



# TESTIMONY

September 15, 2021

## ORDINANCE # 210565 AND COMMUNITY IMPROVEMENT DISTRICTS

*By David Stokes*

Testimony before the Kansas City Council's Neighborhood, Planning, and  
Development Committee

### **TO THE HONORABLE MEMBERS OF THE KANSAS CITY COUNCIL:**

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

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

districts (CIDs), and other programs. Ordinance 210565 proposes changes to Kansas City rules governing CIDs, and my comments here are limited to that program. I believe that the changes to CID rules in this ordinance are good policy changes that will benefit the residents and taxpayers of Kansas City.

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

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CIDs.

The Kansas City auditor's office also recently released an audit documenting many of these same problems with CIDs within Kansas City. One major problem that the Kansas City auditor focused on was the issue of layering tax subsidies on top of CIDs. Thirty-six CIDs in Kansas City operate in combination with other tax subsidies, especially TIFs and TDDs. In fact, six CIDs function in combination with three or more other tax subsidy programs. In Waldo, for example, multiple CIDs are layered on top of each other, creating high taxes for shoppers that benefit business owners, not the general public. Economic subsidies are not Christmas presents to be gifted one after the other. If a development cannot succeed without multiple subsidy programs, it is not the job of the taxpayers to ensure it goes forward anyway.

CIDs often fund primarily private assets with public dollars. Usually, those public dollars come from sales taxes imposed within CIDs. Many CIDs in Kansas City—43 out of 74 to be precise—consist of nothing more than one parcel of property and have sales taxes imposed on the public for the private benefit of that one property owner. These private benefits for uses such as parking lots or landscaping for retail developments are paid for by tax dollars, rather than private investment, and the benefits accrue almost entirely to the private party. This means that, “the majority of [...] CID tax collection and spending is the result of one group or entity—developers and landowners—imposing taxes on another group—ordinary consumers—who are unaware of the tax and have no say in how the funds are collected or distributed.” That is not sound public policy.

CIDs and other tax incentives are often intended to address issues of run-down property, commonly called “blight.” This ordinance clarifies that property owners who have failed to address property maintenance and blight on their own property previously can not now declare the property a CID and raise taxes to pay for the blight remediation they themselves failed to address. That provision is a worthwhile change to a situation that has been an issue in Missouri.

Another major problem with CIDs is one of transparency. The state auditor's office has issued reports documenting

deficiencies in the operation, management, and accountability for the expenditure of public dollars by these districts throughout Missouri. CIDs frequently fail to comply with state laws in a number of areas, including the transparency of the special taxes, the bidding process for use of the public dollars, and the annual reporting on how the money is spent. As the recent Kansas City CID audit documents, in 2021 over half of the CIDs in Kansas City failed to submit a budget on time, and 47 percent failed to provide an annual financial report on time (or at all) in 2019. The provision in this ordinance that will institute a fine for late filing of financial reports would be a positive change for Kansas City policy.

Most current CID boards are entirely made up of representatives from the businesses involved with establishing the district. Not surprisingly, that has been a major concern with the conflict-of-interest issues that the state auditor has routinely highlighted with CIDs. In the most recent legislative session, Missouri statutes were changed to require at least one public representative on CID boards, and the proposal in this bill to require a local representative of a neighborhood or community group is also beneficial. CID boards need to be made up of people representing the interests of the taxpayers, not the property owners.

Taxpayers who choose to shop in these stores should be aware of the extra taxes they must pay. The special tax should be broken out separately on sales receipts, and signs should be posted physically within the stores online and on website payment pages noting the special taxes. This requirement is a state law for transportation development districts, albeit one that is not followed by many taxing districts around the state. Shoppers deserve to know the tax rate before they purchase goods.

In summary, the blighted property ownership, board representation, financial reporting, and other changes to CIDs in this proposal make needed changes to CID rules in Kansas City. I hope Kansas City can show the rest of Missouri how to operate these districts in a more fiscally responsible and transparent manner.

**ENDNOTES**

1. Missouri State Auditor, “Community Improvement Districts,” Report No. 2018-056, August 2018.
2. Ibid.; Missouri State Auditor, “Lake Lotawana Community Improvement District,” Report No. 2012-133, October 2012.
3. Kansas City Auditor, “Performance Audit of Community Improvement Districts”, April 2021.
4. Ibid., page 5.
5. Ibid., page 5.
6. Renz, Graham and Tuohey, Patrick, “Overgrown and Noxious: The Abuse of Special Taxing Districts in Missouri”, Show-Me Institute Report, June 2019, page 13.
7. Ibid., page 8.
8. RSMo 67.1451
9. RSMo 238.280



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