



# TESTIMONY

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## THE LAKEPORT VILLAGE TAX INCREMENT FINANCING PROPOSAL

*By David Stokes*

Testimony before the Osage Beach Tax Increment Financing Commission

### TO THE HONORABLE MEMBERS OF THIS COMMISSION

Thank you for the opportunity to testify today. My name is David Stokes. I am director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has reviewed and published concerning the costs and benefits of tax-increment financing (TIF) and other forms of local tax subsidies. This testimony should not be viewed as specific support for, or opposition to, any particular plan that the City of Osage Beach is considering beyond opposition to the use of approximately \$78 million in taxpayer subsidies for the Lakeport Village redevelopment plan (also referred to as the Oasis at Lakeport). Osage Beach and the entire Lake

of the Ozarks region are a thriving economic success story that has no need for these types of tax subsidies and corporate welfare.

### Tax-Increment Financing

In theory, establishing a TIF district involves serious and impartial deliberation and calculus to determine whether a proposal could happen “but for” the taxpayer assistance, and if the area meets the standards for a designation of “blight” or “conservation” (or another appropriate designation), making it eligible for subsidies.

In reality, the process is a bad joke. The “but-for,” “blighting,” and other tests, which are supposed to be subject to independent analysis, are a rigged game. The standards for “blight” are so broad that almost any urban part of Missouri could qualify for one of these classifications. The overwhelming majority of TIF proposals pass these supposed “tests”

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and get the green light for subsidies. While there may be examples of proposals that did not meet these thresholds according to the urban planners hired to analyze the plans, we are not aware of one specific project considered by a city or county in the state of Missouri that failed these tests and that urban planners found to be inappropriate for taxpayer subsidies. Not one. Taxpayer dollars fund the lawyers and planners who work arm-in-arm with the cities, shielding participants from any hard decisions or risk. Everyone involved in the process (planners, architects, lawyers, developers, the city itself) makes money if the project goes forward. Why would any of them jeopardize the entire deal by saying it—or something close to it—would likely happen even without taxpayer assistance?

For this particular Osage Beach proposal, the urban planners and the financiers say that the area is blighted and needs \$52 million in TIF subsidies, an additional \$11 million in state TIF funds, and \$15 million in special sales tax districts, including a community improvement district (CID) and transportation development district (TDD), to succeed.<sup>1</sup> It should be kept in mind that these statements were not coming from independent voices, but rather from entities working for or with the developers.

TIF and other subsidies are not needed for developments to succeed. This can easily be seen in the tremendous growth—most of it without subsidies—in the Osage Beach area in recent decades. Other cities in Missouri have also had projects go forward without the use of TIF. Several years ago, the eastern Missouri city of Florissant rejected a Walmart TIF proposal within the city—yet the project went forward anyway. Columbia also recently rejected some major TIF applications. Kansas City is tightening up its rules on subsidies. St. Louis and St. Charles counties have become much stricter about their use of TIF in recent years. For instance, St. Louis County rejected a proposed \$150 million floodplain TIF in 2020.<sup>2</sup>

Tax-increment financing has had the following effects in Missouri:

1. It has increased government management of the economy, further empowering planners and bureaucrats (rather than economic best practices) to determine where businesses locate.
2. It has sparked the abuse of eminent domain for private purposes.

3. It has made subsidies a permanent fixture of development in our communities.
4. It has transferred the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
5. It has failed at one of its main purposes: economic growth. The East-West Gateway Council of Governments (the regional planning agency for St. Louis) concluded that TIF and transportation development districts have created jobs in our community at the rate of one retail job for every \$370,000 in taxpayer subsidies. That is not a road to growth—it is a road to poverty.<sup>3</sup>
6. It has authorized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else. In this TIF decision, the city of Osage Beach is making tax choices that will negatively impact entities such as the Camdenton County R-3 School District, Camden County, and other local taxing agencies.

The developers and planners for this development claim that the taxing districts will receive more money now even with the subsidies. But history and research demonstrate the inaccuracy of that claim. For example, the Ballpark Village TID in downtown St. Louis made similar claims, but after it opened the newly subsidized ballpark development drove out of business several existing bars and restaurants that had been paying full taxes with no subsidies. That tax money was lost immediately, while the subsidized Ballpark Village expanded but did not bear the same tax burden. Calculations like that are never included in the “economic analysis” prepared in support of such TIF proposals.

The East-West Gateway study is not the only one to find that TIF fails at job creation and economic development. A study for the Show-Me Institute on TIF in Missouri found no evidence that TIF systematically promoted economic growth in St. Louis or Kansas City.<sup>4</sup> A study of the use of TIF in Iowa concluded that, “On net . . . there is no evidence of economy-wide benefits (trade, all non-farm jobs) fiscal benefits, or population gains.”<sup>5</sup> A study out of Chicago shows that the city’s heavy use of TIF has not led to net job creation for residents.<sup>6</sup> Another study from Illinois found that economic growth in cities that did

not use TIF was stronger than in cities that did use TIF. From the study<sup>7</sup>:

If the use of tax increment financing spurs economic development that would not have happened but for the public expenditures, we would expect (after controlling for other growth determinants and for self-selection) a positive relationship between TIF adoption and growth. If the use of tax increment financing merely moves capital around within a municipality, relocating improvements from non-TIF areas of the town to within TIF district borders without changing the productivity of that capital, we would expect (after appropriate controls) to find a zero relationship between TIF adoption and growth. **What we find, however, is a negative relationship between TIF adoption and growth. This is consistent with the hypothesis that government subsidies reallocate property improvements in such a way that capital is less productive in its new location.** [Emphasis added]

In the same way, it is not hard to see why Osage Beach officials may think it is beneficial and appropriate to use tax incentives for this area, or why Maryland Heights wanted to pave over its floodplain using TIF, or why Independence officials wanted to ensure that the city had a Bass Pro within its borders.<sup>8</sup> The potential short-term gains and the appearance that elected officials are “doing something” are powerful incentives. But the constant use of tax incentives for retail purposes in Missouri is the economic equivalent of “dig ditch, fill-up ditch, repeat.” The recent use of TIF has not led to economic growth for the Lake of the Ozarks region as a whole, but awarding TIF is the safe move for local leadership. Other cities use TIF, and approving a TIF project can make it appear that you are out there fighting for your community. Everyone wants a “do-something” leader, so even though the evidence says this is a bad move for the overall economic health of the region, local leaders often support TIF.

Certainly, TIF has been used frequently in the Lake of the Ozarks region in recent years. Would economic growth have been better or worse without the use of TIF? That is impossible to know for every individual development, but overall the research is clear that the subsidies are wasteful. We do know that local officials routinely ascribe all of the economic growth from certain projects to tax incentives, when the fact is that local incentives generally have little or nothing to do with regional economic success.<sup>9</sup>

According to a paper for the Show-Me Institute from Washburn University Professor Paul Byrne, the differences in tax bases can result in inefficient development plans.<sup>10</sup> Byrne gives a hypothetical example where the increase in sales tax collections gives the city a reason to move forward with a project, even though the combined loss (taken as net present value) in property tax revenues for the school district, county, and city more than offset the sales tax gains for the city. Of course, Byrne’s theoretical problem is exactly what other researchers such as Dye and Merriman (the authors of the previously cited Illinois study) found to occur in reality.

I urge this TIF commission and the City of Osage Beach to be one of the first political bodies to recognize that the constant quest for, and granting of, tax incentives is actively harming the economic base of the Lake of the Ozarks region. By passing this TIF proposal, Osage Beach might gain in the short term, but it would do so at the expense of the schools, the county, and many other taxing districts. It will also come at the expense of existing businesses that did not receive subsidies that now have to compete against a development that may receive \$78 million in taxpayer support. Finally, it will continue the downward spiral of incentive-based developments that shrink the region’s tax base while appearing to benefit the latest player.

When a game isn’t working, the smart move is to stop playing rather than repeating failed strategies just because that is what some other players are doing. Not playing is the right move for Osage Beach. We hope this commission and this city can lead the way to a new realization throughout our region that economic development works for everyone when governments do not play favorites and businesses succeed or fail on their own merits.

Overall tax rates in the Lake of the Ozarks-area are indisputably low. For instance, the Camden County commercial surcharge property tax that this development would pay is only three cents per one-hundred dollars of assessed valuation. That is the second-lowest county rate in the entire state, dramatically lower than the average commercial surcharge rate.<sup>11</sup> Local government should focus on keeping tax rates low for everyone instead of artificially lowering them more for the chosen few and making them marginally higher for everyone else.

## CONCLUSION

This proposal before this commission for a TIF, before the city for a CID and TDD, and (eventually) for a state super-TIF is a harmful and wasteful use of tax dollars. Enacting this plan would be a poor choice for the city, an abuse of taxpayers from around the state, and a large step in precisely the wrong direction for economic development in the Lake of the Ozarks region. It is time for the city government to remove itself from its purported role in economic development and allow markets, residents, entrepreneurs, and private companies to make those choices. Following the example of other cities statewide and recognizing the failure of TIFs, Osage Beach should reject this TIF proposal and continue to allow economic development to occur without burdening taxpayers and without the city attempting to act as central planner.

## NOTES

1. Lakeport Village Tax Increment Financing Redevelopment Plan, <http://mo-osagebeach2.civicplus.com/ArchiveCenter/ViewFile/Item/3447>.
2. St. Louis County has also approved TIFs in recent years, such as in Chesterfield in 2022.
3. East-West Gateway Council of Governments, January 2011. "An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region." Final Report: 18.
4. Lester, William, and Rachid El-Khattabi, "Does Tax-Increment Financing Pass the "But For" Test in Missouri?" Show-Me Institute Policy Study No. 41, Nov. 2017.
5. Swenson, David, and Liesl Eathington. April 2002. "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" Department of Economics, Iowa State University: 11.
6. Moser, Whet. "Do TIFs Create More Jobs? New Study: 'No'." Politics and Urban Life, Nov. 13, 2013.
7. Dye, Richard, and David Merriman. March 2000. "The Effects of Tax Increment Financing on Economic Development." Journal of Urban Economics, Volume 47, Issue 2: 306–328.
8. The Bass Pro TIF in Independence resulted in the city stepping in to pay bond payments that the TIF failed to pay.
9. The Iowa State researchers referred to this as the "bird in the hand" problem. City officials used TIF, and now they have a firm with jobs. How could TIF not be instrumental in that job growth? Local politicians are generally not interested in what might have happened absent their program or project.
10. Bryne, Paul. "Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions," Show-Me Institute policy study No. 32, April 2012.
11. Only Reynolds County, at \$0.01 per \$100, is lower than Camden County's \$0.03 per \$100 tax rate. The mean tax rate by county is \$0.53. The median is \$0.41. Any way you look at it, this specific tax rate (and others in the region) are comparably low.



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