



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of St. Louis - Tax Increment Financing

Strategic Planning for Tax Increment Financing Incentives Needs Improvement	The City of St. Louis' strategic planning for tax increment financing (TIF) incentives is in need of improvement. While the city has documented policies related to TIF usage, the city's policy does not include specific program goals or strategic preferences, does not clearly define the evaluation process or criteria to be used in project selection, and does not include effective project cost limits or overall program cost controls. The city also does not maintain TIF data in a useful and transparent manner.
Cost Control and Project Financing Policies are Ineffective	Cost control policies in place for individual TIF projects have been ineffective in controlling costs. While these policies appear to provide specific project limits, in practice, they have been ineffective due to language in the policies allowing these requirements to be waived.
Project Evaluation Improvements Needed	The city policy does not define how the need for TIF incentives should be determined and documented. The city and the St. Louis Development Corporation (SLDC) were not able to provide documentation of all cost-benefit analyses requested, and projects were approved with flawed cost-benefit analyses, including overestimated revenue projections. While a new evaluation model has been put in place and improved these processes, additional improvement is needed. In addition, policies are needed to ensure allowable developer fees are reasonable and defined.
Developer Profits Not Monitored	The city has historically not compared actual developer profit to the projected profit by project. As a result, the city may be providing public incentives for private projects that did not need to be incentivized.
Fee Structure Creates the Appearance of a Conflict of Interest	The SLDC's fee structure creates the appearance of a conflict of interest for the agency. This agency evaluates project applications and makes recommendations related to incentive projects, and is also partially funded with fees generated from approved incentive projects. The amount of the fees received increases with the size of the award.
Governmental Accounting Standards Board Violation	The city did not include the amount of TIF project revenues redistributed for fiscal 2018 or 2017 in its Comprehensive Annual Financial Report as required by the Governmental Accounting Standards Board Statement No. 77.

In the areas audited, the overall performance of this entity was **Fair**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.



Recommendations in the audit of the City of St. Louis - Tax Increment Financing

Strategic Planning for Tax
Increment Financing
Incentives Needs
Improvement

The City of St. Louis:

- 1.1 Establish specific goals and measurable objectives for the TIF program, and identify specific strategic preferences of the TIF program and incorporate these preferences in the TIF policy and project evaluation process. Establishing such strategic preferences would include establishing appropriate performance measures to track the effectiveness of the policy.
- 1.2 Establish appropriate overall program cost limits of the TIF incentive program.
- 1.3 Establish procedures to ensure TIF incentive data is readily available to the Board and to the public.

Cost Control and Project
Financing Policies Are
Ineffective

The City of St. Louis:

- 2.1 More strictly define the cost limitation policy, and ensure any necessary waivers from this policy are well defined and documented.
- 2.2 More strictly define the debt coverage policy to ensure projects approved have sufficient revenues to cover projected liabilities and consider not allowing this requirement to be waived. Also, consider updating the policy to define what funding method is preferred.

Project Evaluation
Improvements Needed

The City of St. Louis:

- 3.1 Ensure the project evaluation model continues to develop and ensure the calculation of developer return is defined and consistently calculated, and the calculation is maintained.
- 3.2 Ensure the cost-benefit analysis required by state law is submitted for each project and retained, and perform a critical review of cost-benefit assumptions to improve the accuracy of project revenue projections used in the TIF decision-making process.
- 3.3 Establish a policy regarding acceptable levels of developer fees for TIF projects and ensure developer fees stay within allowable ranges.

Developer Profits Not
Monitored

The City of St. Louis ensure the requirements imposed by Resolution 104 are implemented and monitor the IRRs to ensure actual IRRs are similar to the projected IRRs.

Fee Structure Creates the
Appearance of a Conflict of
Interest

The City of St. Louis evaluate and restructure the fees paid to the SLDC to remove the appearance that a conflict exists.

Governmental Accounting
Standards Board Violation

The City of St. Louis consult with its financial auditor to determine proper
TIF reporting for the city's CAFR.