

Evaluating and Implementing Local Sales Tax Distribution Equity

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Local Option Sales Tax in Missouri

- State sales tax depression era response to gain revenue
- 1960s and 70s many states authorized local option sales tax
- Missouri did so in 1969
- By 1974 many cities in STL County had adopted 1 cent local option
- As typical across the country, **cities kept what they collected. (POS)**



EAST-WEST GATEWAY
Council of Governments

Creating Solutions Across Jurisdictional Boundaries

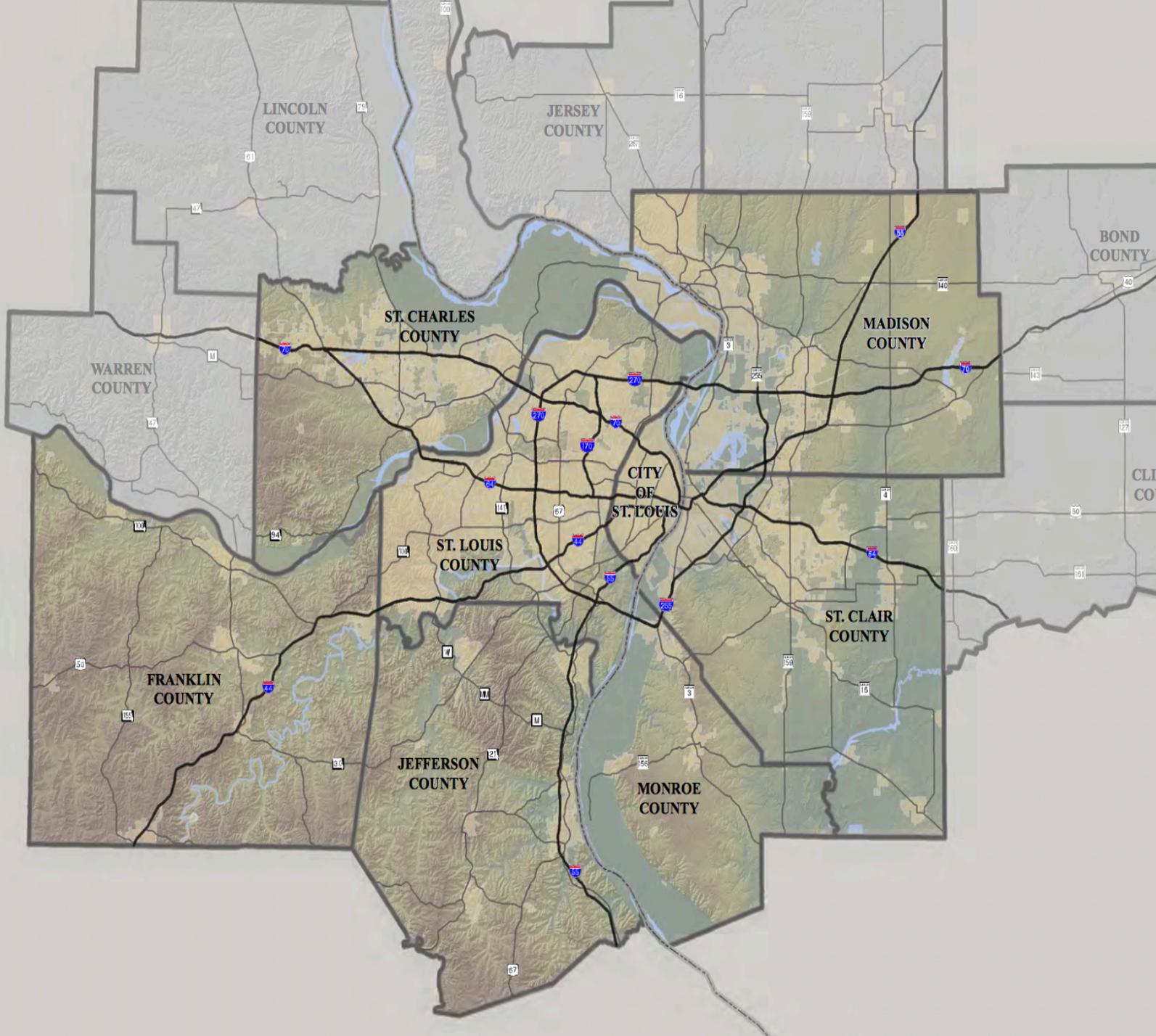
April 2013

**AREA OF COUNTIES IN THE
ST. LOUIS MSA (Sq. Mi.)**

Bond County, IL	380
Calhoun County, IL	254
Clinton County, IL	474
Franklin County, MO	923
Jefferson County, MO	657
Jersey County, IL	369
Lincoln County, MO	630
Macoupin County, IL	864
Madison County, IL	725
Monroe County, IL	388
St. Charles County, MO	560
St. Clair County, IL	664
St. Louis City, MO	62
St. Louis County, MO	508
Warren County, MO	431

East-West Gateway Region 4,487 sq. mi.

St. Louis MSA 7,889 sq. mi.



 East-West Gateway Region
(also part of MSA Region)

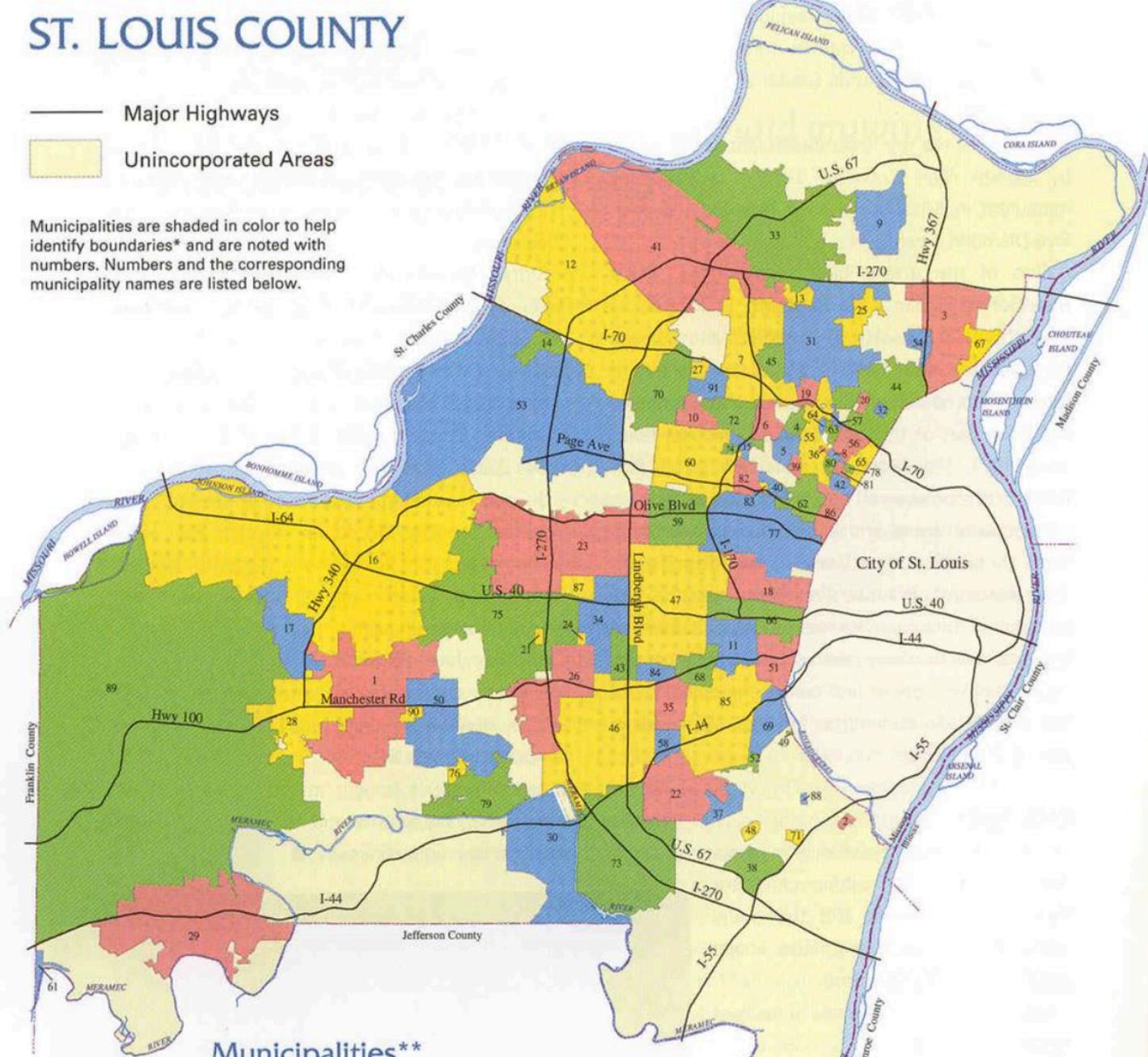
 MSA Region

 Incorporated Areas

ST. LOUIS COUNTY

- Major Highways
- Unincorporated Areas

Municipalities are shaded in color to help identify boundaries* and are noted with numbers. Numbers and the corresponding municipality names are listed below.



Municipalities**

- | | | | |
|------------------|-----------------------|---------------|----------------|
| 1. Ballwin | 23. Creve Coeur | 46. Kirkwood | 69. Shrewsbury |
| 2. Bella Villa | 24. Crystal Lake Park | 47. Ladue | 70. St. Ann |
| 3. Bellefontaine | 25. Dolhousie | 48. Lakeshire | 71. St. George |



Population St. Louis Metro Area

Missouri		
Franklin	101,492	
Jefferson	218,733	
Lincoln	52,566	
St. Charles	360,485	
St. Louis County	998,954	36%
Warren	32,513	
St. Louis city, MO	319,294	12%
	2,084,037	MO 75%
Illinois		
Bond	17,768	
Calhoun	5,089	
Clinton	37,762	
Jersey	22,985	
Macoupin	47,765	
Madison	269,282	
Monroe	32,957	
St. Clair	270,056	
	703,664	IL 25%

1976 -1982 The Grand Compromise

- 1973-77 Proposals offered to distribute all sales tax in STL county to cities by population
- 1977- legislation allows for countywide tax (1%) to replace local option subject to voter approval which was given
- - Cities that had tax could retain **Point of Sale** status (**A cities**)
 - Other cities and STL County would **Pool and** share on per capita basis (**B cities**)
- An A city could opt to enter the pool, but B cities could not change status

1983-1992 Annexation and Incorporation

- Annexation and incorporation (in early 1980s)
 - City of Olivette vs Graeler (1960)– county could challenge annexations/incorporations
 - City of Town and Country vs St.Louis County (1983)- overturned Graeler
- After Town and Country STL County Government could no longer effectively veto annexations and incorporations
- Many cities began to look for shopping center “opportunities”
 - This was viewed as serious threat to pool
- 1983 compromise legislation froze the pool
 - New annexed areas and new cities stayed in the pool
 - Three large new cities created: Chesterfield, Maryland Heights, and Wildwood over next decade
 - Also, numerous annexations
- Late 1980s- continued debate about pool “fairness”

Freeholder Debate over Government Reorganization late 1980s

- Freeholder provision in state constitution
- County Government pursues major reorganization
 - Consolidate municipal governments
 - End unincorporated areas
 - Countywide earnings tax
 - Limit on amount of sales tax that could be retained by cities
- Opposition from municipalities
- US Supreme Court finds Freeholder process unconstitutional

Westfall Tax Plan Debate- 1993

Initial Proposal

- County Executive Buzz Westfall in December 1992 proposed a major change in sales tax distribution
- Initial Ideas
 - Freeze per capita receipts for POS cities at 2x county-wide average **from the base year**
 - Distribute the extra POS funds to the pool
 - Allow cities to enact a quarter-cent tax to offset loss
- Expectation was that most POS cities would join pool either in 2000 or 2010 because POS revenue would be less than pool share

Opposition and Dialog

- POS cities responded with organized effort to defeat or modify Westfall Plan
- **Counter proposal by POS Cities**
 - All cities and unincorporated areas become POS
 - Cities above countrywide average contribute to a shared fund with those below countrywide average
 - Cities authorized to enact quarter-cent also with partial sharing

Compromise Plan

After period of intense negotiation a compromise was reached
Joint effort to secure legislative passage

Reform Plan Compromise

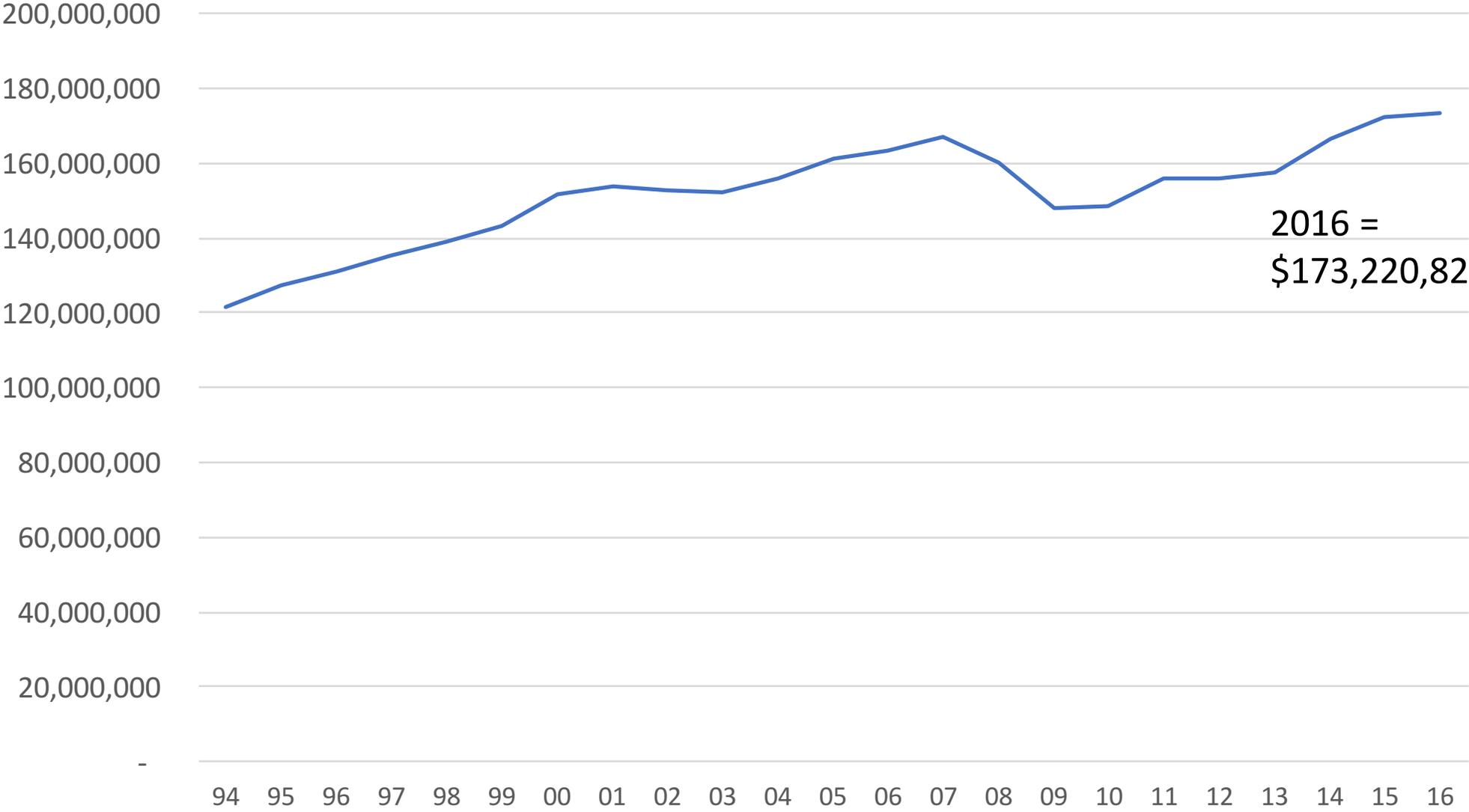
The Details

- POS cities above countywide average (CWA) to share one-cent based on a sliding scale (range of 7.5% to 25%)
- After 2000 minimum sharing 7.5 for cities over CWA and 12.5% for cities over 1.25 CWA
- Optional quarter cent available to all cities and shared on scale, but
 - less sharing of quarter cent than the one cent
- County to retain a portion of loss due to future annexation and incorporation

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

$$25.5 * \log_{10}(.035 * (\text{City's percapita sales tax} - \text{adjusted prior year county average percapita sales tax}))$$

Sales Tax Generated 1994-2016



2016 =
\$173,220,822

Top Sales Tax Generators 2016

	Type	2010 Pop	Gross Amount	% of Total
St Louis County	B	321,001	\$33,658,402	19%
Chesterfield	B	47,484	\$14,250,399	8%
Maryland Heights	B	27,472	\$8,940,724	5%
Florissant	B	52,158	\$7,166,320	4%
Brentwood	A	8,055	\$6,310,440	4%
Bridgeton	A	11,516	\$6,195,244	4%
Des Peres	A	7,853	\$5,385,759	3%
Fenton*	A	3,626	\$5,271,486	3%
Richmond Heights	A	8,603	\$5,140,708	3%
		487,768	\$92,319,482	53%

One Cent Sales Tax Sharing in St. Louis County 2016

	2010 Pop	% Pop	Tax Generated	% of TOT	Net Tax Received	Received as % Generated
POS Cities	270,212	27%	\$81,929,217	47%	\$61,278,294	75%
POOL Cities	335,744	34%	\$47,447,659	27%	\$50,749,502	107%
Annexed areas	60,479	6%	\$10,185,479	6%	\$8,593,514	84%
County	321,001	33%	\$33,658,402	19%	\$48,700,676	145%
Total	987,436	100%	\$173,220,757	100%	\$169,321,986	

POS Cities Percent Share with Pool 2016

- Net Amount After TIF \$79,041,883
- Shared by Formula \$16, 292,672

- Share Per Cent of Net 21%

Sales Tax Pool Sharing Per Capita 2016

- In 2016 Pool Cities and annexed areas received **\$142 per capita**
- Average POS per capita receipt (after sharing) **was \$217.**
 - Median was \$218.
- Range from \$4455 (Pacific) to \$127 (Kirkwood and Valley Park)
- Six POS cities received less per capita than Pool Share

Difference in Tax Generated by Category

POS	Number	Gross Sales Tax	
High As (2x county ave)	13	\$44,404,852	350+
Med As (ave to 2x)	11	\$24,698,235	175
Low As (below CWA)	10	\$11,176,301	less 175
	34		
		\$80,279,388	
Note: Ferguson & St Ann excluded shift to B			
Annex			
High ABs (2x county ave)	3	\$4,973,351	
Med ABs (ave to 2x)	5	\$4,575,782	
Low ABs (below CWA)	7	\$1,196,025	
	15	\$10,745,158	
Pool			
High Bs (2x county ave)	4	\$2,321,745	
Med Bs (ave to 2x)	4	\$23,753,683	
Low Bs (below CWA)	51	\$21,372,231	\$148 to \$2
County unincorporated	1	\$33,658,402	\$104
	59	\$81,106,061	

System Changes Since 1995

- Proliferation of additional Local option Sales Taxes
- Decline in sales tax rate of growth
- Chesterfield retail explosion—seek to change status
- Decline in sales tax collection – some POS cities
 - Especially due to mall closures-- St Ann and Crestwood for example
- Decline in collection in unincorporated county

Additional Local option Sales Taxes since 1995

- Quarter Cent as part of 1993 reform plan. 33 municipalities (15% sharing) 1993
- Half cent for Capital Improvements- 80 municipalities. (15% sharing) 1995
- Up to half cent for parks & stormwater- 50 municipalities (no sharing) 1995
- Up to quarter cent for fire departments- 15 municipalities (no sharing). 1999
- Up to quarter cent for economic development- 10 municipalities (no sharing) 2005

Shifts in Pool/POS in 2017 forward

- In 2016 two POS cities (**St. Ann and Ferguson**) changed status to become Pool Cities
- This adds 34,223 people to the pool
- **Jennings** took the same action a few years ago (pop 14, 712)

Chesterfield Complaint- State Action

- City of Chesterfield was incorporated in 1988
- Pool Freeze Law mandated permanent pool status
- Has become retail hub and generates nearly 10% of sales tax in County-
- Have sued to be allowed POS status- suit pending
- Secured 2016 legislation requiring that in 2017 pool cities are entitled to at least 50% of tax revenue generated

County Half Cent Proposal- 2017 Law Enforcement Focus

- County has put a half cent proposal on April 2017 ballot
- 3/8th to County for police expansion & equipment
- 5/8th for cities and unincorporated area (County) public safety
- County government receive 58% and cities 42% (on percapita basis)

Future Scenarios for Sales Tax

- Radical Changes

- Complete Per Capita
- All Point of Sale

- Incremental Changes

- Modify Pool Freeze
- Increase sales tax unincorporated areas for county services there
- Modify Quarter cent distribution—
 - only to those enacting tax
- County government adjustment
- New countywide tax for law enforcement (share municipalities)

Ideas for Major Structural Change

- City Reenter the County
- City County Merger
- Universal Incorporation
- Eliminate very small municipalities
- Bi-State Regional Governance

Sales Tax and Future Change

- To what extent does sales tax revenue drive other policy?
- What revenue system is most fair?
- Does sales tax financed local services encourage sprawl?
- Is there any solution that is truly regional?
- Why do voters support sales tax, but not property tax increases?

Note

Major parts of this presentation are based on the following research paper:

James Brasfield, “Sales Tax in Missouri: Revision or Reinvention?”

A project of the Applied Research Collaborative, January 2015

It is available online at:

<https://pprc.umsl.edu/pprc.umsl.edu/data/legislative-tax-structure.pdf>

Some of the tables in this Power Point have been updated since it was originally posted. The updated slides will be available from the author on request.

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