? Is there a different pattern for suburban districts?
 - ii. Do growing districts have a greater decrease in funding than non-growing districts?
 - iii. Do large districts have a greater decrease in funding than small districts?
 - iv. Do students on free and reduced lunch bear more of the burden of these revenue impacts?
 - v. Do districts with high percentages of students from racial or ethnic minorities bear more of the burden of these revenue impacts?

Qualitative Methods

After the completion of the statistical analysis, some relationships emerged. However, these relationships reflected quantitative outcomes, while much information was sought that is qualitative in nature. “Data analysis in qualitative research consists of preparing and organizing the data (i.e., text data into themes through a process of coding and condensing the codes, and finally representing the data in figures, tables, or a discussion”(Creswell, 2007, p. 148). The qualitative research will use a case study methodology but will also draw on elements of phenomenology.

Case study research involves the study of an issue explored through one or more cases within a bounded system (i.e., a setting, a context). . . . Case study research is a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audiovisual material, and documents and reports), and reports a case description and case based themes. (Creswell, 2007, p. 73)

Creswell goes on to further define framing concepts through which case study processes can be carried out. The viewpoints of several people involved with each of two TIF projects were sought and secured. These multiple viewpoints make up the phenomenological aspect of the study, and in fact, were set in a framework of empirical or psychological phenomenology. As Creswell states,

researchers first turn to a phenomenon, an “abiding concern,” which seriously interests them. In the process, they reflect on essential themes, what constitutes the nature of this lived experience. They write a description of the phenomenon, maintaining a strong relation to the topic of inquiry and balancing the parts of the writing to the whole. Phenomenology is not only a description, but it is also seen as an interpretive process in which the researcher makes an interpretation of the meaning of the lived experiences.

Moustakas’s (1994) transcendental or psychological phenomenology is focused less on the interpretations of the researcher and more on a description of the experiences of participants. In addition, Moustakas focuses on one of Husserl’s

concepts, epoch (or bracketing), in which investigators set aside their experiences as much as possible, to take a fresh perspective toward the phenomenon under examination. Hence 'transcendental' means "in which everything is perceived freshly, as if for the first time." (Moustakas, 1994, p. 34)

Moustakas admits that this state is seldom perfectly achieved. However, I see researchers who embrace this idea when they begin a project by describing their own experience with the phenomenon and bracketing out their views before proceeding with the experiences of others. (2007, p. 59)

This qualitative analysis augmented the understandings and insights generated in the quantitative analysis. While the assembly and analysis of the quantitative data for the two selected cases provide one dimension of information, a richer and deeper understanding emerged through augmenting it through an in-depth probe of both specific information and participant interviews conducted on the two selected economic development projects. The additional inquiry has been referred to as "problem finding" by Peshkin (1993):

This class of insights – problem finding – is among the richest of all types of outcomes. To be sure, writers do not always identify their contribution as problem finding, but in recognition of the always incomplete nature of social research, research outcomes that lead usefully to subsequent research are invaluable. (p. 26)

It would be virtually impossible to develop full comprehensive information for the hundreds of projects across the state, so two projects were selected and a case study method of analysis will be applied. From the initial qualitative panel analysis there will be some additional investigative questions emerged. An intensive case study of two TIF projects was developed. The case study methodology involved the review of all of the financial data that can be assembled as well as public information that has been published. From this, some indications of the nature of the dynamics around the establishment and deployment of the TIF projects emerged. Building on the general data analysis and the case-specific data analysis, interviews were conducted with key participants involved with each project to more

fully understand the dynamics that were in place at the time of approval, as well as what has evolved since the project was approved.

Site Selection

Because of the intensive nature of this type of analysis, two projects were identified through purposeful sampling, and they seem to provide adequate insight to augment the quantitative findings. “Purposeful sampling means that the inquirer selects individuals and sites for study because they can purposefully inform an understanding of the research problem and central phenomenon in the study” (Creswell, 2007, p. 125). The purposeful selection was driven by several parameters that are significant in providing varied information. No jurisdiction has approved more TIF projects than the Kansas City TIF Commission, so the projects selected will come from that jurisdiction. Factors that will be used for the purposeful selection are:

1. The project should be significant in scope,
2. The project should be at least 10 years into its development activity, so there will be some longitudinal view of the execution,
3. The project will involve more than one type of development – commercial, residential, industrial, and
4. The projects will be situated in different parts of the city with different blighting conditions.

Based on these criteria, there was sufficient complexity and detail to provide wide-ranging information and explore intricate interactions that would not be present in many TIF projects.

Participant Selection

Interviews were conducted with the key participants who have been involved with each selected project. One of the dynamics for each project is that there are multiple leaders with apparent multiple priorities and motives. The intent of the qualitative analysis in this study was to more fully understand the perspectives as presented by the actors in the creation and approval of the selected projects. For a TIF project there are a number of individuals who have a stake around the development project. So the, boundary for the research is geographic in this case.

The TIF establishes a geographic area for which debt instruments are issued to finance specific public improvements that will presumably enable economic development or redevelopment, usually by installing physical infrastructure that makes a particular project or series of projects possible. “It is assumed that these improvements will engender new private investment so that the expected increase in property tax revenues (i.e., the “increment”) can be captured to amortize the public facility debt” (Klacik & Nunn, 2001, p. 15.) The developer applies for economic development incentives to make a project occur and increase the likelihood of an adequate return on investment for the private investors.

The city and the economic development staff are motivated to be a catalyst for expansion of economic activity in the city. The elected city officials receive the reward of re-election as a result of demonstrating their ability to cause the city to grow. This type of impetus was suggested by Harvey Molotch in his 1976 article about the city as a growth machine.

The desire for growth provides the key operative motivation toward consensus for members of politically mobilized local elites, however split they might be on other issues, and that a common interest in growth is the overriding commonality among important people in a given locale – at least insofar as they have any important local

goals at all. Further, this growth imperative is the most important constraint upon available options for local initiative in social and economic reform. (p. 310)

The school district officials face balancing the need for financial resources to educate new students resulting from development against the temporary loss of increased revenues for a ten to thirty years to enable the project to proceed. These issues will be explored through the interviews conducted as part of each of the two case studies. Persons who were contacted include:

1. The developer
2. The EDC/TIF staff member that was involved
3. City Council representatives to the extent they were involved
4. School district representatives to the extent they were involved
5. Representatives from other taxing jurisdictions
6. Other key players that emerge in the research

Qualitative Data Collection

The first phase of the qualitative data collection involved analysis of written documents and documentation around the approvals of the selected TIF projects. Records were secured from the TIF Commission that document all of the financial projections and project justifications for the initial approval as well as all subsequent amendments. This included information about the projected rate of return for the project, and the cost-benefit analysis that was presented. Maps of the project will be secured to assist in parcel analysis.

Through triangulation of sources, a more complete picture will be sought.

“Triangulation is broadly defined by Denzin (1978: 291) as ‘the combination of methodologies in the study of the same phenomenon’” (Jick, 1979, p. 602). Triangulation

will start with multiple written documents from different authors. The researcher's own experience is integral to the qualitative heuristic and will provide an additional point of information and reference.

The heuristic paradigm makes research user-friendly . . . each one of us, whether we specialize in administration, community organization, treatment or public policy, can and, hopefully, will have a simultaneous identity as a researcher, because each one of us is capable of exercising judgment and creativity in our area of interest so as to advance our knowledge about the important problems that we encounter daily. (Heineman-Pieper, 1989, p. 29)

And the triangulation was augmented through interviews conducted with the key participants in the projects. After obtaining SSIRB approval, these persons were contacted and individual interviews were arranged at a location convenient to them. The interviews lasted one to two hours. A semi-structured interview protocol was used to direct the discussion (see Appendix A for a list of questions included in this interview protocol). Rubin and Rubin (2005) refer to this as:

a concept we call responsive interviewing, an approach that allows a variety of styles yet incorporates what is standard in the field. The term responsive interviewing is intended to communicate that qualitative interviewing is a dynamic and iterative process not a set of tools to be applied mechanically. In this model, questioning styles reflect the personality of the researcher, adapt to the varying relationships between researcher and conversational partner, and change as the purpose of the interview evolves. Responsive interviews begin a project with a topic in mind but recognize that they will modify their questions to match the knowledge and interests of the interviewees. (p. 15)

With the informed consent of the person being interviewed, there will be audio tapes of the interviews were also recorded so the answers can be reviewed later for accurate transcription and coding. This also freed up the researcher to be able to focus on the interview rather than trying to capture all of the salient points in notes. After analysis of the interview, there will be member checking with the interviewee to verify the interview results.

Qualitative Data Analysis

In coding all of the assembled information, a “prefigured” set of categories were identified. Creswell (2007) suggests that “if a ‘prefigured’ coding scheme is used in analysis, I typically encourage the researchers to be open to additional codes emerging during the analysis” (p. 152). Initially, thematic coding was used. “Thematic analysis is a search for themes that emerge as being important to the description of the phenomenon. It is a form of pattern recognition within the data, where emerging themes become the categories for analysis” (Fereday & Muri-Cochrane, 2006, p. 3). My prefigured codes would be:

1. Project schedule. The build-out schedule proposed, build out schedule achieved and contrast, and the reasons for deviations
2. Employment generated. The employment proposed, employment achieved, the contrast and the explanations for the deviations
3. TIF project financing. The projected and realized TIF revenues put back into the project and explanations for the variances
4. TIF revenues generated. The projected and actual use of TIF revenues put back into project and explanations for the variances
5. Stimulated development. The degree of contiguous development in surrounding areas
6. Additional incentives for contiguous development. The amount of development incentives granted to contiguous development

From the coding and the subsequent analysis, answers were sought to four questions which followed on the three quantitative questions.

1. Does the analysis of the two projects support or refute the conclusions that were reached as a result of the data analysis?
2. Does a TIF create a positive financial return for a school district within a thirteen year planning horizon?
3. Does seventy-five percent of contiguous development occurring within 13 years of the establishment of a new TIF project also receive tax subsidies?
4. What is the return on investment to the public investors in the projects?

Limitations in Quantitative Analysis

While the quantitative methodology provides an important view of the fiscal impacts of the economic incentives that has not been assembled before, caution must be used in interpreting the results. In the application for a TIF project, there is a requirement that the developer demonstrate that “But for” the granting of the favorable tax treatment under TIF, the project could or would not be constructed. The impacted revenues that are reported in this study are based on projects that were built.

The city officials argue that the other overlapping taxing jurisdictions are not harmed by TIF, because they still receive the taxes derived from the property tax base at the time that the TIF district was established, and they could benefit from the enhanced tax base upon the completion of TIF projects and retirement of all debts. (Man, 2001, p. 94)

They assert that there is no diversion or abatement of taxes that would be dispersed to schools because the alternative to a tax-diverted TIF project is no construction rather than the alternative being no diversion.

Threats to internal validity were controlled to a great extent. Data collection for Chapter 100 assessments is not subject to the oversight that TIFs, chapter 353 abatements and EEZ projects are. There is no requirement to report Chapter 100 projects to the state Tax

Commission. The amounts of assessed valuations impacted are those that were reported by the specific county. It is anticipated that there will be some cases where the amounts need to be developed by the County Assessor in response to this data request because Chapter 100 properties have not been assessed. Since property acquired with proceeds from Chapter 100 bonds are owned by the issuing government entity, most County Assessors have a practice of not assessing those properties until the ownership reverts to the private sector in 10-20 years. Since there is no state reporting, there is no check on the data. The total assessed valuations of Chapter 100 projects reported may be slightly understated. However, the county assessors' offices were queried directly so this could be minimized.

Some projects receive an abatement that is less than 100%. It is assumed that the amounts that are reported by the county assessor are the assessments for the abated property only and not the total property. That is what was requested and to the extent possible, it is what was verified by matching to the reported values from the state tax commission. The assessed valuation amounts for this study are the actual reported amounts that were impacted in 2007 and 2009 respectively. In a project where there are multiple phases and some phases have not yet started, there is no attempt to estimate or include any future tax collection impact. Similarly, if a project has been approved and construction is under way, but the assessed valuation in 2007 or 2009 was zero, then the future impacted revenues are not reported. Project impacts captured in either year could continue for up to 33 years. Thus, we know that there are additional impacts that will be occurring in years subsequent to the two snapshots. There is no reflection of prospective diverted or abated revenues, only the actual impact within each single year that was studied.

The design of the study measured direct impacts only, and not any secondary impacts. There is great difficulty with measurement of indirect effects, and sometimes it would involve speculation about future developments. Some of the secondary impacts of these tax abatement efforts could be significant and are not captured in the quantitative phase of this study. These could be additional stimulated development that is not subsidized or personal property that occurred with the real property enhancement that was either abated or diverted. These were be probed in the qualitative case studies. The premise of the design is to try to measure actual impacts and not to engage in forecasts or extrapolation.

In several of the abatements and diversions, the assessed values that are impacted are the real property taxes. There is a corresponding increase in personal property taxes. Since the personal property change is not assembled and reported by the counties, and since this was not part of the scope of this study, there was no attempt to measure this collateral effect on a statewide basis in the quantitative phase. Some insight regarding this was be sought in the qualitative analysis.

Some argue that a benefit of granting such economic development incentives is that it stimulates other development that does not require comparable incentive treatment.

Research has found a positive relationship between public infrastructure investment and economic performance. These findings reinforce the belief that reducing business costs by offering tax incentives, financial subsidies, and new and improved infrastructure facilities will attract more businesses to locate and expand in their communities and stimulate economic growth in the entire community. (Man, p. 96)

There is no attempt to measure unabated or partially-abated projects that were stimulated by the execution of the abated projects. There are assertions that adjacent, unabated projects are stimulated, but there is no data available to measure that. Future study

could determine the impacts from selected projects that could provide insight. Some analysis of the secondary impact will be sought in the qualitative analysis.

The amounts of diverted and abated tax revenues studied are those for the school districts only. In addition to the school district, there are other taxing jurisdictions that also draw on property taxes as a primary source of operating revenue. Those include libraries, special fire districts, community colleges, special ambulance districts, senior citizens programs, health departments, mental health programs, and handicapped support programs, as well as others. Whereas the school districts are dependent on property taxes for sixty 60% to 80% of their revenues, library districts tend to be dependent on property taxes for over 95% of their revenues (Ward, 2008b). Some of the other organizations mentioned above are frequently dependent at 90% or greater levels. This research only studies the K-12 school district impacts. If the impact on other non-municipal jurisdictions were reported, the total revenue collection impacts would likely increase more than double the amounts reported here (Ward, 2008a).

Qualitative Research Threats

Safeguards were built into the qualitative project to guard against contamination of the results. The issue of bias must be addressed. The researcher is someone who has been involved in the TIF process for nearly 20 years. That involvement has been from a number of perspectives: TIF applicant, TIF Commission member, director of impacted jurisdiction and member of the executive committee of the board for an economic development agency. Further, the concerns held by the researcher about fiscal impacts are known in the community and were known by all of the subjects who were interviewed. This knowledge base is a valuable asset in gathering and evaluating the materials that went into this research.

It is acknowledged that this researcher must assure that the integrity of the research is preserved, that the responses were not be led by the researcher, and that the data analysis was fair. However, Alan Peshkin (1988) points out that “subjectivity can be seen as virtuous, for it is the basis of researchers’ making a distinctive contribution, one that results from the unique configuration of their personal qualities joined to the data they have collected” (p. 18).

While there is a concern regarding bias on the part of the researcher, there is also a true interest in learning the perspectives of others and that was sought. I believe that there was enough comfort and mutual respect that the interviews were successfully frank and honest. There was no reason for guarded responses to be shared, and it was not perceived that there was any effort on the part of those being interviewed to color the response in an effort to meet anticipated outcomes of the researcher. Kleining and Witt (2000) suggest that here are four rules that are basic to qualitative heuristic research. The first is that the “the research person should be open to new concepts and change his/her preconceptions if the data are not in agreement with them.” (p. 2). And they go on to suggest that the second rule is that “the topic of research is preliminary and may change during the research process” (p. 3). That heightens the importance of careful listening. Efforts will be made to check conclusions being drawn from the interview with the subject to assure good conclusions. The benefit of the extended involvement of the researcher is that many of the issues and dimensions of this rather complex process are well known to the researcher.

Through triangulation, it is expected that there will be some check on the validity of the interview observations. The researcher has been an applicant, a participant and an observer in the process for about twenty years. Further, there will be both the quantitative

research described earlier and the specific document research associated with the case studies. Finally, the interviews will be conducted with multiple participants in each project. And, the information that is drawn from the interviews will be member checked with each respective interviewee to increase the validity of the interview analysis. The combination of these perspectives should provide good triangulation. The data analysis will be part of the material presented in the interviews for comment by the interviewee. The person being interviewed will be asked to provide a member check through presentation of the results of the researcher's notes and conclusions to assure their validity.

Steps were taken to assure reliability of the qualitative research. The first way it was addressed is through the careful efforts to assure that valid information was captured and reported and then the verification through triangulation of data sources, peer examination and investigator's position. An audit trail was maintained through careful notes by the researcher as well as the audio recordings of the interviews. There was no intent, nor was there any effort to extrapolate from the case studies since most of the statewide implications will come from the quantitative analysis. By its nature, qualitative research is designed to understand the rationale and actions that are not easily quantified, such as the reasons why certain events or filings occurred. It is intended to provide a depth of understanding and in this case, as in many, the information cannot be generalized to represent the whole. Such generalizations are not supported by the methodology. However, the case studies addressed more of the dynamics of the process rather than just the dimensions of the relationships.

CHAPTER 4

RESULTS

The methodology for this research study to examine economic development incentives in Missouri and their impact on financing for public education yielded both qualitative and quantitative results. The quantitative results will be broken into two sections – the first of those will be descriptive statistics that provide an overview of the nature and extent of the abated or diverted amounts in each county and each school district in Missouri. The second set of quantitative results will delineate any significant correlations between the tax impacts and the characteristics of the school districts involved as well as assessing the relationships through multiple regressions. As proposed in the methodology section, the overarching question for this quantitative data analysis is as follows: What are the fiscal impacts of economic development incentives on public education in Missouri and are there any trends? In delving into the research data that are collected, there will be more finite specific inquiry around several questions:

1. How much decrease in education funding is associated with each type of tax incentive in 2007 and 2009?
2. Was there an increase in the diversion of revenues between the two years and were there patterns of change?
3. Are the financial impacts correlated to school district demographic characteristics such as:
 - i. Do urban districts have a greater decrease in funding than rural districts? Is there a different pattern for suburban districts?

- ii. Do growing districts have a greater decrease in funding than non-growing districts?
- iii. Do large districts have a greater decrease in funding than small districts?
- iv. Do students on free and reduced lunch bear more of the burden of these revenue impacts?
- v. Do districts with high percentages of students from racial or ethnic minorities bear more of the burden of these revenue impacts?

The qualitative findings related to the two TIF projects selected for this study will be explored following the quantitative results. The themes that emerged from the case study interviews and document analysis will be reported. Subsequently, conclusions will be drawn from the research presented.

Quantitative Findings

Quantitative Data Considerations

Quantification of the impact of the current economic incentives on public education was undertaken in the manner laid out in the methods section. The objective was to address the fundamental question, “What is the assessed value of property for which taxes are either being abated or diverted through the use of economic development incentives in Missouri, and what are the calculated fiscal impacts associated with them?”

The data that are assembled begins to create a picture of the reality of the revenue impacts of current economic development policy. As described in the methodology section, it is reported in the most conservative manner. The study also presents the actual current impacts and refrains from creating or including any projected impacts.

Quantitative Descriptive Statistics

The information that was gathered from the county assessors was tabulated for summary evaluation and also for statistical analysis. In this section the summary of the tabulation will be presented and the observations drawn from those data. The first information to be garnered was the overall impact across the state.

Overall impact. An assessment of the size of the effect was developed to look at its materiality. In this analysis, the data divided between the four types of economic development tools, to determine the relative impact and significant differences in their growth patterns. Those results are reported in Table 2. The amounts that were determined were indeed material. When the impacted assessed valuation was multiplied by the relevant tax rate in 2007, the total impacted revenue for school districts across the State of Missouri was \$140 million. Additional impacts were felt by the other taxing jurisdictions that receive revenues from property taxes. The same data collection was done for 2009.

Indeed, the amount of assessed value that was being impacted through the use of economic development incentives has gone up by 19.7% over the two years between 2007 and 2009, while the increase in total assessed value in the state only increased by 14.2%. In 2007, every student in Missouri would have had the resources for their education reduced by more than \$155, and by 2009 it was over \$180. The older instruments are the 353 abatements and the Enterprise Zones that are being replaced with Enhanced Enterprise Zones. In numerous instances, these old instruments are phasing off of the books. They have run their course of 10, 15, 25 years. In spite of this, the net change from 2007 to 2009 is still an increase as these continue to be used in some instances. Also, there are developers

Table 2

Total State of Missouri Diversions/Abatements – Assessed Valuations and Fiscal Impacts

Tax Incentive	2007		2009	
	AV	Impact	AV	Impact
Incremental TIF	\$1,623,507,000	\$78,285,000	\$1,726,579,000	\$83,891,165
353	715,721,000	31,359,000	891,706,000	38,323,715
Chapter 100	336,108,000	14,539,000	614,292,000	23,867,000
EEZ	357,747,000	14,112,024	398,610,000	15,754,000
Total	3,033,082,000	139,822,000	3,631,186,000	161,835,000
Total per student		\$ 155.22		\$181.40
Percent per student		1.8 %		1.9 %

Note.

-\$ per student calculated by dividing impact by number of Missouri students reported by Department of Elementary and Secondary Education (DESE)

-Percent per student calculated by dividing the total per student by the average revenue per student reported by DESE

that find the attributes of these tools to be more attuned to what they are really seeking with their project.

Impact by county. Having looked at the overall impact and deciding that it was significant, further exploration to determine the impact at the county level was undertaken. It was explored to see if there was any significant characteristics that would emerge.

The information was displayed in Figure 1 to show the dispersion across the state. It can be seen that the occurrence of the impacts is focused around population centers where there is generally the greatest assessed valuation. These data represent the amount of assessed value that is being impacted, and does not make an attempt to correlate it to the total assessed value in the county or to develop a percentage of abatement by county. In 2007, 73 of the 115 counties in Missouri had an impact from at least one project. In 2009, 75 of the 115 counties in Missouri had an impact from at least one project. There are additional counties that have projects underway, but they have not been completed or assessed yet. In

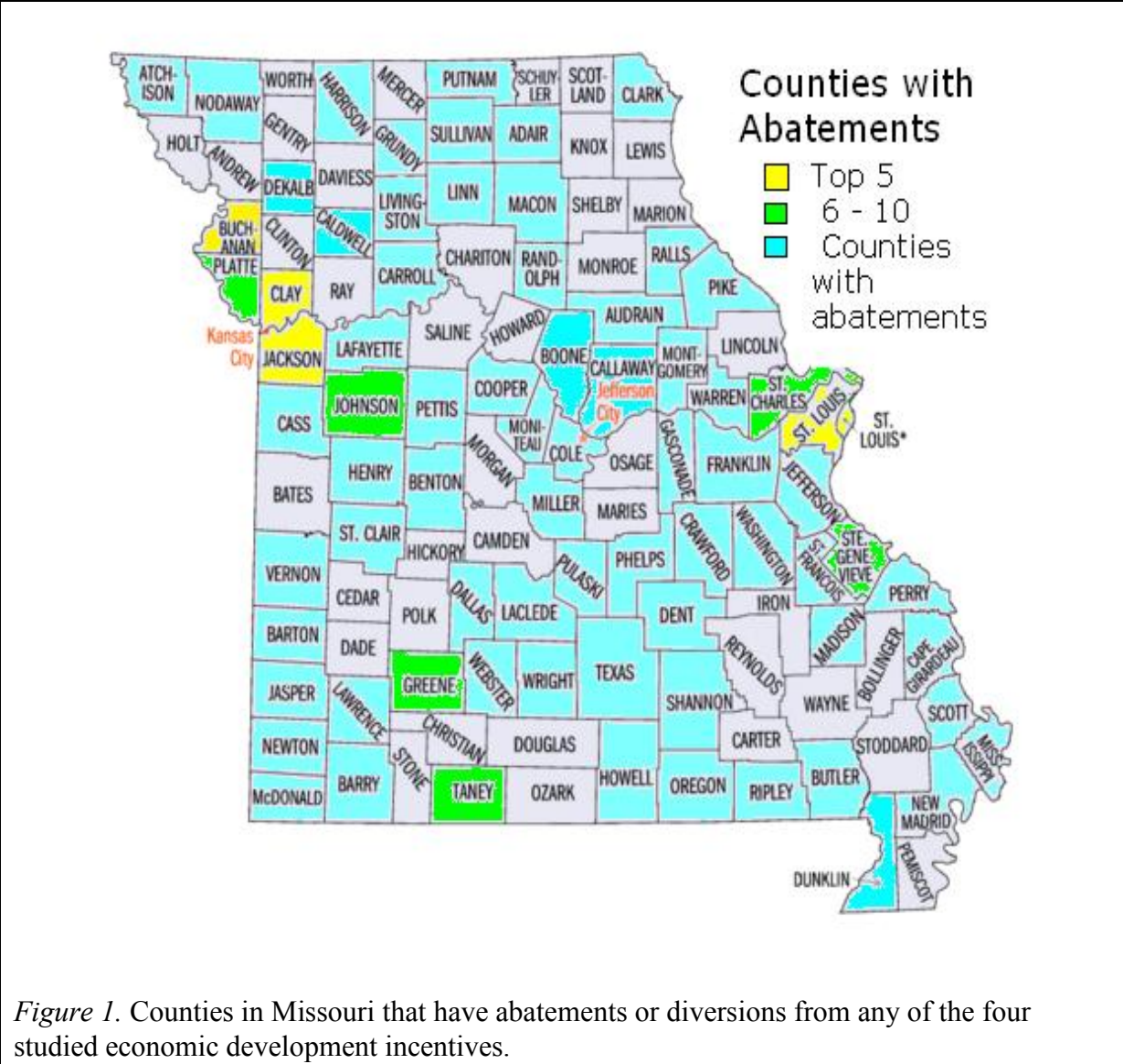


Figure 1. Counties in Missouri that have abatements or diversions from any of the four studied economic development incentives.

the research, there was also anecdotal information about several significant new Chapter 100 projects that will be coming on line. So, not only was the amount of impact increasing, the dispersion was increasing.

Then the data was sorted and the counties with the highest impact were selected (see Table 3). Again, they generally match the large population centers, but there are a couple of noteworthy surprises. Ste. Genevieve has a large Chapter 100 project that was constructed. It

Table 3

Total Tax Abatement and Diversions by County (Top 10 in 2009)

County	2007		2009	
	AV	Impact	AV	Impact
Jackson	\$750,390,000	\$43,001,000	\$910,903,000	\$46,842,000
St. Louis City	423,763,000	15,905,000	683,505,000	25,992,000
St. Louis County	587,367,000	29,990,000	432,388,000	22,025,000
Clay	268,383,000	15,351,000	305,519,000	17,522,000
Buchanan	103,841,000	4,081,000	226,154,000	9,007,000
Ste. Genevieve	5,983,000	191,000	216,041,000	6,905,000
St. Charles	276,543,000	12,166,000	168,205,000	7,407,000
Taney	25,435,000	992,000	53,340,000	2,082,000
Johnson	0	0	50,000,000	2,190,000
Platte	66,903,000	3,402,000	47,580,000	2,442,000

was a new concrete plant, and over \$1 billion in Chapter 100 bonds were issued for its construction. In Johnson County there was also a significant Chapter 100 project which raised its total into the top ten. Taney County is where Branson, Missouri is located, and while the population is low, there is major entertainment investment there and a major TIF was put in place that created a hotel and retail center.

Impact by school district. Having looked at the breakdown in impact by county, the impact by school district was the next layer of investigation. Not surprisingly, the school districts showed up in the counties with the high amounts. The only slight surprise was that St. Louis County dropped out of the top five. This is driven by the fact that while they have a high total for the county, it is actually dispersed across a number of school districts such that none is really in the top five. It is replaced in the top five by Ste. Genevieve, where all of the impact is in one school district.

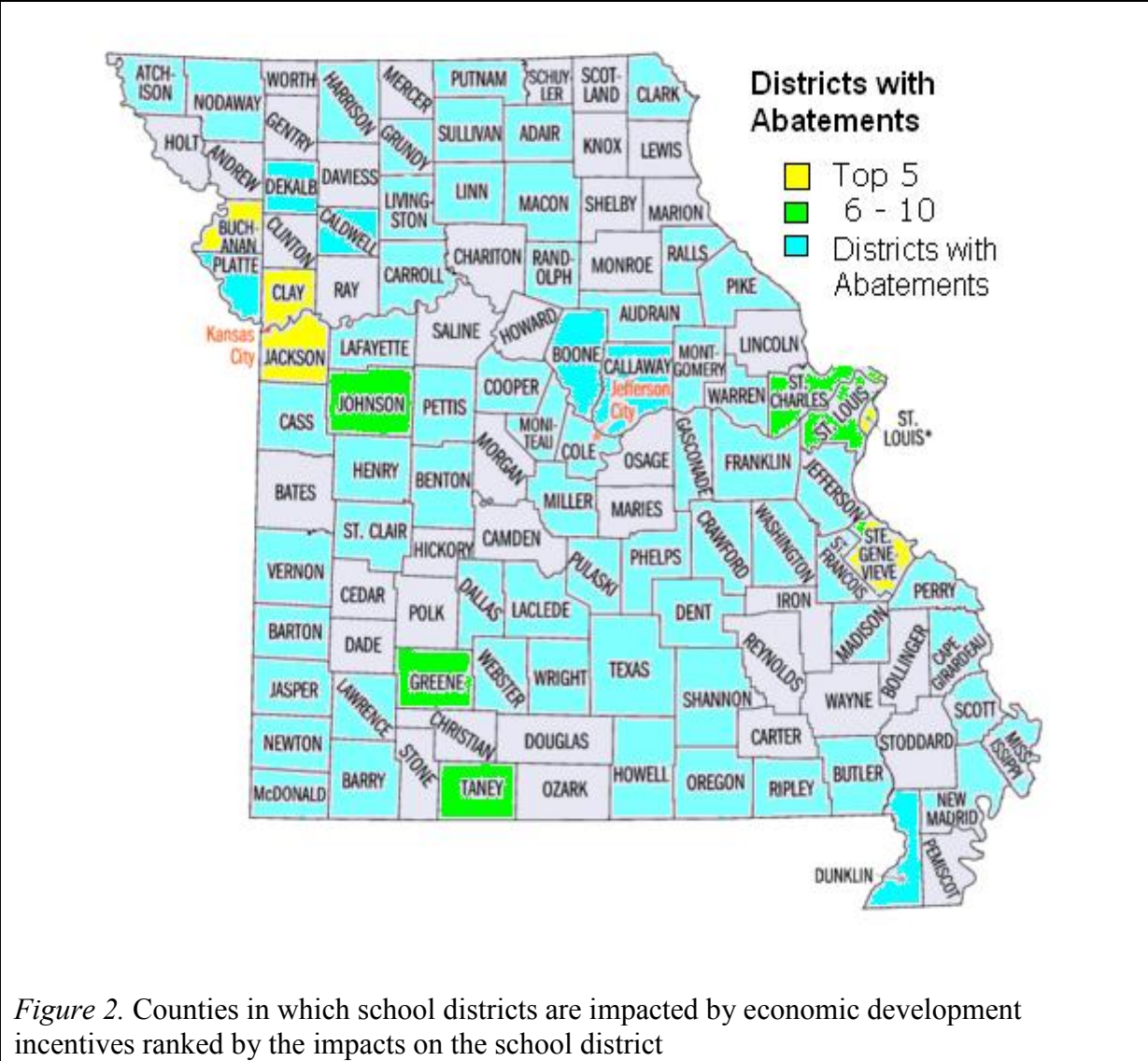
Table 4 and Figure 2 delineate those districts that are among the top ten in the state out of the 524 school districts in the State of Missouri. The ten districts listed account for over 60 per cent of all of the impacted amounts in Missouri.

Table 4

Total Tax Abatement and Diversions by School District – Top Ten

School District	2007		2009	
	AV	Impact	AV	Impact
St. Louis City	\$423,763,000	\$15,905,000	\$ 683,504,840	\$25,892,000
Kansas City	657,911,000	32,567,000	639,354,000	31,648,000
St. Joseph	103,842,000	4,081,000	226,154,000	9,001,000
St. Genevieve	5,483,000	191,000	216,041,000	6,905,000
No. Kansas City	151,046,000	8,896,000	173,914,000	10,243,000
Blue Springs	92,512,000	4,986,000	131,998,000	7,300,000
Liberty	99,376,000	5,605,000	114,743,000	6,472,000
Ft. Zumwalt	44,236,000	1,937,000	71,443,000	3,130,000
Lindberg	53,802,000	2,188,000	64,379,000	2,618,000
Hazelwood	75,451,000	4,869,000	64,031,000	4,302,000

TIF diversion impacts by school district. Digging a little deeper into the data, the final layer of descriptive data analysis will look at the impacts of each of the four incentives by school district. There are a number of factors that tend to influence the selection of a particular tax incentive. TIF is the newest of the incentives, and it is the most flexible. In contrast the Chapter 353 is the abatement that has been around the longest. There are advantages and disadvantages to developers from each of the incentives, so the developer's preference and needs will impact the use. Usually there are economic development professionals working for the granting cities and counties, and they may have a bias to one over the other. And there are political biases that may have an impact. For instance,



St. Louis City prefers to use Chapter 353 rather than TIF and Kansas City has had the opposite bias.

As shown in Table 2, nearly half of the incentives in Missouri are TIFs. The growth between 2007 and 2009 occurred in spite of a major TIF in St. Louis County coming to an end and released about \$160 million in assessed value from having the taxes diverted. Table 5 reflects the ten districts that are most impacted by TIF diversions in 2009, and their

corresponding impact from 2007. Figure 3 shows the dispersion of the TIF impacted district throughout the state. The three top five are concentrated in three counties.

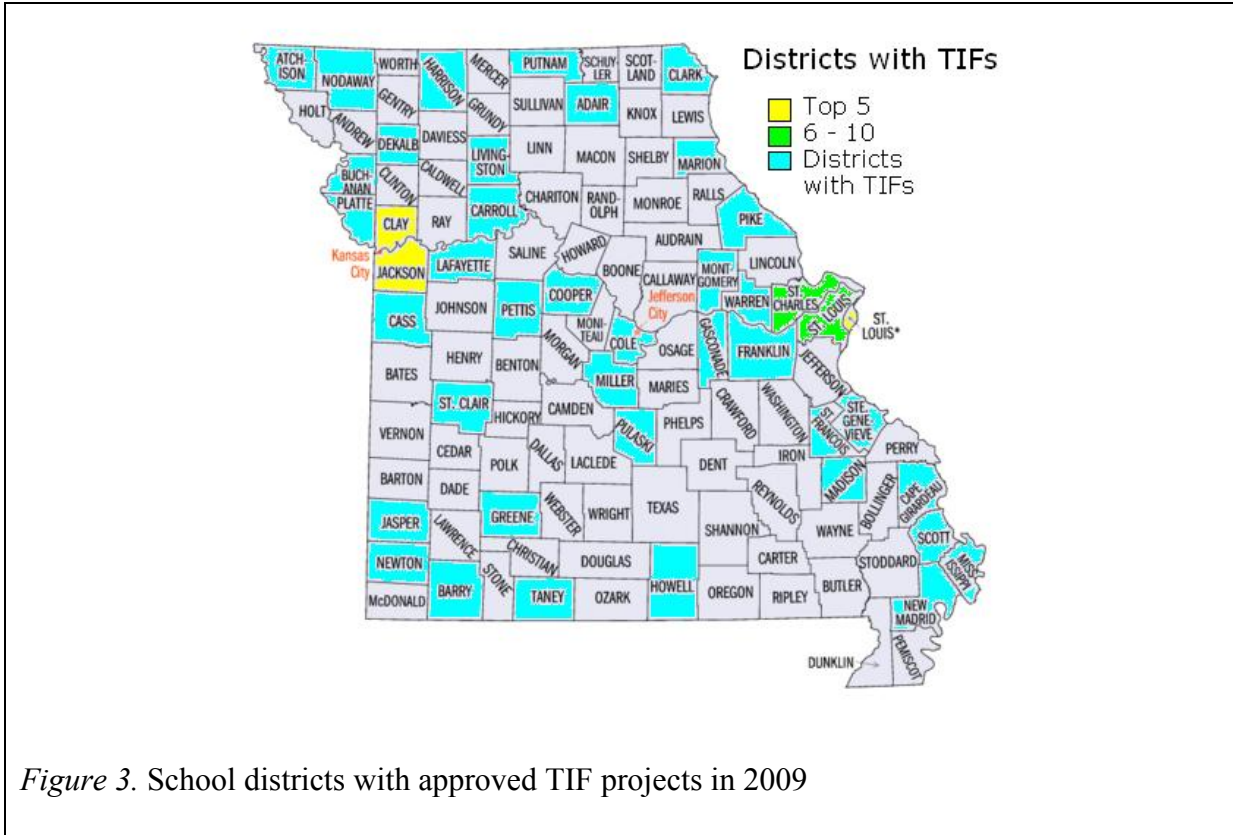


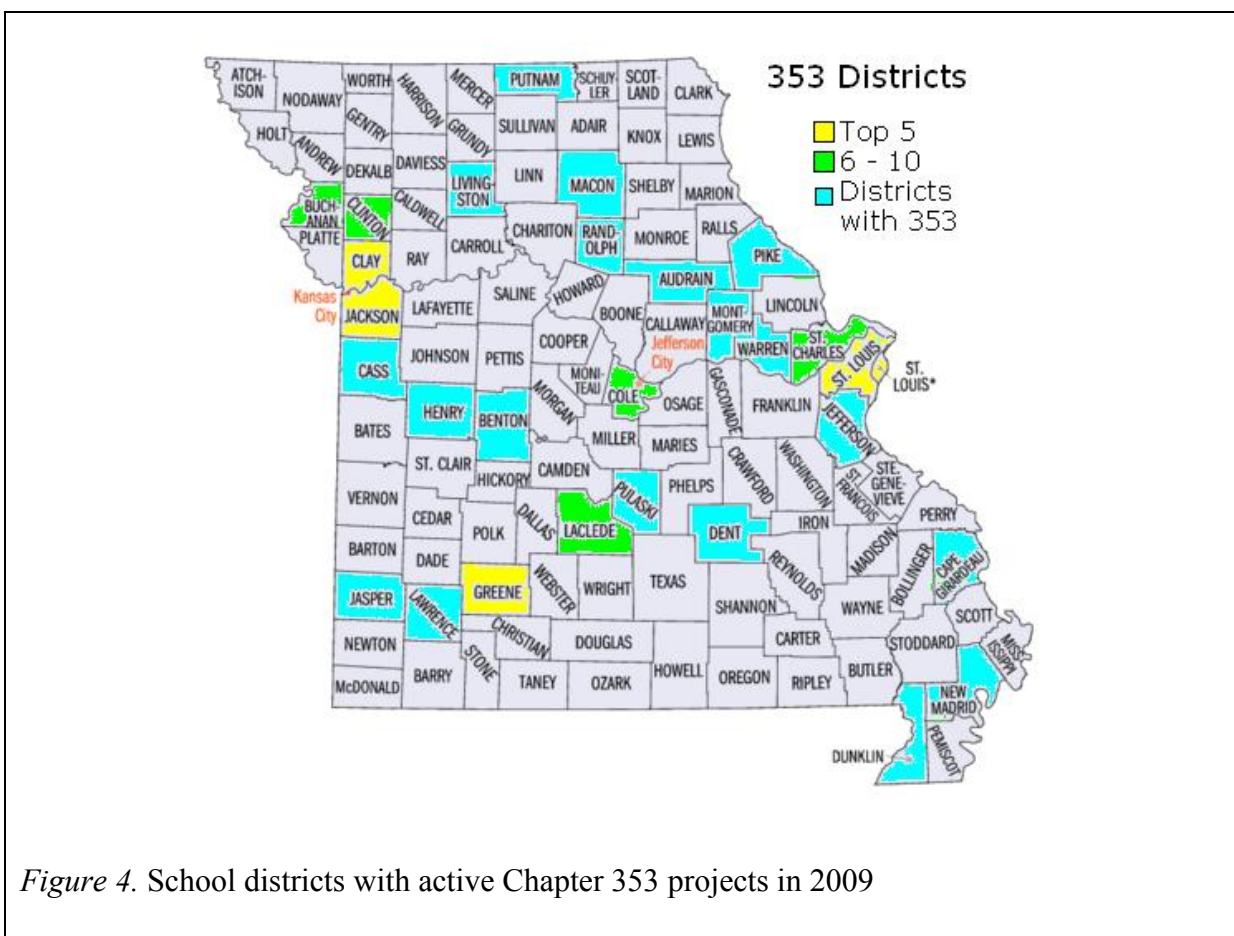
Figure 3. School districts with approved TIF projects in 2009

Table 5

Top Ten School Districts – Assessed Valuations and Fiscal Impacts of TIF Diversions

School District	2007		2009	
	AV	Impact	AV	Impact
Kansas City	\$289,487,000	\$14,330,000	\$301,991,000	\$14,949,000
St. Louis City	91,422,000	3,431,000	167,912,000	6,385,000
Blue Springs	86,731,000	4,674,000	126,642,000	7,004,000
Liberty	99,376,000	5,605,000	114,743,000	6,472,000
No Kansas City	92,894,840	5,471,000	104,691,000	6,166,000
Lindberg	53,802,000	2,188,000	64,219,000	2,612,000
Hazelwood	70,483,000	4,548,000	57,612,000	3,871,000
Lee’s Summit	32,447,000	1,902,000	51,670,000	3,015,000
Orchard Farm	47,523,000	2,103,000	51,133,000	2,280,000
Ft. Zumwalt	44,168,000	1,934,000	49,579,000	2,172,000

Chapter 353 abatements by school district. The second most prevalent incentive is Chapter 353 abatement. This also represents a growing source of abatement. The greatest influence is St. Louis city, that prefers 353 over TIF, and drives this category with an increase in impacted assessed value of nearly \$200 million. This dispersion is shown in Table 4. The results for the top ten impacted school districts are shown in Table 6. 90 percent of all of the 353 abatements occur in the top 5 school districts.



Chapter 100 abatements by school district. The third most prevalent incentive is Chapter 100 bonding. This is not a frequently used vehicle and is generally used only for

Table 6

Top Ten School Districts – Assessed Valuation and Fiscal Impacts of 353 Abatements

School District	2007		2009	
	AV	Impact	AV	Impact
St. Louis City	\$283,935,000	\$10,657,000	\$468,615,000	\$17,821,000
Kansas City	314,738,000	15,580,000	301,717,000	14,935,000
No Kansas City	11,534,000	679,000	17,631,000	1,038,000
Springfield	8,802,000	319,000	16,154,000	585,000
Independence	10,863,000	542,000	12,294,000	625,000
Jefferson City	6,973,000	256,000	8,112,000	298,000
Lebanon	4,974,000	160,000	5,644,000	182,000
St. Joseph	1,881,000	74,000	5,577,000	222,000
Blue Springs	5,781,200	312,000	5,356,000	296,000
Raytown	4,194,000	195,000	4,595,000	254,000

major projects where all of the negotiations with the city and the creation of a bond issue and its issuance have sufficient payoff to justify the effort. They involve very specific investments because they are the collateral for the bonds and they are isolated to one project and one owner. Again, they are very concentrated with over half of the bonds having been issued in the top five school districts (see Table 7). Frequently these are actions that may not be known to the county assessor. They are issued by a city and do not go onto the property tax rolls until the bonds are paid off. Many county assessors do not expend the effort to assess the property or equipment that is covered by the bonds until the end of the twenty year period for bond retirement. In talking with a number of the rural assessors, they were not even aware of the tool, and it is not likely they will encounter it, unless there is a major, unique project that is sited in their county. Figure 5 shows their dispersion around the state.

Table 7

Top Ten School Districts – Assessed Valuation and Fiscal Impacts of Chapter 100 Abatements

School District	2007		2009	
	AV	Impact	AV	Impact
St. Genevieve	0	0	\$210,933,586	\$6,742,000
St. Joseph	24,689,000	970,000	60,691,000	2,415,000
Bowling Green	31,360,000	1,026,000	31,360,000	1,024,000
Carrollton	0	0	28,373,000	1,337,000
Kansas City	42,565,000	2,107,000	27,040,000	1,338,000
Wentzville	86,783,000	3,775,000	25,702,000	1,117,000
Ft. Zumwalt	0	0	21,797,000	955,000
No. Kansas City	0	0	21,678,000	1,227,000
Pattonville	21,273,000	802,000	15,577,000	589,000
Parkway	4,558,000	201,000	15,415,000	679,000

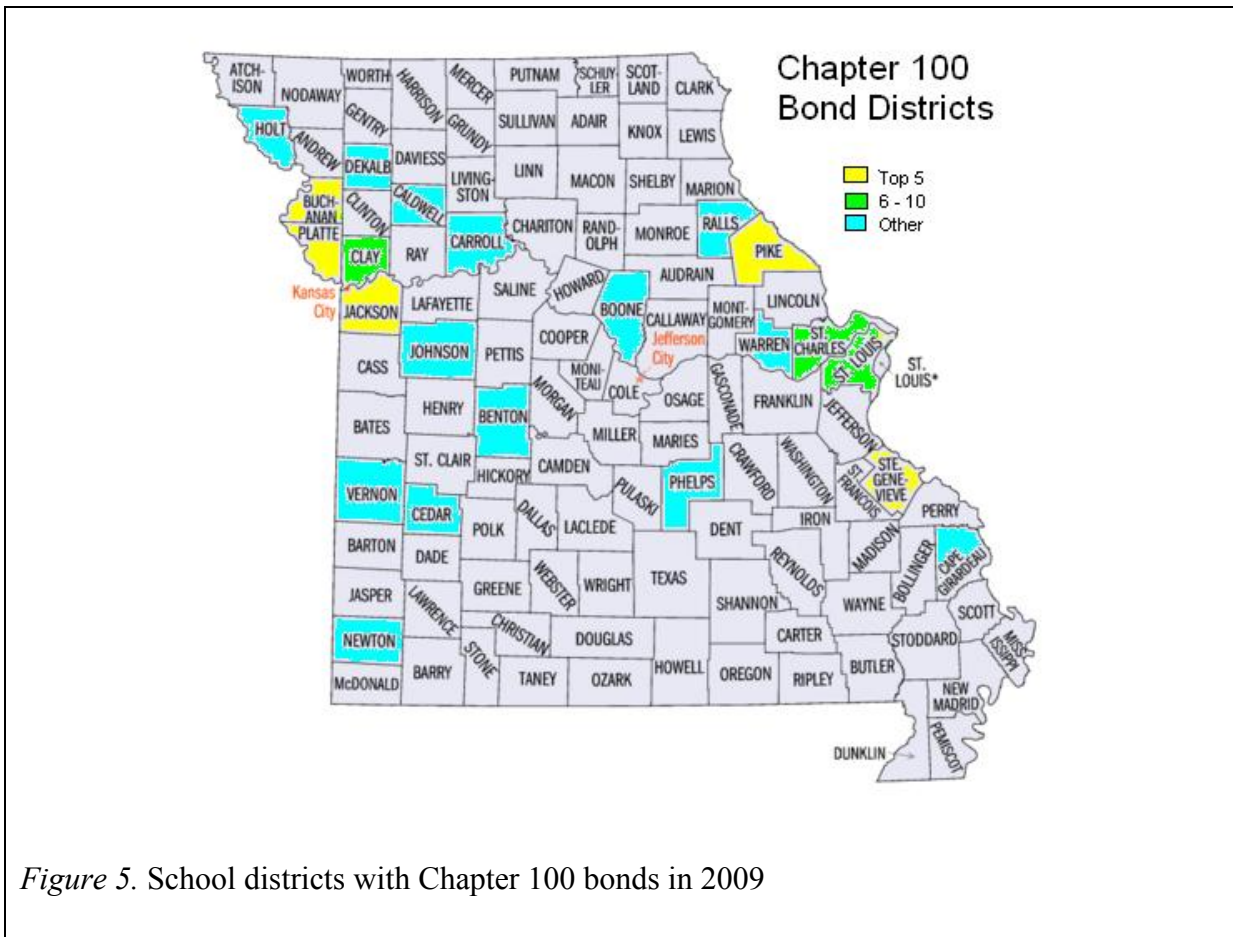


Figure 5. School districts with Chapter 100 bonds in 2009

The Missouri Tax Commission does not even capture the data on Chapter 100 financing and it is safe to assert that it is not subject to state oversight. In fact, many county assessors indicated that the only way to get the information was to call the cities that had done the financing because it was not captured anywhere at the county level.

Many cities don't worry a lot about the Chapter 100 commitments because the bonds are collateralized and not considered on their balance sheet. So it is viewed by the cities as a relatively low risk endeavor. They may forego a little property tax, but they get all of the economic activity as well as other taxes like sales taxes or earnings taxes that are generated from the project. Counties seldom are concerned, since they don't have to do anything until the bonds are paid off, and they frequently gain the same benefit from economic activity taxes.

The amount of property covered with Chapter 100 bonds increased by over 50 percent over the two years. This was driven to a great extent by the concrete plant that was constructed in Ste. Genevieve.

Enhanced enterprise zone abatements by school district. The least frequently used incentive is Enhanced Enterprise Zones. However, when the economy starts to grow, their use is likely to increase. There are a few counties that have started creating Enterprise Zones and have them in place so they can use them to recruit new business. If the Zone is in place, then authorizing the use of the zone incentives for a business locating in the zone can be done as an administrative authorization. One county has even gone so far as to approve the entire county as an Enterprise Zone. Now, the authorization of the zone does not create any new abatement, that will be done on a project basis when specific development occurs.

Figure 6 shows the current dispersion of districts impacted by Enterprise Zones, and Table 8 shows the ten districts that have the largest impact in 2009.

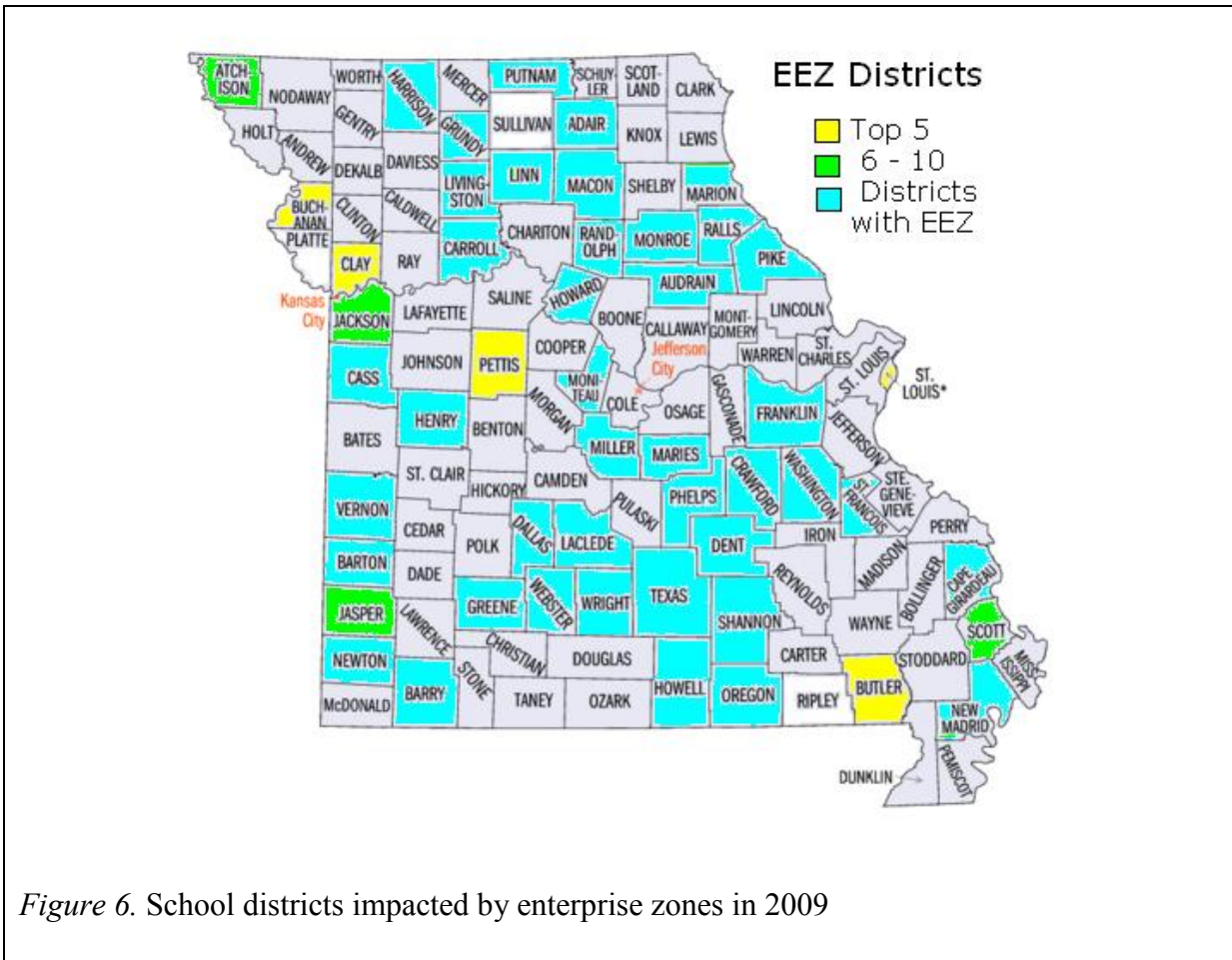


Figure 6. School districts impacted by enterprise zones in 2009

The overarching question for this quantitative data analysis is as follows: What are the characteristics of the fiscal impacts of economic development incentives on public education in Missouri and are there any trends? In delving into the research data that is collected, there will be more finite specific inquiry around a several questions.

Table 8

Top Ten School Districts – Assessed Valuation and Fiscal Impacts of EEZ Abatements

School District	2007		2009	
	AV	Impact	AV	Impact
St. Joseph	\$39,052,000	\$1,535,000	\$110,726,000	\$4,407,000
St. Louis City	48,406,000	1,817,000	46,977,000	1,786,000
Poplar Bluff	13,939,000	408,000	35,975,000	1,054,000
No. Kansas City	46,613,000	2,745,000	29,914,000	1,762,000
Sedalia	9,783,000	369,000	19,968,000	764,000
Sikeston	10,588,000	364,000	10,618,000	413,000
Tarkio	0	0	8,696,000	320,000
Kansas City	11,121,000	550,000	8,605,000	426,000
Excelsior Springs	9,825,000	468,000	8,335,000	405,000
Avilla	0	0	8,097,000	290,000

First, the following two questions have been explored in the impact analysis that was just presented:

1. How much decrease in education funding is associated with each type of tax incentive in 2007 and 2009?
2. Was there an increase in the diversion of revenues between the two years and were there patterns of change?

Yes, there are significant impacts on resources that could potentially support public education in Missouri and there was a significant increase between 2007 and 2009. Further statistical analysis will flesh out the answers to the other questions which were posed in the methodology section, namely:

1. Are the financial impacts correlated to school district demographic characteristics such as:

- i. Do urban districts have a greater decrease in funding than rural districts? Is there a different pattern for suburban districts?
 - ii. Do growing districts have a greater decrease in funding than non-growing districts?
 - iii. Do large districts have a greater decrease in funding than small districts?
 - iv. Do students on free and reduced lunch bear more of the burden of these revenue impacts?
 - v. Do districts with high percentages of students from racial or ethnic minorities bear more of the burden of these revenue impacts?
2. Is there a descriptive model which describes the factors contributing to the impacted assessed valuation of the studied tax incentives?

To get a better understanding of the characteristics of the school districts in Missouri looked at the dispersion of school districts by size of enrollment, broken down by decile (see Table 9). It was judged that number of students was a good representation of district sizes. Just to verify that there weren't major disruptions, the total population of the districts was also captured and reviewed.

Additional analysis was done for the purpose of increasing an understanding of the makeup of the districts in Missouri (see Table 10). This verified some of the common understandings. For instance over sixty percent of the districts are reported as 100% rural in their makeup. Over 65% of the school districts in Missouri lost student population between 2005 and 2010. While about half of the districts in Missouri have 5% or less of their population that are classified as ELL, the other half has more than that, going up to about 40

% . Over 95% of the districts experienced some level of growth in assessed valuation, ranging from less than 3% up to over 26%.

Table 9

Decile Breakdown of Student Population of School Districts in Missouri

		District Size - 2010	
		Students	Total Population
Minimum		22	303
Maximum		25,046	348,189
Deciles	10	116	833
	20	209	1,331
	30	292	1,939
	40	419	2,671
	50	610	3,627
	60	764	4,720
	70	1,165	6,798
	80	2,014	11,242
	90	4,099	22,552

Table 10

Breakdown District Characteristics of School Districts in Missouri

	District Characteristics			
	% Rural	Percent ELL	Student Growth	AV Growth
Minimum	0	0	-94.82	-9.83
Maximum	100	41.253	1383.52	182.12
Percentiles	5	0.38	-22.9049	2.9349
	10	13.92	-15.6604	4.6088
	15	27.3	-12.5909	5.4103
	20	36.51	-10.522	6.3038
	25	51.42	-9.0448	6.9482
	30	63.72	-7.8127	7.5082
	35	93.82	-6.7283	8.1052
	40	100	-5.3825	8.7303
	45	100	-4.5325	9.6898
	50	100	-3.3794	10.5591
	55	100	-2.2097	11.5272
	60	100	-1.0363	12.2801
	65	100	-0.0043	13.0614
	70	100	1.434	13.8952
	75	100	2.286	15.2391
	80	100	3.8561	16.4975
	85	100	5.5081	18.192
	90	100	10.1795	20.0427
	95	100	21.115	25.9116

Then some of the data about districts and the characteristics of their impacted AV was assembled (see Table 11). Observations from a review of that data include:

1. There was only a changed impact percentage in about 35% of the districts, with roughly equal numbers increasing and decreasing.
2. 8% of the districts had a decline in % of AV impacted greater than 1% and about 6.1% had an increase in % AV impacted greater than 1%

3. 70% of the districts had no AV impact in 2009. 10% had less than 1% impact.
6.9% (37 districts) had more than a 5% impact.

Table 11

Decile Breakdown of Assessed Valuation Characteristics of School Districts in Missouri

District Data with AV Information						
		Student Growth	AV Growth	Impacted 2007 Percent	Impacted 2009 Percent	Delta Impact Percent
Minimum		-94.82	-9.83	0	0	-27.07
Maximum		1383.52	182.12	45.31	71.57	69.22
Percentiles	10	-15.6604	4.6088	0	0	-0.4073
	20	-10.522	6.3038	0	0	0
	30	-7.8127	7.5082	0	0	0
	40	-5.3825	8.7303	0	0	0
	50	-3.3794	10.5591	0	0	0
	60	-1.0363	12.2801	0	0	0
	70	1.434	13.8952	0	0.0332	0
	80	3.8561	16.4975	0.8747	1.0441	0
	90	10.1795	20.0427	3.7845	3.4013	0.3806

Having developed an understanding of some of the characteristics of the districts in Missouri, the next step was to produce an intercorrelation matrix for all the variables analysis was around the correlations and colinearity that was present with the analysis variables that had been identified (see Table 12).

Table 12

Intercorrelation Matrix for All Analysis Variables

PEARSON CORRELATIONS

	TOTAL Impacted AV 2007	Tax Rate 2007	Total Abate 2007	TOTAL Impacted AV 2009	TOTAL ABATE 2009	2009 Tax Rate	AV 2007	AV 2009	Total Persons (Sample Est) 2000	% Rural
TOTAL Impacted AV 2007	1	.146	.991	.919	.945	.141	.652	.629	.763	-.299
Tax Rate 2007		1	.172	.107	.144	.976	.224	.221	.205	-.207
Total Abate 2007			1	.883	.932	.189	.639	.815	.733	-.298
TOTAL Impacted AV 2009				1	.987	.105	.599	.573	.767	-.275
TOTAL ABATE 2009					1	.142	.609	.578	.763	-.298
2009 TAX RATE						1	.215	.210	.199	-.286
AV 2007							1	.998	.923	-.547
AV 2009								1	.908	-.543
Total Persons (Sample Est)									1	-.640
% Rural										1
% Lived in Same House 5 Yrs										
% Lived in Same County 5										
% Persons below 18% of										
Average House Value										
race- white % 2010										
Students eligible for free and										
avg expenditure per mile 2010										
% locally funded 2010										
number of students 2006										
number of students 2010										
StudentGrowth										
AVGrowth										
Impact Growth										
Percent Impact 2007										
Percent Impact 2009										
Delta Impact Percent										
Percent ELL										

Table 12
Page 1 of 3

PEARSON CORRELATIONS

	% Lived in Same House 5 Yrs Ago	% Lived in Same County 5 Yrs Ago	% Persons <185% of poverty	Average House Value	race- white % 2010	eligible for free and reduced lunch	avg expenditure per ada 2010	% loc 2010	number of students 2006	number of students 2010
TOTAL Impacted AV 2007	-.054	-.037	-.087	.147	-.170	.474	.184	.200	.684	.583
Tax Rate 2007	.001	-.017	-.399	.144	-.193	.139	.336	.288	.244	.258
Total Abate 2007	-.052	-.036	-.099	.151	-.162	.428	.181	.202	.670	.578
TOTAL Impacted AV 2009	-.047	-.018	-.067	.097	-.153	.511	.179	.173	.651	.540
TOTAL ABATE 2009	-.049	-.020	-.071	.105	-.154	.482	.181	.179	.661	.566
2009 TAX RATE	.005	.015	-.402	.125	-.199	.136	.306	.270	.236	.248
AV 2007	-.093	-.135	-.342	.482	-.256	.428	.147	.465	.941	.924
AV 2009	-.093	-.138	-.350	.497	-.256	.422	.147	.473	.931	.918
Total Persons (Sample Est)	-.097	-.125	-.230	.309	-.260	.542	.128	.328	.960	.903
% Rural	.179	.238	.290	-.421	.352	-.300	-.045	-.360	-.600	-.621
% Lived in Same House 5 Yrs	1	.249	-.012	-.091	.049	-.055	.005	-.061	-.114	-.120
% Lived in Same County 5		1	.039	-.264	.014	-.036	.017	-.074	-.158	-.181
% Persons below 185% of			1	-.641	.156	-.132	-.095	-.549	-.305	-.351
Average House Value				1	-.258	.160	.018	.585	.369	.408
race- white % 2010					1	-.488	-.141	-.265	-.243	-.233
Students eligible for free and avg expenditure per ada 2010						1	.105	.173	.460	.391
% locally funded 2010							1	.197	.073	.035
number of students 2006								1	.337	.359
number of students 2010									1	.983
StudentGrowth										
AVGrowth										
Impact Growth										
Percent Impact 2007										
Percent Impact 2009										
Delta Impact Percent										
Percent ELL										

Table 12
Page 2 of 3

PEARSON CORRELATIONS

	StudentGro wth	AVGrowth	Impact Growth	Percent Impact 2007	Percent Impact 2009	Delta Impact Percent	Percent ELL
TOTAL Impacted AV 2007	-.023	.002	-.035	.415**	.240**	-.012	.179
Tax Rate 2007	-.023	.051	-.069	.066	.048	.009	.086
Total Abate 2007	-.022	-.002	-.035	.407**	.231**	-.016	.174**
TOTAL Impacted AV 2009	-.024	-.008	-.007	.371**	.390**	.173**	.159**
TOTAL ABATE 2009	-.024	-.015	-.014	.362**	.363**	.138**	.173**
2009 TAX RATE	-.025	-.072	-.055	.071	.058	.016	.080
AV 2007	-.014	.054	-.054	.248**	.143**	-.008	.115**
AV 2009	-.013	.076	-.054	.242**	.136**	-.011	.109**
Total Persons (Sample Est)	-.026	.025	-.051	.266**	.182**	.009	.143**
% Rural	.025	-.020	.092	-.287**	-.167**	.007	-.089**
% Lived in Same House 5 Yrs	.013	-.047	.023	-.088	-.029	.028	-.029
% Lived in Same County 5	-.030	-.153**	.064	-.115**	-.009	.063	-.066
% Persons below 185% of	.000	-.100*	.024	-.093*	-.078	-.023	.106*
Average House Value	.024	.193**	.020	.112	.067	-.001	.023
race- white % 2010	.019	-.014	.073	-.161**	-.034	.068	-.088
Students eligible for free and	-.007	.007	-.049	.208**	.087*	-.041	.096*
avg expenditure per ada 2010	-.077	.083	-.018	.070	.065	.023	.308**
% locally funded 2010	.005	.245**	-.079	.167**	.170**	.071	.060
number of students 2006	-.020	.042	-.059	.281**	.167**	-.004	.095*
number of students 2010	.014	.057	-.063	.264**	.152**	-.006	.061
StudentGrowth	1	.015	-.022	-.018	-.015	-.004	-.066
AVGrowth		1	-.013	.044	.015	-.013	-.002
Impact Growth			1	-.082	.102	.164*	-.028
Percent Impact 2007				1	.372**	-.244**	.083
Percent Impact 2009					1	.610**	.019
Delta Impact Percent						1	-.033
Percent ELL							1

Table 12
Page 3 of 3

The quantitative analysis used the data matrix that was assembled. That matrix included information for each of the 524 school districts that included abatement information for 2007 and 2009. That was augmented by the demographic information that was drawn from the DESE core data postings for each school district.

I looked at the correlations between the 2007 total abatements and the total abatements for 2009. Not surprisingly, there was a very high correlation. Since the abatements tend to run for a period of at least 10 years, there would not be much movement that was anticipated. And, in fact, with a correlation of .936 that was confirmed.

In looking through Table 12, there are no significant colinearity issues related to IVs used in subsequent analyses. I then looked at the correlations between all of the variables that I considered to be community characteristics, namely % rural, total persons living in the school community, the percent living in the same house as five years ago, the percent living in the same county as five years ago, the percent living below 185% of the poverty level, the average growth. The relationships were generally all predictable, with no surprising results. Some noteworthy correlations that did appear:

1. The percent rural had a significant correlation with both the percent that lived in the same county five years ago ($r = .238$) and the percent that lived in the same county ($r = .290$), each representing a small effect size. So, the rural population is a little more stable than the other populations.
2. The percent rural had a correlation with the % of persons living below 185% of the poverty level ($r = .290$), but the effect was small. The rural population is a little more prone to poverty than the non-rural population.

3. The percent rural also had a significant inverse correlation with the average house value ($r = -.421$), and this effect was considered moderate.
4. There were no meaningful correlations with AV growth.

Not surprisingly, the size of the population living in a given school district and the number of students and population in a district each inversely correlated at a significant level to the percent rural. The percent rural correlated inversely with the number of students, $r = -.621$. Similarly, there was a similar correlation with community population, $r = -.546$. Each represented a large effect size and this affirmed expected results. The high correlation, $r = .903$, between population and number of students confirms that the two variables are both measures of size.

I then explored the correlations that were present among the student descriptors. Not surprisingly, they were highly correlated however, some of the correlations were inversely related and that was somewhat surprising. The highlights of the correlations were:

1. The total persons living in a school district was related to the percent of ELL students ($r = .143$), the average expenditure per pupil ($r = .129$) and the tax rate ($r = .138$), and each effect size was considered small. In a similar manner, the number of persons living in a district was inversely related to the % of persons below 185% of the poverty level ($r = -.230$) and the percent of students that were white ($r = -.260$), and in these cases, the effect size was still considered small. So, the larger school districts tend to have higher tax rates, higher expenditure per pupil, and tend to be less white, and more highly represented with an ELL population. The odd statistic is that as the population increased, the percent of persons below the poverty level decreases.

2. In looking at the correlations for the percent of those living below 185% of the poverty level, there were also some interesting correlations and some surprises. There were significant positive correlations with percent ELL ($r = .106$) and percent white ($r = .156$), and the effect size of each was considered small. But the thing that was rather surprising is that there were significant inverse relationships with district population, number of students ($r = -.351$) and the tax rate ($r = -.354$), and in these cases the effect size was deemed moderate. So, this would again affirm that poverty is somewhat inclined to rural populations. At the same time, there is some tendency for those with modest means to vote against tax rate increases, so this may hold down the tax rates where there are higher concentrations of poverty.
3. Additional significant correlations with the percent ELL included a positive relationship with the average expenditure per pupil ($r = .308$), a moderate effect size.
4. The average expenditure per pupil (ADA) correlates with the number of persons in the school district ($r = .542$), a large effect size, and the percent ELL, but inversely significant with the percent white ($r = -.279$), a small effect size. Since the percent white was inversely correlated with the number of persons living in a district, this inverse correlation is not surprising.
5. Student growth was not correlated significantly to any of the other variables.

Then the analysis turned to those variables thought to be related to abatement characteristics. These included factors relating to the size and hence urban character of the district (total persons living in the district, average expenditure per pupil, total assessed

valuation in 2009 and tax rate), the level of poverty (percent of students on free and reduced lunch), tax impact characteristics (Impacted AV in 2007 and 2009) and growth characteristics (Student growth and AV Growth). This significant correlations that were identified include:

1. Percent free and reduced lunch correlated modestly and inversely with the total population of the district ($r = -.099$), total assessed valuation in 2009 ($r = -.241$), and growth in assessed valuation ($r = -.104$). Poverty would seem to be less correlated with the population centers than has been assumed by many.
2. The total assessed value in the district correlates with the percent impacted AV in 2007 ($r = .242$), a small effect size, percent impacted AV in 2009 ($r = .136$), a small effect size, and total population ($r = .908$), a very large effect size. This would suggest that the larger districts with the largest assessed valuation also have the highest percentage of their valuation being affected by the economic development incentives. The decline in correlation between 2007 and 2009 would support the information reported earlier in this chapter that the incentives are moving into smaller communities and becoming more widespread.
3. As expected, the size of the district (total persons residing in the district) correlated with the average expenditure per pupil ($r = .130$), the tax rate ($r = .138$), both small effect sizes, and the total assessed valuation in 2009 ($r = .908$), a very large effect size.
4. Student growth correlates with none of the other factors. Combined with the previous analysis, it appears that student growth is independent of most of the variables considered in this research project.

5. The tax rate has a modest inverse correlation with percent free and reduced lunch ($r = -.240$), and growth in assessed valuation ($r = -.097$), both small effect sizes. There is no significant correlation with either the total assessed valuation or the percent of impacted assessed valuation that is affected by the economic development incentives.

To verify the stability of the data, I looked at the correlation between the Assessed Valuation in 2007 and 2009. Not surprisingly, they were extremely highly correlated, $r = .998$, showing two are virtually identical. Further, the correlation between the impacted assessed valuation in 2007 and 2009 was developed and it produced results that were almost as large ($r = .877$). Based on this high correlation, the analysis pursued independent variables (IV) that may lead to the impacted assessed valuations which is the dependent variable (DV) in most analyses. Because of the large correlations, it was not deemed worthwhile to look at the change in impacted assessed valuation or the change in percent impacted assessed valuation but rather to look at potential predictive variables that might suggest other relationships that would provide greater understanding.

In looking back through all of the findings, those which are informative as far as a greater understanding of the dynamics of economic development incentives are summarized below.

1. There was only a changed impact percentage in about 35% of the districts, with roughly equal numbers increasing and decreasing.
2. 8% of the districts had a decline in % of impacted AV greater than 1% and about 6.1% had an increase in % impacted AV greater than 1%

3. 70% of the districts had no AV impact in 2009. 10% had less than 1% impact. 6.9% (37 districts) had more than a 5% impact.
4. From the descriptive statistics on the impacts by district in 2007 and 2009, it can be seen that the impacts in 2009 cover more districts and also the amounts of the impact have generally increased.
5. Assessed Value growth is significantly, but inversely, correlated with % below 185% of the poverty level, median house value and average house value. This finding would be counter-intuitive because it would imply that growth of impacted assessed valuation does not align with poverty characteristics like income and housing values. So, this may indicate that economic development incentives might not really be directed at blight.
6. While the total assessed value in Missouri between 2007 and 2009 went up by 14.2%, the amount of impacted assessed value went up by 19.7%. So the use of incentives is increasing faster than the total value of property in Missouri.
7. There was no correlation between the growth of the student population in a district and the increase in the amount of assessed valuation in a district. That would suggest that there wasn't an impact of increasing the growth in a district by increasing the amount of abated property. Or, conversely, it could imply that the incentives aren't causing any growth in number of students. However, this is two data sets that are very close together in time, and a broader span in time than just two years would be needed to verify the conclusion.

The next task was to pursue through regression analysis the factors that are predictive of the total abatement in 2009 (see Table 13). The first exploration was the inclusion of the

Table 13

SPSS Model Summary Looking at Multiple Characteristics as Predictors of Impacted AV

Model Summary ^e						
	R	Adjusted R	Std. Error of the	R Square	Standardized	
Model	R	Square	Estimate	Change	Coefficients	Beta
1	.550 ^a	.302	1661612.489	.302		.510
2	.653 ^b	.427	1507583.118	.124		.470
3	.709 ^c	.503	1405729.423	.076		.298
4	.715 ^d	.512	1394041.397	.009		.099

Note.

a. Predictors: (Constant), number of students 2010

b. Predictors: (Constant), number of students 2010, Impacted Growth

c. Predictors: (Constant), number of students 2010, Impacted Growth, avg. expenditure per ADA 2010

d. Predictors: (Constant), number of students 2010, Impacted Growth, avg. expenditure per ADA 2010, percent FRL

e. Dependent Variable: TOTAL ABATE 2009

number of students, the growth rate of the impacted assessments, the average expenditure per pupil, the percent of the students that are eligible for free and reduced lunch, the 2009 tax rate and the student growth rate. Percent of students with language challenges and percent of students eligible for free and reduced lunch were included as student characteristic IVs. The total tax rate and the student growth rate were included as community descriptor IVs. The result of the SPSS stepwise model analysis is summarized below. In the model, the variables are analyzed one at a time and the best fit is identified, and then the remaining variables are added to find the one that makes the largest improvement in the model fit, and so forth until the model improvement is not important.

Some findings that flow from this statistical analysis:

1. Independent variables that were included because they represented community characteristics (number of students and average expenditure per ADA), student characteristics (percent free and reduced lunch) and abatement characteristics (growth in impacted AV) all were significant contributors to explaining the total abatement in 2009 (DV).
2. The largest predictor of impacted assessed valuation is the number of students in the district, or basically, the size of the district.
3. The second most important variable is the growth in impacted AV which isn't particularly surprising. 2007 and 2009 impacted AV are very closely correlated, and the variable that explains the differences between the two is the growth in the impact. Since I have excluded the 2007 impacted value (IV), then it stands to reason that the growth rate would rise to the level of significant descriptor. It also suggests areas where there is an impact are the areas that grow. But it may also reflect that much of the use of economic development incentives are in areas that are growing anyway because of intrinsic growth of the community. This may be a case where there is a correlation, but not a clear causation.
4. The third best predictor variable is the average cost per student which would infer the districts that are wealthier, which are likely to be urban or suburban in nature because of the large assessed values that are in place. In urban districts with declining enrollments, this means that the support per student is high. Also, the cost per student is increased because of additional state and federal support. This state foundation formula drives extra resources to districts with high percentages of free and reduced lunch and the federal Title I program provides additional

resources for students living in poverty. All of these revenue streams combine to create a high cost per student (average daily attendance – ADA)

5. And the fourth most significant variable is the percent free and reduced lunch, which is a very crude descriptor reflecting the possibility of a low income population which frequently would be indicative of an area that was viewed as blighted. Since this is a condition for the granting of most of the incentives, that is not surprising either. However, its effect is very small.
6. Neither the growth in student population or tax rate were strongly enough related to enter into the analysis.
7. These four factors describe over half of the variability in the amount of impacted assessment.

Then it was decided to further test the model with more of the descriptive IVs that describe the nature of the community or the characteristics of the students in the district. In addition to the student IVs of percent ELL and percent free and reduced lunch, the percent of students who were white was included. Community IVs explored included median house value, % of families living in the same household five years, and percent rural. Variables were also included to probe the nature of the tax attitude in the community, the tax rate in 2009 and the percent the school district was locally funded. This was being tested to see whether the local tax rate or the percent locally funded would be a more significant predictor and whether any measure of local effort would be significant. Impacted AV was not reintroduced as an IV.

The results of this analysis are summarized in Table 14.

Table 14

SPSS Model Summary Using Multiple Characteristics to Predict Impacted AV

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Standardized Coefficients Beta
1	.556 ^a	.309	.308	1654927.926	.309	.612
2	.575 ^b	.331	.328	1630383.385	.022	-.159
3	.592 ^c	.350	.346	1608640.296	.019	.138

Note.

a. Predictors: (Constant), number of students 2010

b. Predictors: (Constant), number of students 2010, Median House Value

c. Predictors: (Constant), number of students 2010, Median House Value, Percent ELL

d. Dependent Variable: TOTAL ABATE 2009

Findings:

1. The number of students in the district remained the strongest predictor.
2. Percent white, percent rural and percent that lived in the same house more than five years and percent local effort did not provide predictive value.
3. The tax rate and the percent local effort also did not provide predictive value.
This may indicate further support for the assertion that the voters do not relate the economic development incentives with the taxes to support education.
4. Percent ELL was a significant predictor and percent free and reduced lunch was not a predictor.
5. The percent rural did not show up as a significant predictor. The number of students was a stronger predictor.

6. The amount of explained variance dropped significantly from the previous model. $R^2 = .309$ vs. $R^2 = .534$ This was because neither the growth impacted valuation percent nor average expenditure per student were included.

The variable change in percent impacted assessed valuation was tested, and there were no independent variables that were important predictors. From the high correlation between the impacted assessed values, the changes are such that there aren't major changes that will be observed. The change in total magnitude was substantial, based on the increase of impacted revenues of over \$20 million, but it was still over a very short period of time. Most of the incentives are in place for at least ten years and usually more than twenty years, so the changes are going to be very gradual. So, through the factors considered in this analysis, there was nothing that was identified that was a meaningful way to predict where the growth in economic development's impact on education will occur in the immediate time frame.

The independent variables that provide the greatest effect sizes are the size of the district as demonstrated by the student population, the growth in the amount of impacted assessed value, the average expenditure per student and the percent of the student population on free and reduced lunch (weakly).

Now, I will address the other specific questions that were posed in the research design.

Do urban districts have a greater decrease in funding than rural districts? Is there a different pattern for suburban districts? Within the data base, there are not any descriptors that provide information on suburban, so only the urban characteristics can be tested and contrasted with the rural. Then, looking at the percent of assessed valuation that was

impacted in 2009, it was found that it correlated significantly, but inversely to the percent of the district's population that was rural, $r = -.171$, and the effect was small. So, in fact, districts which are less rural do tend to have higher percentage impacts from economic development incentives.

Do growing districts have a greater decrease in funding than non-growing districts? In exploring the correlation between the growth in assessed valuation in districts and the percent of impacted assessed valuation in districts, there was nothing significant. So, it could be said that the percent of abatement or diversion impact on assessed valuation is not significantly different in districts that are growing.

Do large districts have a greater decrease in funding than small districts? There is a positive correlation between the percent of impacted assessed valuation in 2009 and the number of student in a district ($r = .152$). So, yes, the large districts have a greater percentage decrease in funding from the impacts of economic development incentives.

Do students on free and reduced lunch bear more of the burden of these economic development revenue impacts? There is no significant correlation between the percentage of impacted assessed valuation and the percent of students eligible for free and reduced lunch. So, the data does not support an assertion that students who are eligible for free and reduced lunch are impacted more adversely.

Do districts with high percentages of students from racial or ethnic minorities bear more of the burden of these revenue impacts? No. There is an inverse correlation between the amount of impacted assessed valuation and the percent of the students in the district who are not white ($r = -.162$). But, when the analysis is done to measure the correlation between

the percent of the district population that is white and the percentage of impacted assessed valuation, it is not significant.

Qualitative Findings

The first task in the qualitative analysis was the selection of two TIF projects that would be the focus of the qualitative cases. The two projects that were selected are the Briarcliff West TIF and the Blue Parkway TIF. These projects each are significant in scale, i.e. they exceeded \$200 million in total project costs. They were also multi-faceted in that they included at least three of the following: commercial, residential, retail and institutional development. It was also desirable to have projects that were at least ten years old, so there was time for some of the vagaries of the marketplace and the financial markets to play out. In fact, much of what was included in each of the projects has, in fact, been put in place, but the timing was slower than originally expected. In addition, the Briarcliff West project was in an area that was deemed by most to be suburban, and the Blue Parkway project was absolutely in the urban core.

In respect to the framework suggested by Moustakas (1994), this researcher needs to note his personal involvement in these two projects. For the Briarcliff West project, there has no direct involvement in any of the administrative, supervisory, oversight, or approval processes. The project is located in the North Kansas City School District, on whose board of directors, I have served. However, the initial approval of the project occurred before my election to the school board. And, the revisions in the project have been presented to the school board as updates, and not as project amendments seeking endorsements. In addition, my residence is located in the Briarcliff West project, but there is no personal financial impact on me because of the TIF project. I have full tax burden for my property and those

tax proceeds are distributed to the designated taxing jurisdictions and not held in the special allocation fund at the TIF commission.

As far as the Blue Parkway TIF project, I was employed by H&R Block at the time the project was initiated. My role at Block was as the owner representative that negotiated with Swope Community Builders to put their part of the project in place. In addition, I worked with Swope Community Builders to affirm Block's commitment to the project when necessary in various meetings where private funding was being secured. And when there was public funding being secured, I also represented Block in those public meetings. I have no personal financial stake in the project, and Block's role was as a key tenant which paid rent for the building that was built to their specifications.

However, the personal perspective of the researcher is not reflected in the results that are presented here, but rather, every effort has been made to reflect only those perspectives offered by those who were interviewed. While there may be some inherent bias, every effort has been made to eliminate that. The personal involvement has led to richer interviews and provided a better perspective for understanding of the fresh information that was gathered.

Because of the duration of the projects, there was some difficulty in finding those who were initially involved in the projects. Interviews were conducted in June and July, 2011, and the projects had started over a decade earlier. However, a picture emerged that was fairly consistent from those who were interviewed, so I deemed the coverage to be adequate.

Those who were interviewed for the projects include:

- The developer for each project
- The project manager for each project
- A TIF commissioner that was involved in the initial approval of each project

- The former city manager and former Assistant City Manager for Planning and Development
- A City Councilman
- A Superintendent from one of the school district with revenue impacts.

Interviews were scheduled at the convenience of the interviewee and were conducted in the place of business of the interviewee so as to provide a comfortable setting and not to inconvenience the interviewee. Informed consent was obtained before each interview and each interview was also tape recorded by the interviewer for later transcription and verification if necessary. The transcription occurred so that the coding could occur and be documented.

The highlights of the Briarcliff West Project include:

- Initial approval - July, 1994
- Original date of project completion - March, 2003
- Original estimate of project costs - \$118,000,000
- Original estimate of TIF revenues captured in the special allocation fund - \$33,901,000
- Original estimate of jobs created - ~ 3,000
- Original project description, briefly stated - The project area ran generally between Highway 9 on the south, Vivion Road on the North, the Platte County Line on the West and 169 Highway on the East. It was a mixed use development including condominiums, apartments, patio homes with external maintenance, single family homes, retail development, commercial office space and a hotel.

- Project completion status - Still under construction. Approximately 75% completed
- Project amendments approved and nature of each -
 - Amendment 1 - To modify the original plans with different phasing and to meet regulatory requirements
 - Amendment 2 - Change part of project from single family to patio homes and adjust cost projections
 - Amendment 3 - Expand the project area and increase the reimbursable costs
 - Amendment 4 - To add area north of Vivion and a plan for additional apartments and capture additional TIF revenues according to modified cost and revenue projections
 - Amendment 5 - To add additional area to the south of the project and capture additional TIF revenues according to modified cost and revenue projections from that development
 - Amendment 6 - Modifies the project plan
 - Amendment 7 - Moves costs among existing line items but does not increase total budget
 - Amendment 8 - Adds two structure parking structures
 - Amendment 9 - Adds super TIF funding to the project and also adds condominium, a hotel, and parking
- Current employment - ~2,000
- Current expected project costs - \$549,569,000
- Current projection of TIF reimbursements - \$157,567,000

- TIF revenues collected to date - Unavailable from TIF Commission

The highlights of the Blue Parkway Project include:

- Initial approval - March 11, 1999
- Original date of project completion - 2012
- Original estimate of TIF revenues captured in the special allocation fund - \$28,664,000
- Original project description, briefly stated - Redevelopment of an area along Brush Creek extending from Bruce Watkins Roadway and the Swope Parkway Curve, broken into (i) Prospect north of the creek (“Project 1”), (ii) Prospect/Swope Northeast of Bruce R. Watkins (“Projects 2A, 2B, and 2C”), (iii) Swope Parkway, Chestnut to Prospect (Projects 3A, 3B, and 3C”), (iv) Swope Parkway, Agnes to Chestnut (“Projects 4A and 4B”), (v) Swope Parkway, Indiana to Agnes (“Projects 5A, 5B, 5C and 5D”) and (vi) Swope Parkway curve (“Project 6”).
- Project completion status - Project is still not completed. It is about half done as proposed in the original scope of work.
- Project amendments approved and nature of each - six.
 - Amendment 1 - Determination of Conservation Area
 - Amendment 2 - Expanded to project development area to the west
 - Amendment 3 - Increased TIF funds in special allocation fund to \$45,615,000
 - Amendment 4 - Expanded the project development area to the south
 - Amendment 5 - Authorizes the issuance of bonds
 - Amendment 6 - Re-certifies that the project is blighted.

- Current employment – Unavailable from the TIF Commission
- Current projection of project cost – \$165,000,000
- TIF revenues collected to date – Unavailable from the TIF Commission

Qualitative Discussion

The projects took longer than originally estimated for completion of various phases. This was true for both projects, and was mainly caused by changing market conditions. These projects were multi-phased, and their execution was intended to extend for multiple years. At the time the TIF plan was put forth, the mandatory schedules were included. In the years that followed, there were intervening factors that presented themselves that delayed the execution. Also, one of the project managers commented that the rule of thumb that tends to follow developers for large projects like these is that “they take twice as long and cost twice as much as originally estimated.” The extension of time has been borne out in each case.

For the Briarcliff West project, there were two major factors that caused the slow down – a change in tax laws and the slowdown in the economy. In the project, there was a need to construct the infrastructure for the project to get it set up for development. This included the construction of an interchange on a divided highway. The developer indicated “the city had committed to build the interchange, but when it came time to build it, they didn’t have the funds. So, they agreed to increase the uses of TIF funds to pay for the interchange.” After the roads, sewers, storm sewers and utilities were in place, things could get rolling. Because of the fact that residential financing is not part of the developer’s responsibility, it is generally quicker to put in place, and so the project started with the single family homes. It was pretty rapidly followed by the patio homes which are smaller homes with outside maintenance. Then when it was time to get the commercial part of the project

started, there was a change in the tax laws in 1987. The developer indicated “this change stopped practically all new commercial construction for ten years.” This slowed the roll-out of the commercial buildings dramatically and put the developer off of the schedule that was put forth in the initial TIF plan. Then, there was the economic recession of 2002 and 2009 which further slowed the commercial development. Today, the commercial part of the project is proceeding at a pace that is commensurate with the original plan, but delayed in its initiation. The rents which are being charged are premium rentals, but the lease-up continues well. This tends to indicate that there was a reasonable basis for the original projected schedules for build out of the commercial.

In order for the retail development at Briarcliff West to be launched, there was a need to build up the demand and that required the construction and renting of the commercial development. The delay in the commercial also delayed the retail. Luckily, the commercial started in time for the retail to be put in place before the downturn that occurred in 2007. However, it was initially delayed by the sequential effect from the commercial. As the project manager pointed out, “There was no way to anticipate the changing economic conditions. The initial build-out schedule assumed the continuation of the existing strong economy throughout the project.”

These delays caused the TIF revenue projections for Briarcliff West to be off because in the single family houses, there was nothing that flowed to the Special Allocation Fund and on to developer out of the increment. From the villas, there was a fifty per cent diversion of property taxes. However, the big contribution to the Special Allocation Fund and subsequent return to the developer came from the Economic Activity Taxes (EATS), which are mainly earnings taxes and sales taxes, and Payments in Lieu of Taxes (PILOTS), which are mainly

property taxes, that flowed from the commercial and retail development. So the payback for the money that was advanced by the developer for construction of the highway interchange, infrastructure and ground stabilization has definitely been at risk far longer than anticipated. The developer indicated, “I may never get the money back from the special allocation fund that I am entitled to.” Because of the large scale of the project and the delays, the time limit on the TIF may expire before the full reimbursement.

Similarly, on the Blue Parkway project, the economy was playing the same havoc with efforts to move forward. In addition, there was a major issue in convincing a grocery chain to put a store in the development. That was the anchor tenant to make the retail project go, and the grocery operators were cautious about putting a quality store in an area that had such poor demographic characteristics. That was the reason that there was no grocery store within miles, while there was a lot of demand that was in the surrounding area. It was just that the household incomes were low, and crime was perceived to be a problem. The extent of this delay had not been anticipated in the initial project schedule. The project manager indicated that “grocery operators were in the habit of putting grocery stores that weren’t first class into this area. We were trying to go against the conventional wisdom in the industry.”

The projected employment from the original estimate did not occur on the original schedule. The projected employment was directly tied to the development execution. As both projects were delayed in later phases, the employment that went along with that development was delayed. Obviously, this caused a delay in collecting the EATS increment which had an adverse effect on the financial outcomes from the development.

On Briarcliff West, the delay caused the current employment in 2011, to be about 3,000 whereas the original estimate was 5,000. Part of this was caused by the delay and the

fact that some of the final development work is still not complete. Part of it is caused by the fact that the tenants that chose to move into the largely spec commercial buildings ended up with less dense employee populations. As the developer said. “we were able to attract some excellent tenants, and they didn’t pack employees into the space as densely as we projected.” The completed commercial space is nearly 100% leased as is the retail space. So, lease-up is not the problem. However, the EATS which are largely driven by the earnings taxes have lagged.

Since Briarcliff West was a pay-as-you-go project for the first fifteen years, the adverse financial impact of delays fell on the developer. The delays still threaten the ability of the developer to collect full reimbursement since there is a time limit on the period of time during which the increment can be captured. Recent increases in revenues being captured in the special allocation fund make it appear that the developer may be able to fully recover the approved costs, so the activities between now and the end of the TIF will hopefully pay out. Also, because the project is one that has quality development it is expected that the project will continue to produce incremental PILOTS and EATS after the end of the project such that there will be a significant flow to the taxing jurisdictions that will continue for a number of years.

On the Blue Parkway project, the delays in the retail have caused the employee count to fall below the projected amounts. Also, the fact that there is still only about a 70% lease-up is holding employment down. In the original H & R Block building the employment has run according to plan. The primary tenant in the commercial building was First Guard insurance. The company was sold and is no longer a tenant. With that changeover and with

the new tenants, the employee density of a multi-tenant building is below the original estimates that were based on a single tenant.

The inability to know who the tenants will be on a spec commercial building introduces a variable that cannot be controlled by the developer. The rental rates and the nature of the building will have a major effect, but a tenant who wants to lease the space and pay the rent will be put into the space, and the projections given to the TIF Commission will not be the controlling factor. In contrast with the Briarcliff pay-as-you-go project, Blue Parkway was set up to be funded with bonds issued by the TIF Commission and the risk was transferred. The entity which is placed in jeopardy by the slow lease-up and lower employment is the TIF Commission because it is the one liable for the retirement of the bonds. The developer has a reduced financial risk for the delays.

The TIF projects were not able to generate the originally projected amounts, but delays and project redesign were major contributors. It serves to extend the time for repayment in the case of Blue Parkway. In the case of Briarcliff West, it extended the repayment period to such an extent that there may never be a full reimbursement to the developer for his approved costs.

There was little demonstration of unsubsidized contiguous development, but because of the scale of each project and the nature of the project, there was development generated. It is just pretty difficult to tie the development directly to a catalytic relationship. When the concepts of TIF were developed and when the original legislation was passed, it was expected that the use of these incentives would create economic activity and would stimulate further development. The expectation was that since new value had been created and some of the blight remediated, then additional development would occur and there would not be a

need for that additional development to require full support. It was expected that eventually contiguous development would occur that required no support. The reality of these two projects is not really mirroring that theory, but for different reasons in the two projects. Also, the contiguous development may end up occurring, but the time frames are long. So, immediate demonstrations of adjacent development aren't readily available.

For the Briarcliff West project there has been only modest contiguous development and much of it has been done by the same developer. The project was bounded on the east by a well established residential area that is not likely to be converted to commercial in the near future. In fact, the development has helped to stabilize that neighborhood and spurred some reinvestment in some of the housing stock. To the north there are major interstate roadways that constrain any further development. Along the Vivion Road corridor which runs along the north end of the development, there has been some modest low density development of strip centers and one- and two-story commercial space. That did not have any subsidy, but it would not have occurred without Briarcliff West. On the west side of the project is again an established neighborhood that has remained relatively unchanged. The major opportunity that is contiguous is to the southwest. This is an area where the developer has acquired additional land and is doing some additional development. It is in the city of Riverside and in Platte County rather than in Clay County and the City of Kansas City. However, in expanding the project area into Riverside, additional TIF support has been sought, mainly to extend the roadway systems that were built with the Kansas City TIF. The City of Riverside has also been re-inventing itself a bit because of very favorable revenue flows within that city because of the presence of the Argosy gaming facility. This provides significant support for the City of Riverside and they have been investing heavily in projects

to support economic development, including their own construction of a levy system to protect them from flooding of the Missouri River. The most recent flooding was in 1993, but there was also a near-flooding condition that occurred in 2011.

Significant stimulus of development was cited by each person interviewed. The Briarcliff West development created the first development of “executive housing” in the Northland. That was paired with the first Class A commercial space and the first really upscale retail development. Each was significant, but taken as a whole, they helped to change the perception that the Northland was only appropriate for middle class development. Subsequent to Briarcliff West, there were major additional executive developments including, Tremont, Riss Lake, Staley Farms, Executive Hills and the National. The TIF Commissioner affirmed the view expressed by the developer. “The Briarcliff West project was a catalyst for upscale development in the Northland. It wasn’t adjacent, but the success of Briarcliff West showed the development community that there was an appetite for executive housing in the Northland.” There had been no private golf courses in the Northland and after Briarcliff West, two private golf courses were built that anchored residential development. The city manager said, “The Briarcliff West project was a game changer for the Northland,” and thus did stimulate a lot of unsubsidized development that was remote to the project. This development was not the contiguous type that was originally considered, but it was very much the type of stimulus effect that was hoped for when the legislation was passed.

For the Blue Parkway project, the impacts were really similar, but not as dramatic. The project was in one of the most depressed parts of Kansas City. It involved an area where there had been significant disinvestment for decades. The project leader remarked that if you

built a project, “a brick that cost \$1 was worth \$.70 as soon as it was incorporated into the project.” He explained that was true because of the significant disinvestment as well as the significant minority dominance in the neighborhood. This is what he found to clearly be the case as he sought financing for the project from various lenders. There was one small project that was stimulated very near-by, and a few others within an eight block radius, but there wasn’t the type of major developments initiated like there were in the Northland. However, similar to Briarcliff West, it was viewed as a significant development in that it did change the dialogue about the area. The project manager commented, “This development showed people that it was possible to do a good development in this area, and that they should consider it.” The downturn in the economy has not left much room for speculative development, though. The fact that the retail has yet to reach 70% occupancy doesn’t create a huge endorsement of this type of urban core development. The city councilman indicated, “I wanted the Blue Parkway project to happen. It demonstrated that a significant project could be built in the Fifth District and be done in a first class way.” While the project was significant in scale, it was not sufficiently large to change the dynamic in an area that had been depressed and had not seen development of that scale and quality in over four decades. In this case, there hasn’t been much stimulated development of any kind, subsidized or unsubsidized.

There was little contiguous development to indicate whether subsidies were necessary for those developments. The scope of each of these two projects changed the perception of a significant area as far as development attractiveness. However, there was activity that was stimulated, at least in the perception of those interviewed, because of this

new-found attitude of possibility. Any significant stimulus effect has been damped out in the last five to ten years by the economy.

The planning horizon of 13 years, or the length of one child's education is not sufficient to generally provide a return or a clear assessment of the true impact of the project on education funding. The horizon of 13 years was originally selected because that coincides with the time a student would be in the schools. The question is essentially one of whether any student is likely to see the benefit of the establishment of a TIF district within the tenure of their school career.

For the Blue Parkway TIF, all of the PILOTS that were generated from property taxes that would otherwise have flowed to the school district, are still being captured by the TIF, which is only about 16 years into its run. In fact, of the property tax revenues from the project, none have flowed out of the project to any of the property tax dependent entities as of this date. The Blue Parkway TIF does involve a 100% capture of the PILOTS, so there will be no flow from the project until the TIF is terminated or the bonds paid off. There are some modest revenues stimulated from the other projects in the area, but they are very small in scale. The developer asserted, though, "the development slowed down the deterioration of the community and has helped to stabilize it."

The Briarcliff West TIF was structured very differently. For the single family portion of the development, 100% of the PILOTs flowed on through to the taxing jurisdictions. For the villas, 50% of the PILOTs flowed through to the taxing jurisdictions. Because of this, there was an immediate increase in the cash flow to the school district from the project. As it evolved, the first part of the project constructed was the residential, and that was financially beneficial to the school district. The yield to the district is over \$1

million per year, and that far exceeds the cost of educating those students who reside in Briarcliff West and attend the North Kansas City School District. Then because of the stable development that has been created, the District will benefit from the project for the foreseeable future. No exact return can be calculated because the project is not complete, but there has been a clear favorable benefit. Even with that being said, the amount being diverted exceeds the amount being captured by the school district, so there are still diverted taxes going into the project.

The return on investment for either the school district or the public was hard to determine, and thus leads to further study as covered in Chapter 5. In discussing these projects with the developers on both projects, they were very clear that the TIF was another avenue of financing the project. They saw it as another source of funds that could be combined with the owners equity, bank loans, other grants or gifts, and other funding streams to make the project happen. In return for dealing with the public process of the TIF Commission, they got funds to finance the project they wanted to build. The TIF Commissioner affirmed that “in reviewing these projects for initial approval the focus was on the viability of the project. Little consideration was given to the impact on the other taxing jurisdictions.”

Neither of these projects have been completed. It is likely that Briarcliff West will not be completed until the statutory limit of 33 years. Also there is a Super TIF on the last of the Briarcliff West project, so that should accelerate the TIF payoff on the project. The Super TIF means that there will be a 100% capture of the EATS and in addition, there will be a 50% contribution to the project from the state income taxes that are generated. Because of the more limited scope of Blue Parkway, it is not likely to run the entire length of 33 years.

With this being said, then it is very important to go back and consider the initial principle that is driving these incentives. Many are structured around some sort of “but-for” test. That means that a test is applied that says that unless there is public subsidy, the project will not proceed. Then someone must determine that it is in the public interest for the project to proceed. Enough so, that it is appropriate to divert public funds into financing the project in a manner that there is no expectation of return to the taxing jurisdiction for their investment in the project. The only “return” to the taxing jurisdiction is the knowledge that they contributed to making it a better community. Little else, and it is generally not acknowledged by the developer or any others that the taxing jurisdictions were part of the financing partners that made the project possible.

A true positive return on investment and return of the loan principle is unlikely to ever occur on either project. This is particularly true of Blue Parkway, where the scale of the project is not large enough to cause a total shift in thinking. The recession dampened any momentum and it is going to be very difficult to recapture. Even a return of principal is unlikely. The Briarcliff West project was very significant. The total school district revenues to date that have been diverted are over \$100 million. However, there has already been a cash flow to the district from the Briarcliff West development in the amount of more than \$15 million. The return to the district can only be assumed to be heading toward positive if there is a secondary effect of stimulated development outside of the project area.

The developers indicated that the projects were difficult and that there was a gap in financing. The TIF provided the funds to fill all or part of that gap in financing. While it was characterized as blight abatement, that was more of an accounting classification than a real impetus for the TIF request. The consideration of the impact on the school districts or

other taxing jurisdictions was accommodated in the approval process, but it was not a goal of either developer. The developer on Briarcliff West indicated that he met with the North Kansas City School district and listened to their concerns. He structured the TIF to provide funding for the students that were generated by the project, and then some. However, he indicated that he was motivated by seeking their support for the proposal, more than by a personal commitment to education funding. The TIF Commissioner indicated, “we hoped it would be a stimulus for the Northland. We wanted it to happen.” The developer on Blue Parkway commented that he met with the Kansas City School District, but that the meeting was a required meeting and there was no change to the proposed TIF because of the inattention of the Kansas City School District to the impacts of TIF. However, the meeting was a requirement before approval. Their focus was on their project and the generalized consideration of making the community better was general rather than focused on potentially negative impacts on schools or any other publicly supported service.

Through the life of the projects the administrative burden imposed by the Kansas City TIF Commission has been increasing. The Briarcliff West TIF project has been underway for nearly 20 years, and has been back to the TIF Commission for a number of amendments over life of the project. The project manager indicated that

each time the project went back to the Commission; there was an additional requirement that came with each amendment. The burdens have become so severe, that I would initiate another TIF project as only a last resort. The administrative burden and extra requirements have become extreme.

Particularly pointed out by more than one of the respondents was the onerous requirement for Minority Business Enterprises (MBE)/Women Owned Business Enterprises (WBE) involvement. On a number of projects, there were just not competitively priced,

qualified contractors. So, the net effect was to impose a financial cost to the project for compliance. And that was not really developing contracting capacity in the minority community, but rather was creating a number of contractors who were willing to front a non-minority contractor for a fee and then not have to perform any of the work. This is not the intent, but appears to be the way that the Kansas City TIF process is playing out.

One other burden that came to light was a provision in the TIF regulations that allows the Commission to impose any new requirement on an existing TIF without any recourse by the developer. This blank check isn't that bad for a short-lived TIF where there is little need for interaction with the TIF Commission and its administrators. But, if there is a long-lived, multi-phased project, over time, it can build up to be a lot of unanticipated costs imposed on the developer without a real way to recover the costs. And the fact is that on a long-lived multi-phased project, there are going to be amendments because it is virtually impossible to anticipate twenty years of social, political, economic, and societal changes.

The impact of this changing behavior in the Kansas City development community is to seek other forms of economic development incentives if there is a feasible way to make them work. The pattern of use is likely to change in coming years.

Qualitative Findings

1. The projects took longer than originally estimated for completion of various phases.
2. The projected employment from the original estimate did not occur on the original schedule.
3. The TIF projects were not able to generate the originally projected revenues, but delays and project redesign are major contributors.

4. There was little demonstration of unsubsidized contiguous development, but because of the scale of each project and the nature of each project, each developer asserted there was non-contiguous development generated. It is difficult to tie the remote development directly to a catalytic relationship, however, the city manager and councilman affirmed the viewpoints of the two developers, as did the project managers.
5. The planning horizon of 13 years, or the length of one child's education career is generally not sufficient to provide a return.
6. The return on investment for either the school district or the public was hard to determine and thus leads to further study as covered in Chapter 5. The concept of return is being discussed here because it would seem that if government is choosing to use public resources in a manner that was not approved by the taxpayers, then the public entity must feel that there will be some economic return for using the funds in a manner that is not the intended use. Each project is continuing to place funds in the special allocation fund. The Briarcliff West project was structured to provide less than 100 percent capture of property taxes, so over \$1 million per year is currently flowing to the school district.
7. The developers indicated that the projects were difficult and that there was a gap in financing. The TIF provided the funds to fill all or part of that gap in financing. While it was characterized as blight abatement, that was more of an accounting classification than a real impetus for the TIF request. The consideration of the impact on the school districts or other taxing jurisdictions was accommodated in the approval process.

8. Through the life of the projects, the administrative burden imposed by the Kansas City TIF Commission has been increasing.

CHAPTER 5

DISCUSSION

From the qualitative and quantitative research some conclusions emerge. They flow from the information that was provided by the data analysis and the interviews, and also from some of the comments that were made by those people across the state who provided insights while providing the county data that were assembled. Those results will be summarized and I will provide conclusions based on the research, and then raise some areas that should be pursued to more completely understand the circumstances around these results.

The use of economic development incentives across the state continues to expand and the broader ramifications aren't considered. The research indicates some of the elected officials who are making the decisions to grant the economic development incentives are unknowingly trading off funding for attracting businesses against funding to provide education to our young people. Some would even go so far as to assert that it is more important to take care of business today and that by expanding the employment, there will be better opportunities for the education of young people in the future. Most in the educational community would suggest that the needs for funding of this generation of students is critical and waiting for 10, 15, 23 or 33 years for funds to start flowing will be a disservice to almost two generations of students. However,

city managers view school districts, fire district, and other agencies funded out of property taxes as rivals for the limited tax dollars paid by the public. TIF offers cities an easy way to capture a larger share of these funds from their rivals. For example, if a city is short of funds for maintaining streets, it can create a TIF district and use TIF revenue for street maintenance in that area, leaving the rest of the city's street maintenance budget available for a smaller area. (O'Toole, 2011, p. 7)

I've made no attempt to project the growth of economic development incentives awarded. However, the Missouri Department of Economic Development reported that the total amount of TIF diversions between 2004 and 2006 nearly doubled, reaching a total impact of nearly \$4 billion in tax revenues for all jurisdictions in total project diversions over the life of the approved projects. This research showed that the actual amount diverted and abated in a single year grew by nearly 20 per cent over a two-year period between 2007 and 2009, exceeding the 14 per cent growth in assessed valuation. Generally the projected benefits of enhanced growth and causal increase in assessed valuation from other properties do not flow to the intended taxing jurisdictions. The analysis clearly supports this conclusion. At best, the benefits of increased assessed valuation may only flow as intended in a decade or more.

It is important to put this concern for the diversion or abatement of funding into context. When resources are not delivered to public education, it hampers their ability to provide the quality of education that is expected by the public. To reiterate from early materials that were referenced, though the relation between education expenditures and outcomes has been contentious, most recent research indicates that there is a relationship between funding for education and student performance.

The more thorough analysis lead to the conclusion that a broad range of school inputs are positively related to student outcomes, and that the magnitude of the effects are sufficiently large to suggest that moderate increases in spending may be associated with significant increases in achievement. When the results of the combined significance tests and the effect of magnitude analyses reexamined together, the findings suggest a substantially positive relation between educational resource inputs and academic achievement. (Greenwald et al., 1996, p. 362)

“These results are similar to those obtained in our earlier reanalysis (Hedges et al.). However, the present results seem to suggest even stronger and more consistent relations between educational resources and student outcomes” (Greenwald et al., 1996, p. 381).

We believe that this presents a more significant contribution than our earlier work (Hedges et al.) on the question of whether school resources and student achievement are related. The general conclusion of the meta-analysis presented in this article is that school resources are systematically related to student achievement and that these relations are large enough to be educationally important. Global resource variables such as (per pupil expenditures) show strong and consistent relations with achievement. Smaller schools and smaller classes are also positively related to student achievement. In addition, resource variables that attempt to describe the quality of teachers (teacher ability, teacher education, and teacher experience) show very strong relations with student achievement. (Greenwald et al., 1996, p. 384)

The meta-analyses have convinced most researchers that there is a relationship between funding and the ability to enhance student performance. Most of the debate now centers on incremental funding and incremental gains from those funds. From the analysis presented in Chapter 4 and the information that follows it is clear that there are funds being directed away from education at a time of increasing demands for performance and accountability. When almost every economic development website I have perused touts quality education as an asset, there is some irony that trade-offs are being made that undermine that quality resource in hopes of current gains.

I looked specifically at the results of the quantitative analysis and some of the research questions that were posed in the research design. The total amount of revenue that was either diverted or abated in 2007 was nearly \$140 million, and by 2009 it had grown to over \$160 million. The amounts in the urban areas were larger than the amounts in the rural areas, but so were the amounts of total assessed valuation that were in place. When viewed as percentages, the pattern was less consistent because relatively small impacts were

magnified when compared to small assessed bases. There was no correlation between the amount of assessment that was impacted and the rate of growth of a district. So there was no reason to look at which direction was the likely causation – did growth cause more abatement, or did more abatement cause more growth. With the timeframe limited to two years and the abatements in place for at least 10 years, and frequently 30 years, there wasn't enough of a span of years in this research to be able to even detect a correlation.

Additional research questions which were posed included the impact on students on free and reduced lunch. There was a modest correlation with some of the poverty variables which is only reasonable since blight abatement is supposed to be related to the granting of most of the economic development incentives. There did not seem to be a correlation between the amount of impacted assessed valuation and the district's percentage of white population. So the data did not demonstrate a biased adverse impact on minority populations or persons in poverty.

The projected financial benefits to education did not materialize as originally envisioned. With the two multi-phase, multi-year projects, the projections proved optimistic, and actually schedule evolved more slowly, the employment generated did come into place more slowly if at all, and the revenue generated from the tax diversions built more slowly. The degree of off-project stimulated development was not easily documented or apparent. It was presented as occurring in places that were remote to the original project. The interviews showed that the TIFs were viewed as additional funding sources to provide financial backing for the plans that were presented. There was little consideration given to the impact on the taxing entities whose revenues were being diverted. The ability to measure in a meaningful way the return on investment for the tax revenues consumed by the project was not

achieved. Most often, there isn't even a return of contributed principle until the project is over 20 years old, let alone any return on investment.

The education impact is further heightened by shifting the property tax burden from business to individuals. Current valuation and abatement practices are shifting the property tax burden away from new businesses and onto existing businesses and residential property owners (Gardner, 2006). Large businesses are able to justify the fees to hire accountants and lawyers to protest their taxes, whereas, small businesses and individuals have property tax bills that aren't large enough to justify the expense of engaging professionals to assist. With the declining property values in the marketplace, county assessors are reducing the assessments for properties. The August, 2011, Annual Financial Report of the North Kansas City School District shows that in two years, the number of tax protests filed in Clay County more than doubled. The same report shows that in 17 years, the portion of property taxes collected from business in the North Kansas City School District declined from 46% to 30%. This same effect has been noted across the state of Missouri (Gardner, 2006). This is caused by a change in assessment practices in Missouri that legislated accelerated depreciation for business personal property tax calculations, by the increase in property tax protests, and by the increased use of economic development incentives that reduce the collections from businesses. The unintended consequences of this shift of the tax burden to individuals has been unnoticed by most. This is a change in state-wide tax policy that occurred without anyone putting it forth or deciding on it.

Strong communities and strong economic development growth are dependent on having quality public institutions like libraries and public education. Good public services are dependent on being located in growing thriving communities. Proper balance among the

competing pressures must be the goal. However, the decisions are being made by persons whose scope of responsibilities and considerations are not that global.

Economic development incentives have become another source of project financing. It is clear that there has generally been a departure from the roots of these economic development incentives. They were conceived as tools to be used by city planners, and that seldom seems to be the case. That is generally the case when they have created a commercial area that they are targeting for development and trying to attract businesses into that area. That is seldom a truly blighted area, but rather an area that government has set aside for commercial development that is frequently a green field type of development. Many of those are not what would be classically interpreted to be blighted, but with broad interpretations that are in use, they do qualify. The governmental initiative for these usually comes from the economic development departments and are driven by a developer seeking government funding for his/her project.

There doesn't seem to be any evidence there is a targeted use of these incentives. Some counties have now gone so far as to make the whole county an Enhanced Enterprise Zone so any business moving to the county will get a break on their property taxes. That way they can react and promise tax abatement if and when anyone expresses interest. It is not a tool that is deployed discriminately. It would effectively abate part of the property taxes for any business that moved into the county.

The primary impetus for creation of the incentives is the desire on the part of a given business or developer to do a project, either for their own use, or sometimes for a speculative development. The idea starts with the developer and not the city planner. The developer then considers the costs and the financing needs. It has evolved to the point that many

developers consider the economic development incentives to be another source of financing to support the project. In the case of TIF or Chapter 100 bonding, there will be actual publicly generated cash that can be used by the developer within the agreed parameters. Both 353 and Enterprise Zones keep the costs of the eventual user down, while covering more of the development costs within the project budget. The selection is frequently a balance between the nature of the project and its needs, and the available incentives and the administrative burdens, constraints and flexibilities they have. The blight consideration is one that can easily be met and any “but-for” test is also easy to demonstrate, so those do not pose any effective, real hurdles.

Policy Issues

Is it possible to restructure how the tradeoffs between funding for public services like education and funding for economic development are determined? Is a community orientation still possible in addressing these issues? Currently the greatest source of funding for economic development incentives is the use of the local incentive tools being discussed here. That means that the economic developer is making a policy decision that funding for economic development is more important than funding for education. We are pitting the future of our communities and young people against the present of the business community and the working people. And the decision is not made by anyone who has responsibility for balancing those needs and concerns. Young people have little voice in the political arena. Generally, the K-12 education community is best at defending their position and not at crafting a strategy and advocating a new direction for the state legislature. They cannot support their voice with adequate financial resources to overcome the business interests who oppose anything that would reduce their opportunity to forego taxes. But, at the same time,

the business community is the first voice heard in advocating for a better educated workforce. Most of the actors in this tragic play are simply concerned about the implications on their own well-being and few have any concerns about the future of our communities.

Business leaders in our major metropolitan area do not have the broader sense of community that was present when the civic dialogue was dominated by entrepreneurs who had built businesses here. They intended for their company to be headquartered in Kansas City and be led by people with the community spirit that would transcend their business and envelop all of the citizens.

Because they are citizens of the community, they develop strong local ties to place. As a result of their strong, enduring community ties, they may be less likely to pull out of the community during an economic downturn, and more likely to support and lead local nonprofit institutions. (Tolbert, 2002, p. 93)

“Corporate accounts often portray social actions as an expression of its visionary founder or CEO” (Martin, Knopoff & Beckman, 1998). Henry Bloch positioned H&R Block to use its public investments for the good of the community. He argued that if it was good for greater Kansas City, then it would be good for all of its citizens, and the people who work for H&R Block would be better because of the investments. His successor took a different tack and said he wanted the community investments of H&R Block to be demonstrably tied to expanding the revenue streams of H&R Block. The latter approach is the approach taken far too frequently by those who are transient executives trying to move through an opportunity in Kansas City and on to their next opportunity. This genre of leaders is more prevalent today than the founding entrepreneurs of the last generation. “Internal labor markets for managers and workers are national and international in scope; residential movement across

communities is required for promotion. As a result managers and owners tend to be oriented primarily to the corporation, not to the community” (Tolbert, 2002, p. 94).

If we structure our economic development incentives so that the rewards are for the short term player, then we are absolutely aligned to the transient CEO and the need for earnings in this quarter. This will support the “border war” of economic development incentives that we are currently seeing. It will cause businesses to always seek what is best in the short term, because the leadership has little expectation that they will be here in ten years when the incentive runs out. It will be up to the successor to find their own way to enhance earnings.

We need to think about crafting incentives in such a way that they build strong businesses in thriving communities. The business interests cannot always be the first funded and the educational and community resources the ones that fall to the back of the line with deferred rewards ten to thirty years out. Over \$30 million a year is being abated or diverted from the Kansas City School District alone. It has been declared to be unaccredited by the Missouri Board of Education. Money is not the solution to all of the ills of education, but the diversion of more than \$1,800 per student is material and could make a difference. The cry in Kansas City is about saving the school district and the children. The current efforts of the business community in this legislative session is to get more tax incentives authorized so they can compete more effectively in the economic “border war” between Kansas and Missouri. What is the priority of the business community? – cash today, or young people who grow up with the skills and educational access that will prepare them to be the next generation of innovators, entrepreneurs and business leaders? Those who are dependent on property taxes

need to sit down with those who want more economic development incentives and find a way to better balance the decisions for the good of the whole community.

Can the decision-making process be changed? The changes needed will either require some statesmanlike agreements between various taxing jurisdictions or a change in the state law that allows for representation at the incentive-granting table to more closely match contribution to the project. Both have been discussed by those who are net contributors. Both have been resisted by those who are net recipients. The primary argument against any restriction is that in order to compete with other places around the country these incentives are a necessary part of the recruitment package. However, I would suggest that the net effect of these incentives is to gradually undermine all of the jurisdictions around the country. There are many jurisdictions in financial stress at this time. Most assuredly these uses for economic development incentives play a role in that challenge.

Can valid measurement processes be created to determine the return to all of the investors in a project? Currently, there are returns that are measured for many of the investors in a project. The developer certainly calculates the return on their investment, and must even present it in a TIF application. Any bond holders or mortgage lenders have their return calculated and figured into the project pro forma. However, the public investment does not get a return measurement. It is treated as a gift to the project with a hope that there will be future payment of enhanced taxes that will be delivered to the next generation for use by those entities dependent on property taxes. For those jurisdictions who have the benefit of other taxes, such as income taxes, earnings taxes, sales taxes, and the like, there are significant returns that can come in the near term. But many of those entities dependent on

property taxes have little opportunity to reap benefits from the other tax collections, so they are deferring their benefit for ten to thirty years.

The empirical model that I originally envisioned was one that would take the investment on the part of the school district in terms of the amount of diverted or foregone revenues that supported the project. Then that would be compared to the revenue stream that was generated from the project. The investments in the project are still continuing as school revenues are continuing to be diverted. A reasonable timeframe to look at the return on investment is not likely to be really available until at least ten years after the termination of the diversion. Few projects have been completed or terminated, so that determination is still a number of years in the future.

There are no exact measures available, so some observations will be offered. First, there is a need to start from the perspective of what the revenues diverted from education truly represent. In the eyes of a developer, they represent part of the funding package to make a project go. However, if they were an equity investment, then there would be an ownership position established for the “investing” taxing jurisdictions. And then that equity would represent a value and the return that would be expected from the investment would be the ownership plus a reasonable return for that investment. The return of principle would only occur if the project was sold. This is not the arrangement, though. So, then what is diverted from the taxing jurisdictions must be a loan to the project. However, there is no intent to ever pay back the taxing jurisdictions who make the loan. The only return offered to the taxing jurisdictions is a promise of future revenues. In a 100% TIF, there is minimal short term cash flow generally, so the only return will be the revenue stream after the completion of the TIF reimbursement to the developer. At that point, then the taxes that were

generated by the project will start to flow to the taxing jurisdictions. The only thing that could be considered a return of the loan principal or the loan proceeds are any increased revenues. It is effectively a zero coupon note with an indefinite date for the payout to begin at an indefinite rate.

When the proper measurement is put in place it can be seen pretty readily that anything with a full 100% abatement or diversion will never pay a return without significant stimulated, unsubsidized development being caused. The qualitative research does not demonstrate that occurring. Or the alternative policy implication is that there should be a sharing of incremental revenues from the outset. New development should produce some positive cash flow for all entities who look to property taxes for their sustaining revenues. Enforcement of such a policy shift will probably require some sort of legislative remedy.

Recommendations for State Policy and Practices

First, alternative legislation should be developed which would change the current set of laws and replace them with ones that have a smaller impact on public education and where the approval control would be proportionately divided by mirroring the level of contributions to the project. In talking with people across the state, it was noted that all of the tools studied are in the economic development arsenal. There are counties that were very eager for development and were anxious to do whatever was necessary. There were other counties that were generally opposed to giving away any tax revenues and thought that people operating in the county needed to pay their taxes without creating burdens on others. While these comments were offered anecdotally, the research to determine prevailing attitudes was not conducted.

The current legislation is embedded in the current practices of the economic development community. The vast majority of the current incentives used by elected officials are aligned to continue the status quo. There is little effort being made to change that.

In this economy, most municipalities and counties are hungry for development and therefore generally inclined to expand the use of these incentives. The data show that use of all incentives is expanding. What is not being considered, though are the policy ramifications of this increased use of incentives. Indeed, there are policy tradeoffs being made to which many are blind. The thirst for development and the promise of expanded revenues from sales taxes and income taxes sometimes blinds people to the fact that by abating or diverting property taxes, the public schools are being given short shrift, as are the libraries, junior colleges, seniors programs, ambulance districts, fire districts, sheltered workshops, health departments and all others who are dependent to a great degree on property taxes. The decisions are usually made by cities and counties, and they generally have only a minor reliance on property taxes and it is more than made up by the other activity taxes that are collected.

Under the current systems, school districts are the primary contributors since they are the ones who receive the largest percentage of local property taxes, and cities generally are the ones that control the decisions with either formal, informal or no input from school districts. However, there are other entities more dependent on property taxes than school districts when viewed from the vantage point of their own budget. For instance, libraries tend to be more than 90% dependent on property taxes. So, out of the sight of most, and without a global thought about the many impacts of the decisions, tax revenues necessary to support

quality schools are being diverted, abated, and pushed out at least one generation for any revenue impact to become significant for education. Other services are also living on the promise of the future while surviving with expanded demands and limited new revenue to support it for at least one decade.

At the state level, the governor and the legislature have voiced concerns about the volume of abatements and tax incentives that are granted at the state level (Nixon, 2010). In July 2010, the governor established a blue ribbon task force for the purpose of studying the tax incentives that were being deployed in the state of Missouri (Report of the Missouri Tax Credit Review Commission, 2010). Their study was commissioned to determine what could be done to curb the use of the state tax incentives and assure a strong economic justification for their continuance (Nixon, 2010). However, he excluded all of the tax incentives studied in this document from consideration. They chose to include only those that were administered at the state level and involved specifically tax credits and to give no consideration to those authorized by the state but administered locally. That occurred even though the true economic impact of the local economic development incentives was far greater than most of the state incentives that were reviewed.

Raising the issue for discussion will not cause any change. There must either be a politically compelling reason to leave the current circumstance, or there needs to be an alternative legislation that is more attractive to the legislature and that would motivate them to replace the existing legislation. A study of states that have developed alternative legislation or alternative ways to provide subsidies for attracting business should be undertaken. Most states have TIF legislation that has much smaller impacts on education than that in Missouri, and could provide some guidance.

Secondly, within the existing legislation, there are amendments that could be made which would lessen the impact. There are a couple of statewide education associations that are considering recommending amendments that would limit the impact on education to no more than 50% abatement or diversion. This would be a change, and would be difficult to achieve since the education dollars are the ones that make the deals attractive. Without all of the education dollars the economic incentives would be significantly less robust. However the continued reduction in state funding combined with reduction of local assessed values, and then augmented with abatement or diversion of taxes on new construction will eventually serve to diminish public education and its effectiveness. This could probably be most effectively asserted to the legislature if all of the entities that are being impacted by reduced property tax collections would form a collective front.

Thirdly, economic development agencies should determine policies, practices and evaluation tools that will measure the return that should be expected by the public investors in a private project. The information presented in Chapter 4 shows that the return that is achieved by public sector investors is modest to non-existent. Frequently they are just gifts to the development or redeployment of public resources to private projects that weren't intended by the taxpayer. There is no attempt to make the school districts whole either during the project or after the project and there is no presentation of such in the application materials or the subsequent monitoring.

However, in the case of TIF, there is a capture of public funds and a redirection of those funds into designated activities. There is a capture of real money and an expenditure of those funds in the project. These public funds are part of the project funding and are directed by the developer. Most of the "investors" in the project understand their standing as loaning

entities, bonded entities, granting agencies or equity partners. The funds that are provided by a TIF don't seem to fall into any of these categories. They are just captured and placed in the Special Allocation Fund and then dispersed to pay authorized project payments from the TIF Commission. Effectively, business is coming to the public entities to ask for financing to help them make their plans work better. The assertion seems to be that if the project moves forward, then it is a public good and there is no need to consider the opportunity cost to the entities that effectively placed money into the project and got little back during the life of the project.

Limitations

It would be more informative if the study involved a third set of data representing the evolution of the deployment over another two years, for a total span of five years. The current research included both a 2007 set of data and a 2009 set of data. While two different panels makes the study far more robust than just one, a third set would provide far more understanding of the trends that are emerging. This data will not be available until the end of 2011, and would be a great addition to the current sets of information. It would also better inform what is happening as we have been through the last three years of a dampened economy.

There might also be more insight garnered if additional qualitative research was done on projects with different characteristics than the ones that were selected. The selected projects provided important information. However, they did not reflect the experience of developers who were only doing one phase and one building. Without the extended timeframes the issues of amendments and additional requirements would have had a significantly different impact.

Also, intentionally, both of the projects selected were TIFs. It would be interesting to see what other projects would have to tell about the processes. Did the Chapter 100 projects truly evolve the way they were expected? Why were other incentives selected as a better path for a development project? Are experiences with other granting bodies similar or dissimilar than the experiences with the Kansas City TIF Commission?

The experience in other states differs in important ways. The statutes that control the various incentives are structured differently. For instance, some states allow local school districts to opt out or to veto any granting of tax increment financing. In a similar manner, there are many differences in how states fund public education. The Missouri model is heavily reliant on local effort from independently constituted school districts. In many states, the primary source of funding is the state. In other states, school districts are components of county government or city government and as such do not have their own independent tax support voted specifically by the electorate for the support of education. Generalizing to other states must be done with very careful concern for such differences.

Recommendations for Further Study

First, research to date has not resolved the issue, but it would still be valuable to develop some more definitive linkages between revenues per student and the outcomes that are achieved. There has already been a considerable amount of research done in this area. While there is a continuing debate, there seem to be clear indicators of a relationship between funding and performance. Hedges and his colleagues (1994) show that there is a point where the increase in revenue has a beneficial impact on students.

The median half-standardized regression coefficient for PPE computed over all studies is .0014. This coefficient is large enough to be of considerable practical importance. It suggests that an increase of PPE by \$500 (approximately 10% of the

national average) would be associated with a 0.7 standard deviation increase in student outcome. By the standards of educational treatment interventions, this would be considered a large effect. Taken together, the effect size analyses suggest a pattern of substantially positive effects for global resource inputs (PPE) and for teacher experience. The effects of certain resource inputs (teacher salary, administrative inputs, and facilities) are typically positive, but not always. The typical effects of class size (expressed as either pupil/teacher ratio or teacher/pupil ratio) are decidedly mixed. (Hedges et al., 1994, p. 11)

However, there is no strong indication of what an adequate amount of funding should be. In the state of Missouri, an adequacy target is set for the purposes of determining the distribution of state funds, but it is based on determining the average cost of those districts meeting the state standards and suggesting that if they can meet the standards, then that must be the amount of funds that are necessary to achieve the desired results in the state of Missouri. This may be an sufficient deductive measure for adequate funding, but it provides no guidance for what would be necessary for achieving internationally competitive outcomes. It is not clear whether more funding would achieve stronger results, or whether it is more a matter of direction of effort.

Secondly, it would be informative to quantify the impact that would be caused by the related personal property taxes that are collected and disbursed to the taxing jurisdictions. For the abatement programs of 353, Chapter 100, and Enterprise Zones, the abatements that are noted are likely to only be on the real property. In fact other than Chapter 100, they are restricted to that. As such, there is personal property investment that will normally accompany the abated real property abatement. These amounts would provide some additional tax revenue that would flow to the taxing jurisdictions. Currently, that information is not assembled by the county assessor, so it would have to be developed. A study could be designed to measure that impact, but it would require actually identifying each parcel of

property that received an abatement and then digging into the records to see what the personal property amounts are. It would probably require a sampling technique, a lot of research effort, and could be expensive if the assessor responsible for the selected parcels chose not to cooperate with the researcher.

Thirdly, a more comprehensive study should be done to quantify the amount of stimulated, non-abated development occurring as a result of TIFs. An even more detailed search would have to be undertaken to determine how much stimulated, non-abated development occurred as a result of a project being constructed. The work presented here is from qualitative research and could not be scaled. Furthermore, the projects in the qualitative research were selected because they were large and complex, and are not fully representative of the smaller or medium size projects. This reflected much of the complexity of a potential project while only looking at two projects. For example, in the Briarcliff West TIF, the persons interviewed said that there were at least four additional subdivisions stimulated by the creation of that project. However, they were all three to ten miles away. There is little impact in close proximity to the development. It would be extremely hard to measure the assertions that those remote developments were caused by the initiation of the Briarcliff West project. It would be very hard to identify what to include in the asserted secondary impact. However, the two projects that were studied in the qualitative analysis each did contain some rather far-reaching impacts.

Both of the TIFs studied in the qualitative analysis also were deemed to have stabilized the adjacent neighborhoods and hence their property values. This is asserted by those interviewed, but there is really very little way to fully assess the veracity of the assertion. It is even harder to measure the amount of decline in property values that did not

occur. It would be hard to definitively link any observed quality improvement or stabilizing effect to anything that was not part of the TIF project design, except in the most extreme cases.

The original intent of the qualitative study was to assess the extent of adjacent development, however, there was little of significance that really occurred. One of the persons interviewed said it was too early to see the effect. Each of these TIF projects was over ten years old. So, it would be somewhat reasonable to assert that any stimulation effects are generally slow to occur – probably slower to occur than most would expect. And also, probably slow enough to occur that causation might be hard to definitively infer. Nonetheless, it is still asserted by many advocates for economic development incentives that such secondary impacts are real and measurable.

A fourth area for further exploration suggests is that while this study reviews two years of data, it would be informative to look at another year of reassessment and see what has occurred. This research demonstrated the changes that were occurring over the most recent two year cycle in re-assessment. It would be interesting to add a third data set and look at the data that will be assembled toward the end of 2011 to see what is happening with the additional interval. Total assessments of all property continue to be under downward pressure, mostly because of the economic downturn. At the same time, the data herein shows that there is a clear indication that there has been an increase in abated assessments. Generally, there has been a slowdown in most development, so the growth is likely to have slowed down. In fact, if the legislature would embrace the significance of this issue and require the state tax commission to have the data reported on an annual basis it would be helpful for the understanding of all parties.

A fifth area for further exploration would be a definitive study to look at the spiraling decline in support for public services caused by the awards of economic development incentives could prove most informative. In the greater Kansas City area, there has been a continuing use of economic development incentives that have caused businesses to move across the state line from Missouri to Kansas or vice versa. (This has been a past practice as companies moved around St. Louis County, until they altered the practice administratively in that county.) Business relocation has occurred across state line which was encouraged and supported from the receiving end through the award of tax incentives to underwrite some of the costs of doing business. In both directions of movement across state line, there has been some sort of diversion of public resources to underwrite the enticement. In Missouri, it has been through the use of economic development incentives such as those in this study combined with others. However, as has been demonstrated, one of the big “donors” to funding those incentives has been the school districts. They did so without any real opportunity to participate in the decision. In Kansas, most of the major incentives have been created at the state level. However, after giving millions of dollars in incentives to businesses to move from Missouri to Kansas, the governor and the legislature cut millions of dollars out of their funding for education because they said it was the only way they could balance the budget.

However, it would be most interesting to structure a study to determine several things:

1. Did the movement across state line really create new employment or was it really created by the expansion of the business, and they needed more space to accommodate the expansion?

2. When all of the increases and decreases in tax impacts are considered, was the total amount of support for public services increased or decreased?
3. Was the net effect of the activity just the provision of a public subsidy for private business with an increase in the demand for services and a decrease of funding to provide them?

A sixth area of exploration would be to conduct a survey of elected officials' attitudes about redirecting resources for the purpose of determining the relative dominance of their open attitude about expanding use of economic development incentives. From talking with the county assessors it was clear that there are counties that are categorically opposed to granting economic development incentives. Other counties expressed the idea that they were willing to put in place whatever incentive was necessary in order to get a business to move into the county. The information was not collected in a manner that would lead to any real analysis. It could also be very interesting to see if those attitudes change before and after an election year. These attitudes by key elected officials can certainly influence the behavior of the decision-making boards.

The last area that I would suggest for further exploration is an area for legal study. Are the current laws which govern granting of economic development incentives unconstitutional? The state legislature has passed a law that gives cities and counties the ability to unilaterally divert or abate property taxes through the granting of economic development initiatives. These decisions seldom consider the impact on those jurisdictions whose funds are being captured or reduced. In fact, in the case of TIF, funds are being collected based on the mill rate of the various taxing jurisdictions for the purpose of carrying

out the wishes of the voters. However, those wishes are ignored by the cities and counties who choose to divert the funds to support a development plan put forth by a developer.

APPENDIX

Semi-Structured Interview Protocol

1. Are you familiar with the project that is being discussed.
2. What is the role that you played in the project?
3. The TIF was first approved in _____, are you still involved?
4. Has your role changed since then?
5. What did you see as the main purpose of the TIF at the time of establishment?
6. What were the major challenges to the project design?
7. Were you satisfied with the final TIF arrangement that was approved? Why or why not?
8. Was there consideration given to the impact on the school district?
9. Has the TIF plan assisted you in the manner that you had originally envisioned? Why or why not?
10. Would you seek TIF approval if you had it to do over?
11. How do you feel the TIF assisted you in your efforts toward economic development?
12. Did you use the condemnation provisions of the TIF statute?
13. Has the follow up from the TIF commission proved burdensome?
14. What political considerations did you perceive as being present in the determination?
15. In the original plan, you projected the following schedule, and here is the schedule that was achieved. Can you comment on the differences?
16. In the original plan, you projected the following employment additions, and here is what has been reported. Can you comment on the differences?
17. One of the premises of TIF is that by providing this subsidy there will be additional development that follows that does not require subsidy. Can you point to such development that has occurred near to your development?
18. Who are the people that you consider to have been major players in this project to date, and whom I could contact for further insight?

Note: There will be clarifying questions asked beyond those above to maximize the understanding of the information gathered.

REFERENCES

- Anderson, J. E. (1990). Tax increment financing: Municipal adoption and growth. *National Tax Journal*, 43(2), 155-163.
- Austrian, Z., & Rosentraub, M. (2001). Urban tourism and financing professional sports facilities. In S. B. White, R. D. Bingham, & R. W. Hill (Eds.), *Financing economic development in the 21st century* (pp. 211-231). Armonk, NY: M. E. Sharpe.
- Bowen, W. M., Winson-Geideman, K., & Simmons, R. A. (2001). Financing public investment in retail development. In S. B. White, R. D. Bingham, & R. W. Hill (Eds.), *Financing economic development in the 21st century* (pp. 250-264). Armonk, NY: M. E. Sharpe.
- Byrne, P. F. (2005). Strategic interaction and the adoption of tax increment financing. *Regional Science and Urban Economics*, 35, 279-303.
- Byrne, P. F. (2007). Determinants of property value growth for tax increment financing districts. *Economic Development Quarterly*, 20, 317- 329.
- Card, D., & Payne, A. A. (2002). School finance reform, the distribution of school spending, and the distribution of student test scores. *Journal of Public Economics*, 83, 49-82.
- Casella, S. (1984). *Tax increment financing*. Chicago: American Planning Association.
- City of Kansas City, Missouri 2007 tax increment financing annual report. Retrieved from http://edckc.com/docs/edckc_tif__NOTTIF_plans/annrpts/00088315.PDF
- Coleman, J. S. (1966). *Equality of educational opportunity*. Washington, DC: General Printing Office.
- Creswell, J. W. (2007). *Qualitative inquiry & research design: Choosing among five approaches*. Thousand Oaks, CA: Sage.

- Dye, R. F., & Merriman, D. F. (1999, July). *The effects of tax increment financing on economic development*. Working Paper #75.
- Dye, R. F., & Merriman, D. F. (2000). Does tax increment financing discourage economic development? *Journal of Urban Economics*, 47, 306-328.
- East-West Gateway Council of Governments. (2009, January). *An assessment of the effectiveness and fiscal impacts of the use of local development incentives in the St. Louis region*. St. Louis, MO: East-West Council of Governments.
- Ercikan, K., & Roth, W. M. (2006). What good is polarizing research into qualitative and quantitative? *Educational Researcher*, 35(5),14-23.
- Fereday, J., & Muir-Cochrane, E. (2006). Demonstrating rigor using thematic analysis: A hybrid approach of inductive and deductive coding and theme development. *International Journal of Qualitative Methods*, 5(1), 2-11.
- Gardner, S. (2006). *How Missouri's property tax does and does not work for local government*. Presented at Public Policy Research Center, University of Missouri-St. Louis, 2006.
- Gibson, D. (2003). Neighborhood characteristics and the targeting of tax increment financing in Chicago. *Journal of Urban Economics*, 54, 309-327.
- Goshorn, J. A. (1999). In a TIF: Why Missouri needs tax increment financing reform. *Washington University Law Quarterly*, 77(3), 919-946.
- Greenwald, R., Hedges, L. V., & Laine, R. D. (1996, Fall). The effect of school resources on student achievement. *Review of Educational Research*, 66(3), 361-396.
- Hanushek, E. A. (1986, September). The economics of schooling: Production and efficiency in public schools. *Journal of Economic Literature*, 24, 1141-1177.

- Hanushek, E. A (1994, May). Money does matter somewhere: A reply to Hedges, Laine, and Greenwald. *Educational Researcher*, 23(3), 5-8.
- Hanushek, E. A. (1997, Summer). Assessing the effects of school resources on student performance: An update. *Educational Evaluation and Policy Analysis*, 19(2), 141-164.
- Hedges, L. V., Laine, R. D., & Greenwald, R. (1994, April). Does money matter? A meta-analysis of the effects of differential school inputs on student outcomes. *Educational Researcher*, 23(3), 5-14.
- Heineman Pieper, M. (1989). The heuristic paradigm: A unifying and comprehensive approach to social work research. *Smith College Studies in Social Work*, 60, 8-34.
- Institute for Taxation and Economic Policy. (2002). *Protecting public education from tax giveaways to corporations*. Washington, D.C.: National Education Association Research Department.
- Jick, T. D. (1979). Mixing qualitative and quantitative methods: Triangulation in action. *Administrative Science Quarterly*, 24(4), 602-611.
- Johnson, C. L., & Man, J. Y. (2001). *Tax increment financing and economic development: Uses, structures and impact*. New York: SUNY Series in Public Administration.
- Kelsay, M. P. (2007). *Uneven patchwork: Tax increment financing in Kansas City*. Kansas City, MO: ReclaimDemocracy.org
- Kerth, B., & Baxandall, P. (2011). *Tax increment financing: The need for increased transparency and accountability in local economic development studies*. Boston, MA: USPIRG Education Fund.

- Klacik, J. D., & Nunn, S. (2001). A primer on tax increment financing. In C. L. Johnson & J. Y. Man (Eds.), *Tax increment financing and economic development: Uses, structures and impact* (pp. 15-30). New York: SUNY Series in Public Administration.
- Kleining, G., & Witt, H. (2000, January). The qualitative heuristic approach: A methodology for discovery in psychology and the social sciences. Rediscovering the method of introspection as an example. *Forum: Qualitative Social Research [On-line Journal]*, 1(1).
- Man, J. Y. (2001). Determinants of the municipal decision to adopt tax increment financing. In C. L. Johnson & J. Y. Man (Eds.), *Tax increment financing and economic development: Uses, structures and impact* (pp. 87-100). New York: SUNY Series in Public Administration.
- Man, J. Y., & Rosentraub, M. S. (1998). Tax increment financing: Municipal adoption and effects on property value growth. *Public Finance Review*, 26, 523-547.
- Martin, J., Knopoff, K., & Beckman, C. (1998). An alternative to bureaucratic impersonality and emotional labor: bounded emotionality at the body shop. *Administrative Science Quarterly*, 43(2), 429-469.
- Missouri Department of Economic Development annual report on use of tax increment financing*. (2007). Retrieved from http://www.missouridevelopment.org/pdfs/2010_locTIF_summary.pdf
- Missouri Department of Economic Development annual report on use of tax increment financing*. (2008). Retrieved from http://www.missouridevelopment.org/pdfs/2010_locTIF_summary.pdf

Missouri Department of Economic Development annual report on use of tax increment financing. (2010). Retrieved from

http://ded.mo.gov/upload/2009_loc_tif_summary.pdf

Missouri Department of Economic Development annual report on use of tax increment financing. (2011). Retrieved from

http://www.missouridevelopment.org/pdfs/2010_locTIF_summary.pdf

Missouri Tax Credit Review Commission. *Report of the Missouri Tax Credit Review Commission.* (2010, November 30). Retrieved from

<http://tcrc.mo.gov/pdf/TCRCFinalReport113010.pdf>

Molotch, H. (1976). The city as a growth machine: Toward political economy of place. *The American Journal of Sociology*, 82(2), 309-332.

Moustakas, C. (1994). *Phenomenological research methods*. Thousand Oaks, CA: Sage.

Municipal Housing. (2011). Revised Statutes of the State of Missouri, Sections 99.820 and 99.845.

Nixon, J. (2010). Retrieved from http://governor.mo.gov/newsroom/2010/Tax_Credit_Review_Commission

Odden, A., Archibald, S., & Fermanich, M. (2003). Rethinking the finance system for improved student achievement. *Yearbook-National Society for the Study of Education*, 1, 82-113.

O'Toole, R. (2011). *Crony capitalism and social engineering: The case against tax increment financing*. Policy Analysis 676. Cato Institute.

Peshkin, A. (1988). In search of subjectivity - One's own. *Educational Researcher*, 17(7), 17-21.

Peshkin, A. (1993). The goodness of qualitative research. *Educational Researcher*, 22(2), 23-29.

Protecting public education from tax giveaways to corporations: Property tax abatements, tax increment financing, and funding for schools. (2002). Washington, DC: National Education Association. Retrieved from http://mea.org/tef/pdf/protecting_public_ed.pdf

Reschovsky, A., & Imazeki, J. (2000, October). *Achieving educational adequacy through school finance reform*. CPRE Research Report Series, RR-045. Philadelphia, PA: Consortium for Policy Research in Education.

Reschovsky, A., & Imazeki, J. (2003). Let no child be left behind: Determining the cost of improving student performance. *Public Finance Review*, 31, 263-290.

Rubin, H. J., & Rubin, I. S. (2005). *Qualitative interviewing*. Thousand Oaks, CA: Sage.

Tolbert, C. M. (2002). Civic community in small-town America: How civic welfare is influenced by local capitalism and civic engagement, *Rural Sociology*, 67(1), 2002, 90-113.

Ward, T. R. (2008a). *The impact of economic development incentives on public education in Missouri*. Unpublished report.

Ward, T. R. (2008b). *The impact of economic development incentives on the Kansas City Public Library*. Unpublished report.

Ward, T. R. (2009). *The impact of economic development incentives on the Mid-Continent Public Library System*. Unpublished report.

Weber, R. (2003a). Equity and entrepreneurialism: The impact of tax increment financing on school finance. *Urban Affairs Review*, 38(5), 619-644.

Weber, R. (2003b). Does tax increment financing raise urban industrial property values?

Urban Affairs Review, 38(5), 2001-2012.

White, S. B., Bingham, R. D., & Hill, R. W. (Eds.). (2001). *Financing economic development*

in the 21st century. Armonk, NY: M. E. Sharpe.

VITA

Terrence R. Ward is a native of Kansas City, Missouri. He was born and raised here and married his high school sweetheart, Linda Doolin. His mother was a devoted parent and PTA mom. And his wife's father, Dr. R. B. Doolin was the esteemed superintendent of the North Kansas City School District for 22 years. Early in his life he was imprinted with a keen interest in public education and the importance it can play in a vital community and in building futures for young people.

After graduating from North Kansas City High School, he attended the University of Missouri-Rolla (now Missouri University of Science and Technology), graduating in 1970 with a Bachelor of Science in Physics and a minor in Mathematics, with honors. He launched a career with AT&T which extended for nine years and included roles as the District Manager of Market Forecasting and Analysis as well as District Manager of Long Range Planning for the Midwest Area. During that time he participated in the Kansas City Tomorrow Leadership Program sponsored by the Civic Council of Kansas City and became very interested in the role that business people could play in building a vibrant community. An opportunity was presented to join Garney Companies as the Vice President of Human Resources, which included the opportunity to re-establish his family in Kansas City on a more permanent basis and provided the opportunity for community involvement.

He left Garney to start a consulting practice and at the same time pursued a Masters in Business Administration from Rockhurst University, which he completed in 1984, graduating with distinction. In 1984, he joined H&R Block as the Assistant to the Chairman, Henry Bloch, and head of the H&R Block Foundation. For 17 years, he enjoyed the opportunity to combine his love of community and career development at H&R Block. After the retirement

of Henry Bloch, he left to pursue other career interests, including construction of school buildings at J. E. Dunn, and Assistant Vice Chancellor of Development at the University of Missouri-Kansas City. In 1993, he was elected to the school board of the North Kansas City School District, a position he continues to hold. He became very interested in the financing of public education and the forces that influenced the adequate development of those resources. Between 1979 and now, Terry has served on nearly 100 different nonprofit boards of directors at the local, state, and national level. The one theme that weaves through nearly all of them is providing resources that remove barriers facing people who are seeking to better themselves.

Combining all of his loves, he became very interested in the impact that economic development incentives were having on the funding of public education. He began working with the Missouri State School Boards Association and the Education Roundtable in Missouri in an effort to determine the magnitude and the nature of the impact. When there was an opportunity to pursue a doctorate, he blended that curiosity with a lifelong desire to pursue that degree. Hence, the pursuit was started with an intense interest in public policy and a particular interest in public education finance in Missouri.

Terry plans to use the research documented in this dissertation as a springboard for altering the practices involving the use of economic development incentives in Missouri. He also plans to teach in the areas of education finance, public policy development, and nonprofit management.