Sales Tax in Missouri: Revision or Reinvention?  
Five Scenarios for Restructuring, and Their Implications

Compiled and written by
James Brasfield, Ph.D.
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Applied Research Collaborative
St. Louis University/Southern Illinois University Edwardsville/University of Missouri-St. Louis
http://arc.umsl.edu
Overview

This report, compiled and written by James Brasfield on behalf of the Applied Research Collaborative, describes and briefly analyzes a series of five possible scenarios for restructuring the sales tax system in Missouri. The five scenarios may be found scattered throughout the report, in the purple text boxes. The scenarios fall into two categories: outlier and incremental. The outlier scenarios represent radical change from the current tax infrastructure, and therefore are unlikely to be adopted wholesale; however, these outlier scenarios may represent ideas that are useful to the ongoing dialogue. The incremental scenarios represent a less drastic modification.

Public discussion has historically been the basis of tax law change in St. Louis County, and past legislative modifications have risen from a consensus reached through negotiation. A complex tax system is unlikely to have only one “best” solution, because there are many options for change and each will have positive and negative impacts on some communities. Thus, it is unlikely that community and legislative agreement would focus exclusively on one of the scenarios described above.

Introduction

The state sales tax was a Depression-era financial innovation adopted by state governments desperate for revenue. Mississippi was the first, in 1930, and more than two dozen other states that use sales tax today also incorporated it during the 1930s. Missouri was one of those states.

The concept of sales tax shifted during the 1960s and 70s, when many states enacted legislation permitting optional local sales taxes. By the early 1990s over thirty states authorized this form of local revenue. The Missouri legislature joined this trend in 1969 by allowing municipalities to adopt a one-cent local option sales tax. By 1974 many municipalities in St. Louis County, especially those with commercial areas, had adopted the tax.

As is the case now, in the early 1970s some municipalities generated much larger sales tax revenue than others. Cities with regional shopping centers or other large retail stores generated more sales tax per capita than those with less retail. Those with lower per capita sales tax revenue concluded that the system was unfair and sought legislative remedies. High sales tax cities responded by arguing that the costs associated with retail sales justified the higher revenue stream. Forty years later the basic equity argument has never been fully settled, but not for lack of effort.

These differing views about how to most equitably distribute sales tax has been the basis of ongoing disagreement over the one-cent tax collected on retail sales in St. Louis County. Retail sales are somewhat concentrated in a small number of municipalities, which claim that the additional service and development costs associated with major retail centers justify the higher per capita sales tax yield. Others argue that the tax should follow the buyer, and say that since residents of all communities pay the tax, the proceeds should be evenly divided based on population.

In St Louis County, unincorporated areas generate about a fifth of all sales tax. Since the County provides municipal as well as countywide services to these areas, the County has argued for a share based on the total population served. These are philosophic differences. No single formula is likely to be a magic bullet that satisfies the equity concerns of all stakeholders. Past attempts to adjust the distribution to respond to these concerns are summarized below. In each instance the policy modification was the product of a negotiated compromise among the stakeholders.

The discussion about the distribution of sales tax takes place in a dynamic environment. Population shifts within St. Louis County and in the greater metropolitan area have impacted both the current...
The Long History of Sales Tax Distribution

As early as 1973, state legislation had been introduced to replace the municipal sales tax in St. Louis County with countywide sales tax that would be distributed between municipalities and county government based on population, but this was strongly opposed by many cities. The brief history of sales tax legislation that follows describes what has happened since then.


In 1977 compromise legislation was passed that provided for a countywide one-cent sales tax to replace the local option tax in St. Louis County. Voters approved the countywide tax in a referendum that year. However, the legislation allowed municipalities that had previously enacted the local option tax to either retain all the tax collected within their boundaries, or to join unincorporated St. Louis County in becoming part of a sales tax pool. Sales tax collected in the pool area was divided on a per capita basis. Subsequently, about one third of the municipalities opted to be point-of-sale (or A) cities, and the remaining two thirds, along with unincorporated St. Louis County, opted to be pool (or B) cities. Generally speaking the largest and the smallest cities were in the pool. Medium sized cities with significant retail and commercial centers had the greatest incentive to remain point-of-sale. The law allowed cities to re-examine their choice after each census, but if an A city opts to join the pool, it can never again return to point-of-sale status. Over the past forty years few cities have switched when the opportunity was available.
The compromise provided a revenue infusion for both low per capita sales tax cities and St. Louis County government. Pool cities still believed the arrangement was unfair, but the issue did not return to the political agenda until 1983.

Era of Annexation and Incorporation- 1983-1993

In the early 1960s the Missouri Supreme Court froze municipal boundaries in the City of Olivette v. Graeler decision, which allowed for county government to exercise a veto over any annexation or incorporation proposal. The fast-growing areas disputed in this case were in the unincorporated part of the county, which led to a growth in the pool revenue benefitting both B cities and the County. In the 1983 City of Town and Country v. St. Louis County decision, the Supreme Court reversed Graeler and opened the door to both annexation and incorporation.

Across St. Louis County, mayors of cities bordering unincorporated areas began to study maps with special attention to nearby shopping centers. A municipality that undertook an annexation of a shopping center in a neighboring unincorporated area could significantly increase revenue. However, the County and pool cities saw this as a zero-sum game. Any annexations or incorporations that included major shopping areas would sharply decrease pool revenue.

After a period of short but heated debate between the A cities and the B cities/County government, a compromise was reached that froze the point of sale areas. Even if a point-of-sale city expanded its boundaries by annexation, the newly annexed area would remain in the sales tax pool. Also, any newly incorporated city would automatically remain in the pool. This compromise was enacted into law by the state legislature in 1983.

The County Government still perceived a threat to its revenue flow and service provision system as a result of the Town and Country decision, and proposed a Board of Freeholders be created to substantially reorganize local government in St. Louis County. The Freeholders ultimately proposed incorporation of the entire county and municipal consolidation that would leave less than forty cities. Seventy-five percent of the one-cent sales tax would be distributed among municipalities on a per capita basis. The Freeholder plan was never brought to a vote because the US Supreme court found the process unconstitutional, since non-property owners were excluded by definition from board membership. The Freeholder plan was not revived, and in 1991 a new County Executive was elected.

In the decade after the 1983 legislation froze the pool, the anticipated wave of annexations did not occur. Annexations were limited and the incentive to annex commercial areas without a residential component was weak. However, there were two large incorporations in West County (Maryland Heights and Chesterfield).

In the late 80s there were extensive discussions and various study groups examining the sales tax distribution. The last study group produced a 1988 attempt, backed by the Municipal League, to pass an additional quarter-cent countywide sales tax that would have mostly been distributed to the sales tax pool and low per capita point-of-sale cities. The 1990 Census represented ominous fiscal news for many pool cities. Older pool cities almost universally suffered population declines, thus causing a revenue loss from the pool for those cities. As a whole the county grew only slightly in the 1980s, but inner suburbs tended to lose population and outer suburbs gained. The unincorporated County, as a pool participant, gained at the expense of inner suburbs.
The Post Reform Era - 1994 to present

In 1991, newly elected County Executive Buzz Westfall had no interest in pursuing a municipal consolidation agenda, but he did seek to restart the sales tax distribution discussion. In late 1992, the County Planning Department produced a plan that would:

- Freeze the per capita receipts for A cities at two times the county-wide average for the base year;
- Distribute the surplus above two times the County average to the pool;
- Phase in the plan over three years;
- Allow municipalities to enact up to a quarter-cent sales tax to help offset the loss; and
- Reallocate the use tax, which was about to be distributed to local governments, so that it instead went to the pool (two-thirds) and to County government (one-third) with the County arguing this would help offset other revenue losses due to annexation.

Eventually the freeze would result in most point-of-sale cities having per capita sales tax receipts no larger than those received by pool cities. Most if not all point-of-sale cities would eventually be advantaged by going into the pool after either the 2000 or 2010 census. As stated previously, in St. Louis County after each census a point-of-sale municipality has the option of becoming a pool city but it can then never opt to return to point-of-sale status once it has switched.

The Westfall plan was introduced in the state legislature and sparked an intense debate within the local government community. Point-of-sale cities organized to oppose the plan, and offered an alternative that featured:

- All cities and the unincorporated area to become point-of-sale;
- Cities above the countywide average contribute a percentage of the one-cent tax revenues to a shared fund based on a sliding scale;
- Cities authorized to pass a quarter-cent optional sales tax with a percentage of this contributed to a municipal fund that brings all cities up to a per capita minimum that was close to the projected per capita average for cities under the Westfall plan;
- Use tax revenue goes two-thirds to the shared fund and one-third to the County; and
- County unincorporated will be considered point-of-sale and County will keep all of the one-cent raised—County not eligible to seek quarter-cent tax.

As the legislature began consideration of the plan supported by the County and Pool Cities, an intense negotiation ensued that led to a compromise plan that was ultimately adopted by the legislature in the spring of 1993. The main features of the compromise plan were:

- Point-of-sale cities above the countywide average to share one-cent sales tax on the basis of a progressive sliding scale with three-year phase-in beginning in 1994 (1993 base year); sharing would be in a range of 7.5% to 25% for most cities;
- In 2000 there is a minimum level of sharing of 7.5% for cities over the countywide average and 12.5% for cities over 1.25 times the county average;
- All areas of St. Louis County to retain current pool or point-of-sale status;
- All point-of-sale cities above countywide average will participate in redistribution;
Sales Tax in Missouri: Revision or Reinvention?

- Optional quarter-cent sales tax available to all cities with different sliding scale sharing;
- Use tax distributed one-third to County and two-thirds to all cities with sales tax receipts below the countywide average (this is mostly pool cities); and
- County retains a portion of sales tax lost due to future annexation and incorporation;

The formula for the distribution of the one-cent tax is:

\[ 25.5 \log_{10}(0.035 \times \text{City's per capita sales tax-adjusted prior year county average per capita sales tax}) \]

The formula for the distribution of the quarter-cent tax is:

\[ 11.627 \log_{10}(0.015 \times \text{City's per capita sales tax-adjusted prior year county average per capita sales tax}) \]

Sharing was phased in over the next three years, and many cities began to enact the quarter-cent sales tax, especially point-of-sale cities, which saw this as a way to recover the revenue lost through sharing.

**Tax Scenario Option 2 (Outlier):**

This scenario is considered to be an “outlier” scenario because it represents a radical change from the current system. While there are certainly proponents of such extreme change, it does not appear that a majority of key stakeholders will push for this sort of restructuring because of the negative impact on others in the municipal community.

**All Shared Per Capita**

In the mid-1970s it was argued by many municipal leaders that the local option sales tax should be collected countywide and distributed to municipalities and county government on a per capita basis. This was opposed by cities that generated a significant amount of sales tax. The 1977 legislation reflected a compromise in which the tax was deemed a county tax to be distributed on a per capita basis, but allowed those cities with an existing tax to opt to retain the tax. After each census a point of sale city could opt to become a pool city, but once the option is exercised a city cannot ever return to point of sale. This scenario would change the 1977 legislation to require that all cities receive the tax on a per capita basis.

Under this scenario cities might be allowed to retain the quarter-cent tax if they have enacted it. Alternately the tax could be shared among all jurisdictions. For purposes of analysis we will assume cities will be allowed to retain the quarter-cent tax proceeds. In neither of these scenarios would the county retain a special annexation adjust-

**All Shared Per Capita**

The reform compromise opened the way for additional legislatively authorized optional sales taxes. The long dispute over distribution of the one-cent had made it difficult to consider other local option sales taxes for St. Louis County. A capital improvement sales tax (with sharing in St. Louis County) was enacted in 1995. Another half-cent for parks and storm water was also authorized by the state legislature without a sharing provision.

The 1993 legislation produced more than a decade of peace in the “sales tax wars” that had been fought episodically since the mid 1970s. In the past it had been the pool cities and the county that put sales tax distribution on the
agenda by pushing for legislation that approached per capita distribution. In the last few years sales tax distribution has again appeared on the agenda of the state legislature. This time fairness is cited as the reason for change by some high per capita generating point-of-sale cities, as well as recently incorporated cities, which would have more sales tax revenue if they were allowed to be point-of-sale.

Unlike many other parts of the country, municipalities in St. Louis County do not rely heavily on the property tax. Even for pool cities, sales tax represents a significant share of total revenue. Thus, any changes in the distribution of sales tax revenue offer prospects for significant gains or losses in revenue. The balance of this report will examine the current distribution, recent trends, and projections for the rest of the decade. The report concludes by examining recent proposals for change and analyzing the impact of five scenarios.

Summary of Current Distribution

The following tables are based on data for the 2013 calendar year, which were provided by St. Louis County Government.

Table 1- Sales Tax Collected and Retained 2013 by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>2010 Pop</th>
<th>% Pop</th>
<th>Tax Generated</th>
<th>% Tot</th>
<th>Net Tax Received</th>
<th>% Received</th>
<th>Received As % of Generated</th>
</tr>
</thead>
<tbody>
<tr>
<td>A cities</td>
<td>281,728</td>
<td>28%</td>
<td>$76,893,009</td>
<td>49%</td>
<td>$58,404,945</td>
<td>38%</td>
<td>76%</td>
</tr>
<tr>
<td>B cities</td>
<td>334,664</td>
<td>34%</td>
<td>$39,874,489</td>
<td>25%</td>
<td>$42,598,680</td>
<td>28%</td>
<td>107%</td>
</tr>
<tr>
<td>B areas (annex area A city)</td>
<td>61,561</td>
<td>6%</td>
<td>$9,465,566</td>
<td>6%</td>
<td>$7,835,971</td>
<td>5%</td>
<td>83%</td>
</tr>
<tr>
<td>County</td>
<td>321,001</td>
<td>32%</td>
<td>$31,370,368</td>
<td>20%</td>
<td>$43,640,990</td>
<td>29%</td>
<td>139%</td>
</tr>
<tr>
<td>Total</td>
<td>998,954</td>
<td></td>
<td>$157,603,432</td>
<td></td>
<td>$152,480,586</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1 summarizes the aggregate sales tax picture for 2013. Point-of-sale cities generated nearly half the total sales tax, and the B areas (those areas annexed by A cities since 1983) accounted for another 6%. The unincorporated county and B cities generated 45% of the tax. Since the unincorporated county B areas and the B cities all constitute the pool, a total of 51% is generated in pool territory. After TIF reduction and the sharing applications, A cities retained 38% of total tax received, and the county and B cities received 29% and 28% respectively.

The final column shows the tax ultimately received as a percent of tax generated. A cities re-
ceived 75% of the tax they generated, B cities 107%, and the county 139%. However, since there are large geographic differences in the tax generated these aggregate totals do not reflect the reasons for dissatisfaction with this arrangement within some of the cities.

Table 2
Top Nine Sales Tax Generators- 2013

<table>
<thead>
<tr>
<th>Municipality</th>
<th>type</th>
<th>2010 Pop</th>
<th>Gross Amount</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ST. LOUIS COUNTY</td>
<td>B</td>
<td>321,001</td>
<td>31,370,368</td>
<td>19.9%</td>
</tr>
<tr>
<td>CHESTERFIELD</td>
<td>B</td>
<td>47,484</td>
<td>12,521,117</td>
<td>7.9%</td>
</tr>
<tr>
<td>MARYLAND HEIGHTS</td>
<td>B</td>
<td>27,472</td>
<td>7,611,654</td>
<td>4.8%</td>
</tr>
<tr>
<td>FLORISSANT</td>
<td>B</td>
<td>52,158</td>
<td>6,327,657</td>
<td>4.0%</td>
</tr>
<tr>
<td>BRIDGETON</td>
<td>A</td>
<td>11,516</td>
<td>5,852,053</td>
<td>3.7%</td>
</tr>
<tr>
<td>BRENTWOOD</td>
<td>A</td>
<td>8,055</td>
<td>5,725,742</td>
<td>3.6%</td>
</tr>
<tr>
<td>DES PERES</td>
<td>A</td>
<td>7,853</td>
<td>5,301,719</td>
<td>3.4%</td>
</tr>
<tr>
<td>FENTON</td>
<td>A</td>
<td>3,626</td>
<td>4,853,061</td>
<td>3.1%</td>
</tr>
<tr>
<td>RICHMOND HEIGHTS</td>
<td>A</td>
<td>8,603</td>
<td>4,785,523</td>
<td>3.0%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>500,515</td>
<td>88,201,220</td>
<td>56%</td>
</tr>
</tbody>
</table>

It is probably no revelation to find that the unincorporated county is the geographic area generating the most sales tax. What may surprise is that the next three are all B cities -- another 17% is generated in these three. The next five are high A cities, which also generate 17% of the total. These nine geographic areas account for half the population and generate 56% of the sales tax. On the other hand the lowest twenty municipalities account for a tenth of one percent of tax generated and 1.3% of the total population. The population of the largest municipality in the bottom twenty is 1,432.

A third of the pool revenue is generated in unincorporated St. Louis County. Because of its large population, the County receives more money that it generates. B cities generate a quarter of the total sales tax, but over 80% of this comes from eight B cities. The annexed areas of A cities generate about 6% of the total pool.
Tax Scenario Option 4 (Incremental):

As noted above, the 1983 legislation froze the A city areas so that any annexed areas or new cities would be in the pool without a point-of-sale option. Dissatisfaction with this constraint is an element of the current call for change. This analysis examines how the elimination of this restriction would impact the pool and the affected municipalities; for the purposes of this analysis we are assuming that cities allowed the option would choose to it, if it was to their fiscal advantage (which is to say, if the revenue generated would exceed the current pool share).

Reversal of the 1983 Point-of-Sale Restrictions

If we exclude the unincorporated county, which is a large and diverse area, a third of the total sales tax is generated in geographic areas accounting for 18% of the population of the total county and 28% of the municipal part of the county. This differential between where sales tax is generated and the distribution of the municipal population has been at the heart of the dispute for forty years.

Tax Scenario Option 5 (Incremental):

Some of the dissatisfaction with the current system reflects an argument that St. Louis County emerged from the 1993 legislation with too large a share of the distributed funds. The argument focuses on two elements:

1. The County receives an annexation adjustment to reflect loss of territory resulting from annexations or incorporations. The presumption is that the County Government bureaucracies cannot necessarily be reduced as a result of population loss, but loss of population means loss of revenue from the pool. This scenario looks at elimination of the annexation adjustment.

2. The County receives a share of the quarter-cent sales tax collected in municipalities, but is not legislatively authorized to enact the tax. This scenario examines the consequences of changing the quarter-cent distribution to only include those jurisdictions that enact the quarter-cent. This would impact the county and some B cities. An additional analysis estimates the revenue for the County if they were allowed to enact the quarter-cent and share that with the pool.

County Adjustments
Of the 27 A cities, 11 did not share a portion of their tax generated with the pool. These are the low per capita sales tax A cities. Some cities, like Berkley, have always been in this category. Others, such as St. Ann, were once high generating cities but the loss of a major shopping mall has changed their status. Some of these municipalities would actually receive more revenue as a pool city, but have development aspirations of achieving a larger tax base in the future and therefore opt not to join the pool. With the quarter-cent tax, all cities with the tax, including pool cities, share a portion with the pool.

**Sales Tax Trends**

As the chart below demonstrates, there was a slow and steady climb in total sales tax collected between 1995 and 2013. This steady growth of about 3% per year in the late 1990s was punctuated by a slight decline during the economic slowdown in 2002-03. The growth pattern resumed until 2008-09 when the recession caused a sharp downturn that brought gross collections back to the 2000 level. Other than a 5% increase in 2011, growth has been slight in the past few years. Total sales tax revenue is now at about the 2005 level and using a straight line projection based on the total history since 1994, it seems reasonable to project a little less than 1% increase per year between now and the end of the decade. By these projections, total sales taxes collected in 2020 will reach the pre-recession 2007 level.

**Chart 1- Total Sales Tax Collection- 1994- 2020**

Sales tax growth has obviously been impacted by the twin recessions in 2002-03 and 2008-09, but other factors are probably also in play. One is the obvious, but unknown magnitude, shift to online purchasing with the consequent loss of sales tax. Additionally, the growth of retail centers in St. Charles County probably mean fewer residents travel across the river to shop in West St. Louis County.

Throughout the last two decades, A cities have generated about half of the sales tax. The total was 51% in 1994 and 49% in 2013. The rise and fall of tax generated in pool territories vs point-of-sale has tracked very closely. Whatever external factors, including mall closings and big box retail relocations, have contributed to the slow growth of total sales in St. Louis County, A and B areas have moved in parallel.
over the two decades.

The relative stagnation of the sales tax means that cities are generally experiencing faster growth of expenses than they are sales tax revenue increases. Without growth in the current system, a change in the distribution formula might be the only avenue for additional revenue. No doubt this has contributed to consideration of the formula as an agenda item again.

TIF Impact on the Pool

One of the sales tax-related issues that has been a point of discussion recently is the impact of TIF on the sales tax pool. Advocates will argue that without TIF a retail development project may not have been undertaken, and thus no sales tax generated. On the other hand, it is contended that TIFs facilitate retailers to move from one jurisdiction to another without any incremental sales tax generated. This analysis does not attempt to settle the question about the utility of TIF assistance for commercial development. The only question addressed is the impact of TIF on the pool.

When sales tax is used to retire TIF bond expenses, that money is withdrawn from the gross collected before the distribution under the sharing formula. In 2013 TIF withdrawals were made for 27 cities. The smallest was $3,400 and the largest $2,558,972. The total amount of TIF withdrawals was $6,245,027, which was 7% of the sales tax generated in those jurisdictions.

Of the 27 cities 13 were A cities, 10 B cities, 3 annexed areas, and St Louis County. Only four of the jurisdictions exceeded $300,000 in the TIF amount. The four accounted for 65% of all TIF withdrawals. Two of the four are annexed areas within the municipal boundaries of point-of-sale cities, and the other two are pool cities.

TIF payments are temporary in nature. Once the debt has been retired, additional funds are not withdrawn from the gross amount in the future. The impact of TIFs on the pool in annexed areas is greater than its impact in A cities. In the latter the TIF withdrawals only impact the amount shared. A cities accounted for 51% of the TIF withdrawals. If sharing is on average about 20%, we can estimate this costs the pool about $800,000. About $3,000,000 would have gone to the pool from the B cities, St. Louis County, and the B areas. Thus, our estimate is that without any TIF withdrawal about $3,800,000 would have gone directly to the pool. This represents about 5% of the total pool funds. While this is not a trivial amount of money, it does not represent a significant temporary loss of revenue for the pool. TIF withdrawals were lower in 2013 than at any time since 2002, and were 60% of what they were in the high point of 2007. TIF payments have been trending down over the last decade.

Back on the Agenda

The 1993 Sales Tax Reform legislation amounted to a peace treaty after almost two decades of intermittent strife. It is only recently that the issue has again surfaced as a legislative agenda item. As noted above, total sales tax generated has experienced low annual growth because of two recessions as well as the likely impact of accelerating online purchases. This has placed fiscal pressures on all cities and led some to call for a change in the distribution.

In the earlier era it was the pool cities and St. Louis County government that initiated calls for change. This time the pressure for change is coming from some A cities, which either reluctantly supported the 1993 legislation or opposed the compromise. Also, those cities incorporated after 1983 never had a chance to opt for A city status, and would like to do so.
This new dissatisfaction has led some individual cities to hire lobbyists and craft legislative proposals for changing the distribution system. Also, point-of-sale cities, B cities and the County have formed study groups. The Municipal League convened a group as well that sought a compromise proposal. Legislative hearings have been held in the Missouri House of Representatives, but legislation has not moved to the floor for consideration.

The final section of this report identifies key points of discontent with the existing sales tax distribution system, and summarizes major proposals for change. This leads to the articulation of several scenarios that might be considered by the Missouri legislature in 2015 and beyond with the goal of changing the system by the end of the decade. The 1993 legislation featured a three-year phase-in period. In the zero-sum game that is sales tax distribution in St. Louis County, any change will have winners and losers. A phase-in period provides an opportunity for adjustment for those disadvantaged by the change. In 2014 the “end of the decade” may seem a long time in the future, but significant change is unlikely to occur before then.

**Major Points of Discontent**

It should be first noted that few, if any, of the local officials involved in these discussions wish to completely eliminate the existing system. The outlier scenarios of “all point of sale with no sharing”, or “all per capita” do not seem to be sought by the participants because of the adverse fiscal consequences for the “losers” under such changes.

The reader should not presume the following are listed in order of importance or intensity, but are organized around similar topics.

1. Some high sales tax generating communities wish to change the system to allow them to retain a larger share of the tax generated in their community. Two of the high tax-generating cities are prohibited under the 1983 law from having the option to become a point-of-sale city. Other high yield A cities would like to retain a higher share of the tax collected by reducing the amount shared.

2. A number of cities with the optional quarter-cent sales tax (a part of which is shared with the pool) have argued that only jurisdictions that have enacted the quarter-cent tax should be participants in the sharing.

3. The formula for sharing the one-cent and the quarter-cent tax are mathematically complicated. Some argue the system would be better understood and more predictable if the formula was less complicated.

4. A number of municipal officials contend that county government receives too large a portion of the shared taxes. There are distinct elements to this contention:
   a. The special annexation adjustment is no longer needed because the 1993 concern that major annexations would occur thus impacting the service bureaucracy proved to be unfounded.
   b. The County Government receives significant sharing proceeds from the quarter-cent tax enacted by 37 cites, but is not authorized to seek voter approval to collect the quarter-cent in unincorporated county. What has been typically posed is to exclude the county from the sharing arrangement and to allow them to seek authorization from the voters to collect the tax in the unincorporated areas.
These ideas have led to the formulation of five scenarios to be considered. This is intended to be an intellectual exercise in assessment and exploration and not an argument for or against any one them. Nor is the formulation of these scenarios intended to preclude different options or permutations. The history of the 1993 legislation would indicate that changes, large or small, are likely to be the product of negotiations among the local elected officials, not grand plans formulated in the abstract. This scenario assessment seeks to provide neutral analysis, not a calculated argument for any one approach. Each of the five scenarios is detailed in the text boxes throughout this report.

Results of Analysis

All POS

(Spreadsheets for each of the following scenarios can be accessed at http://pprc.umsl.edu/pprc.umsl.edu/data/tax-breakdown.xlsx). In the all point-of-sale scenario the only item deducted from the generated sales tax is the TIF amount. All sharing, including the annexation adjustment and within-pool distribution, is eliminated. $15,257,000 is shifted to A cities so all A cities gain, but for several the gains are marginal. For ten A cities the additional revenue is less than $10 per capita.

Although most B cities lose revenue, seven B cities see a substantial gain, with Maryland Heights and Chesterfield gaining $4 and $6.5 million respectively. However, as stated, other B cities lose substantial revenue, as does St. Louis County.

In the 15 annexed areas, there are clear differences. Eight of them gain substantial revenue, ranging from substantial to minimal. The other seven lose revenue. Some of the losses are significant. In Sunset Hills, for example, the $200,000 loss in the annexed area is more balanced by a $500,000 gain that results when all sharing of the one-cent tax is eliminated. Large B cities such as University City, Florissant, Wildwood, and Webster Groves all experience large revenue losses if all cities become point-of-sale with no sharing.

Because of the significant shift of revenue to some cities at the expense of others, this scenario is regarded as an outlier that is unlikely to be adopted in its pure form.

All Per Capita Distribution-

In a shift to all per capita distribution there would be a $19,000,000 shift from A cities to B cities and B annexed areas. Pool cities, the County, and A cities with annexed areas would gain $24 per capita. This scenario also assumes the elimination of the annexation adjustment for St. Louis County. For some cities, like Hazelwood and Kirkwood, there would be a gain in both the annexed area and the original city. Other A cities with annexed areas would experience a net loss, only partially mitigated by the additional sharing in their annexed area.

Twenty-three of the A cities would experience loss in this scenario. Some and perhaps even all of the eleven A cities may perceive that their potential for new retail development is greater than would be the short-term gain from an all per capita distribution scenario. St. Ann, Hazelwood and Kirkwood are all examples of this thinking. The gain for pool cities and St. Louis County would be an additional $24 per capita added to the current $127 per capita.

The all per capita distribution scenario may be more likely to occur than the all point-of-sale scenario, but this also appears to be an outlier because of the substantial shift of revenue away from municipalities representing over 160,000 people across the County.
All Quarter Cent Scenario

The quarter-cent sales tax was a critical feature of the 1993 reform legislation. It was perceived as both a vehicle for additional sharing with the pool and as revenue for A cities to recover all or most of the one-cent revenue that would be shared. Twenty-seven A cities have adopted the tax and are represented in the data calculation; more recently, the city of Bridgeton also adopted the tax but has not been included in the calculation. There are 15 A cities that have annexed land after 1993 that remained in the pool. Ten of those cities have adopted the quarter-cent tax, as well as nine B cities. St. Louis County is not legislatively authorized to enact the tax.

This tax currently generates over $16,000,000 in revenue, with over 90% of it collected in A cities (Bridgeton is projected to add another $700,000 to the gross collected). After deduction of TIF payments and the annexation adjustment there is a little over $15,000,000 available for distribution. The sharing under a formula similar to, but lower than, the one-cent sharing results in about 12% of the gross tax shared. Another 2% is shared with St. Louis County under the annexation adjustment formula. B cities and areas with the tax both share and receive a share. Webster Groves, for example, shared $64,000 with the pool and County annexation adjustment, and received $63,000 back as part of their pool share.

If the sharing distribution only included pool cities and B areas (excluding St. Louis County), it would be worth about $5 per capita rather than the current $3 per capita. Some have suggested the sharing only be given to B cities and B areas that have enacted the tax. This would increase sharing to about $22 per person. This, of course, does not add to total revenue from the tax but limits sharing pool cities and areas that have enacted the tax. The proponents of either of these quarter-cent scenarios assume this will serve as an incentive for others to adopt the tax. The County would need legislative authorization as well as electoral approval. B cities would need only electoral approval. For B annexed areas currently without the tax, the whole city would need to approve the tax and not just the annexed area.

If all jurisdictions, including St. Louis County, had adopted the tax in 2013, another $23,000,000 (less additional TIF) would have been available to cities. The County share of this would be about $8,000,000. Legislative action would be needed to allow the County to seek voter approval. The other $15,000,000 could be generated with voter approval in the individual jurisdictions.

The quarter-cent represents an existing legislatively authorized tax that is collected in some jurisdictions but not others. Collecting the tax universally or in all or most jurisdictions except unincorporated County would provide substantial additional revenue and allow the legislature to address other past policies that are perceived to be unfair without a significant penalty on the current revenue streams. In no jurisdiction could the tax be enacted without voter approval.

1983 Pool Freeze Elimination Scenario

The 1983 legislation permanently froze the pool area because of a concern that a series of new annexations and incorporations would seriously diminish pool revenue. Since 1983 there have been four incorporations and fifteen A cities have undertaken annexations. Some have been vocal advocates for removing these restrictions. The analysis of this scenario presumes that three of the four new cities would switch to point-of-sale status if they had the choice (Wildwood currently collects more money as a pool city than is generated within its boundaries by a factor of three). This analysis presumes legislation to change the 1983 law would not give an option to A cities with an annexed area. The whole city would be considered one unit that could shift to pool status, but not selectively. Ballwin and Manchester
currently receive considerably more in pool distribution for their annexed areas than is generated in sales tax, but most of the cities would have a net gain, even after subtracting the sharing with the pool on the one-cent tax.

The analysis (based on 2013 data) indicates that over $22,000,000 would be lost to the pool. The pool would be smaller in population by almost 140,000 people, but the new per capita distribution for the pool would be a little less than $100 per capita, down from the current $127. The County and remaining B cities would lose significant revenue under this scenario.

County Government Adjustments

The final scenario reflects two concerns expressed by some municipal officials. An original component of the 1993 law was an annexation adjustment. This allocates a share of money collected from all jurisdictions (A and B) to the County (net of TIF payments) as compensation for lost revenue due to annexations and incorporations. The amount of the annexation adjustment in 2013 was a little over $2,000,000. About a third of this is from B cities and annexed areas with the remainder from A cities. This represents about 1% of total sales tax. Eliminating this provision would reduce the revenue of County government and marginally increase revenues in all cities. The pool would gain about $1 per capita, and about 45% of this would be returned to the County as part of their share. Thus, the County net loss would be around $1,500,000.

The other County adjustment was also discussed in the quarter-cent sales tax scenario above. The County is the only jurisdiction without legislative authorization to enact a quarter-cent sales tax. Some have argued the County should either enact the tax (after legislative authorization) or not share in the proceeds from it. The County currently receives almost $900,000 as its pool share of the formula distribution. If the County no longer participated in sharing of the quarter-cent, this would add about $3 per capita to the pool share of the remaining members.

A provision in the 1993 sales tax legislation envisioned the enactment of a countywide use tax with two-thirds distributed to all cities below the countrywide average. One-third was to be distributed to St Louis County. At the time the participants saw this as a key provision. The Missouri Supreme Court overturned the original tax authorization on a constitutional issue. The legislature subsequently adjusted the statute to meet the constitutional objection, and later modified the distribution language. It now provides that fifty percent be used by the county throughout the county for improving and enhancing public safety, park improvements, and job creation. The other fifty percent is to enhance local government services.

In 2008 the voters of St. Louis County defeated a new attempt to authorize use tax collection in St. Louis County. Both the City of St Louis and St Charles County have a use tax. If the use tax were to be authorized by county voters, this additional source of revenue might be utilized to offset adjustments to the current sales tax sharing by A cities that were discussed above.

Conclusion

For more than thirty years there have been intermittent political battles over the distribution of the one-cent local option sales tax in St. Louis County. In most parts of the country local option sales taxes are distributed to the jurisdiction in which the sale occurred. Because of the significant variation in the size and sales tax generation capacity of the municipalities in St. Louis County, there has been disagreement about whether tax proceed distribution should be based on point-of-sale or per capita.
This has led to a series of statutes (in 1977, 1983, and 1993) that have together created the current system, under which most cities may choose whether to collect the tax generated or be part of a per capita sharing pool. The 1993 legislation created a system of sharing in which high per capita point-of-sale generating cities share a portion of their revenue with those in the pool. However, twenty years after this compromise was adopted, there are some cities, that still feel the system is unfair.

This report has described and briefly analyzed a series of change scenarios based on various proposals that have been a part of the public discussion. Public discussion has historically been the basis of tax law change in St. Louis County, and past legislative modifications have risen from a consensus reached through negotiation. This process did not diminish the constitutional authority of the legislature to define local tax system, but provided a high degree of acceptance to the plan as adopted.

Each time, this process has resulted in a compromise in which everyone received benefits and losses. Several decades’ worth of these negotiation processes has produced a very complex system. Changing circumstances, such as demographic shifts and changing retail patterns, have created a new of sense of inequity among some of the participants.

A complex tax system is unlikely to have only one “best” solution, because there are many options for change and each will have positive and negative impacts on some communities. Thus, it is unlikely that community and legislative agreement would focus exclusively on one of the scenarios described above. The current system has been in place for two decades and has served to distribute the tax revenues more broadly without resorting to a pure per capita distribution system. Incremental shifts in response to changing conditions are consistent with the approach taken over the last three and a half decades. The scenarios assume such an incremental approach, and presume the end result is likely to be some combination of these and other ideas that ultimately emerge as a consensus in the community and the legislature.

This analysis is based on the 2013 sales tax generation and current sharing system. Early 2014 collections do not appear to be very much different. The analysis presumes a small incremental annual increase over the next several years. A few jurisdictions may experience gains or losses as a result of retail changes in their community, but system changes are likely to be minor. This report and the accompanying spreadsheets are offered not as a packaged “solution”, but as a neutral analytic assessment of the pros and cons of various possible scenarios.