



TESTIMONY

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THE PROPOSED TIF FOR THE ARROWHEAD CENTRE

By Michael Rathbone

Testimony before the Osage Beach Tax Increment Financing Commission

To the Honorable Members of the Committee:

Thank you for the opportunity to testify. My name is Michael Rathbone, and I am a policy researcher at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are my own.

The redevelopment of the Dogwood Hills Golf Course (hereafter referred to as the “Redevelopment Area”) is welcome, but the desire on the part of developers for public subsidies is unfortunate. According to the Tax Increment Financing (TIF) plan for this project, the developer is asking for \$55,835,595 for the Redevelopment Area.¹ Osage Beach has a history of granting TIF to redevelopment projects. According to the Missouri auditor, Osage Beach has previously

given out over \$26 million to three projects.

This latest project proposal is an excellent opportunity for this commission to reconsider the constant subsidy approach. Nothing about this project should involve public assistance. The project is located near Highway 54 along KK State Highway. The idea that a new development in this area needs a public subsidy is misguided. Redevelopment can go forward in this area without subsidies. The fact that other developments in Osage Beach may have a subsidy is a testament to the ease of getting them, not the necessity of them.

The TIF Process

In theory, establishing a TIF district involves serious and impartial deliberation and calculus by a city’s policymakers. When a city intends to revitalize a part of its community, it must first go through a complicated

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process designed to test whether certain tax incentives are allowed.

The city contracts with urban planners who “independently” determine if a proposal could happen “but for” taxpayer assistance and if an area meets the eligibility standards for “blight” or another appropriate designation. A developer is then brought into the process and, with the assistance of the government and the taxpayers, is supposed to produce an economic growth engine that provides jobs, a revitalized community, and (eventually) an expanded tax base.

In reality, the process falls far short of being any type of objective assessment of the proposal. The tests that determine whether or not a project qualifies for TIF, including the “but for” tests and “blighting studies,” have become a biased process subject to the “independent” analysis of interested parties. How else can I explain the fact that I cannot find one project in the state of Missouri that has failed these tests and that urban planners have found to be inappropriate for taxpayer assistance? Not one. Taxpayer dollars pay back the lawyers and planners who work arm in arm with the cities, shielding the process from hard decisions and risk. Everyone involved in the process (planners, architects, lawyers, and developers) benefits if the project goes forward. Who among them is going to jeopardize the entire deal by saying—or something close to it—the development would likely happen even without taxpayer assistance?

Effects of TIF on Osage Beach

TIF has had the following effects on the Lake of the Ozarks:

1. It has increased government management of the economy. TIF further empowers planners and bureaucrats who can then decide where businesses locate instead of letting the market determine business decisions.
2. It makes subsidies an increasingly prevalent feature of development in the community. As I mentioned before, Osage Beach has previously approved three TIFs. If Osage Beach continues to approve subsidies for new developments, where will the line be drawn for future projects?
3. TIF transfers the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
4. It has authorized local leaders to make tax decisions that may benefit their immediate city at the expense of everyone else. Though the developer is to be commended for diverting some of the new tax revenue its project will generate back to other taxing districts, with this TIF decision, the city of Osage Beach is still making tax choices that will negatively impact entities such as the Camdenton School District, Mid-County Fire Protection District, and the Camden County Library District.

Economic Research

The East-West Gateway Council of Governments studied the use of TIF in Saint Louis and concluded that TIF and Transportation Development Districts (TDDs) have created jobs in Saint Louis, but at the rate of one retail job for every \$370,000 in taxpayer subsidies.² That is not a road to growth—it is a road to failure.

A study on the use of TIF in Iowa concluded, “On net ... there is no evidence of economy-wide benefits (trade, all non-farm jobs), fiscal benefits, or population gains.”³ A recent study out of Chicago shows that Chicago’s heavy use of TIF has not led to net job creation for residents.⁴ Another study on Illinois’ use of TIF found that economic growth was stronger in cities that did NOT use TIF than in cities that did. From the study:⁵

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.

TIF, however, does succeed in imposing new costs on other taxing districts without allowing them to grow their tax base to pay for those costs. Cities aggressively seek TIF because they directly benefit from them without paying the necessary costs. TIF is not a requirement for developments to proceed, even when urban planners find the redevelopment area “blighted” and that the development cannot proceed “but for” taxpayer assistance. Other cities in Missouri have had projects go forward without the use of TIF. Recently, the eastern Missouri city of Florissant rejected a Walmart TIF proposal within the city. Yet, the project is going forward without a TIF.⁶ Columbia also has recently rejected some major TIF applications. Closer to the city, Camden County considered, but then decided against, establishing an Enhanced Enterprise Zone (EEZ).⁷ Osage Beach should strongly consider joining that club.

Conclusion

It is understandable why TIF would be an attractive option for local economic development. Osage Beach residents and policymakers might fear “unilateral disarmament” in the economic development game. Other cities still use subsidies, and that could put Osage Beach at a disadvantage. That fear is overblown. In reality, cities like Saint Louis have been using TIF and other redevelopment tools for over half a century, and it has not worked out well. *Mapping Decline*, a 2008 book by Colin Gordon, documents the decline of the city of Saint Louis. The book’s research is exhaustive. The dominant theme is the use of urban renewal tools and tax subsidies—and their absolute, total failure. From the conclusion:

The overarching irony, in Saint Louis and elsewhere, is that efforts to save the city from such practices and patterns almost always make things worse. In setting after setting, both the diagnosis (blight) and prescription (urban renewal) were shaped by—and compromised by—the same assumptions and expectations and prejudices that had created that condition in the first place.

I understand that Osage Beach is not Saint Louis. That fact offers Osage Beach the opportunity to avoid Saint Louis’ mistakes. It is one thing for Saint Louis to try these projects and have them fail. It would be even worse for a city like Osage Beach

to follow that example with the knowledge that the entire process has failed. At least the trailblazer who takes the wrong path has an excuse.

Instead of using TIF to spur economic development, Osage Beach can promote the fact that it resides in a county with the second lowest commercial surtax rate (three cents) in the state and lower than any of its neighboring counties. Considering that there are counties in Missouri with surtax rates above one dollar (e.g., Clay County, Greene County, Saint Louis), the fact that Camden County has such low rates is an advantage that can and should be advertised to companies and developers who might want to do business in the area.

It is time for the city government to remove itself from its purported role in economic development and allow markets, entrepreneurs, and private companies to make those choices. Following the example of other cities statewide and recognizing the failure of TIF, Osage Beach should reject this most recent proposal and find new ways to entice economic development without burdening taxpayers.

Michael Rathbone is a policy researcher at the Show-Me Institute.

7 “Looking Forward Camden County: Fostering County Business,” *Lake News Online* (July 22 2014), <http://www.lakewebsonline.com/article/20140722/NEWS/140729704/?Start=4>.

NOTES

1 Arrowhead Centre Tax Increment Financing Plan: [https://www.dropbox.com/s/mko10xtfgcjazxn/Arrowhead%20Centre%20TIF%20Plan%20\(with%20exhibits\).pdf?dl=0](https://www.dropbox.com/s/mko10xtfgcjazxn/Arrowhead%20Centre%20TIF%20Plan%20(with%20exhibits).pdf?dl=0).

2 East-West Gateway Council of Governments, “An Assessment of the Effectiveness and Fiscal Impact of the Use of Local Development Incentives in the St. Louis Region,” *Final Report* (January 2011): 18, <http://www.ewgateway.org/dirr/datafiles/2012update.xls>.

3 David Swenson and Liesl Eathington, “Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?” (Iowa State University, Department of Economics, April 2002): 11.

4 Whet Moser, “Do TIFs Create More Jobs? New Study: ‘No’” *Politics and Urban Life* (Nov. 13, 2013), <http://www.chicagogmag.com/city-life/November-2013/DoTIFs-Crete-Jobs-A-New-Study-Says-No/>.

5 Richard Dye, and David Merriman, “The Effects of Tax Increment Financing on Economic Development,” *Journal of Urban Economics* 47, no. 2 (March 2000): 306-328.

6 The developers in Florissant did receive a smaller subsidy in the form of a TDD from the court.



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