



# TESTIMONY

June 19, 2017

## ON THE EXTENSION OF THE CHESTERFIELD VALLEY TDD SALES TAX

*By Graham Renz*

Testimony Before the Chesterfield Valley Transportation Development  
District Board of Directors

### **TO THE HONORABLE MEMBERS OF THIS BOARD**

My name is Graham Renz, and I am a policy researcher for the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. The purpose of this testimony is to raise a number of questions about the effort to extend a special sales tax to subsidize an ice facility in the Chesterfield Valley.

### **PROJECT OVERVIEW**

The Chesterfield Hockey Association (CHA) has proposed a \$22.6 million sports complex, focused primarily on ice sports, in the Chesterfield Valley retail area. The impetus for the project was the recent closure of an ice facility (the Hardee's Iceplex) in the area.

Funding for the facility would come from three main sources: \$8 million

from charitable donations, \$8 million from a traditional bank loan, and \$7 million from a special sales tax levied within the Chesterfield Valley Transportation Development District (TDD), which encompasses most of the retail area in Chesterfield south of I-64/40. Registered voters in roughly 140 homes within the TDD boundaries would have to authorize the use of special sales tax proceeds for construction of the sports complex.

### **DOES THIS MAKE ECONOMIC SENSE?**

The proposal raises several economic and financial questions, in part because it entails subsidizing an enterprise that the market alone is unlikely to support.

The first is whether it is appropriate for government—in this case, a special taxing district formed jointly between the City of Chesterfield and Saint Louis County—to “invest” taxpayer dollars in a private venture.

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If the Hardee's Iceplex couldn't stay open, what reason is there for taxpayers to think a new sports complex will be sustainable? If private actors in the economy don't feel an ice complex is a good use of resources, why do we think an ice complex is a good use of the public's resources?

A brief look at an economic analysis commissioned by the developers of the sports complex puts these questions in context. Their analysis reports that "current demand for ice time in the Saint Louis market has not exceeded the supply which has resulted in creating a 'buyer's market'." It also reports that interest and participation in ice sports like hockey is relatively flat, and has even declined in some areas. In short, there is no unmet demand for ice facilities in the Saint Louis market, and no reason to believe such a demand will develop. The closure of the Hardee's Iceplex was not a random event, but a response to economic reality: there isn't enough consumer demand to justify investments in ice facilities.

The economic analysis should prompt serious concern about whether investing in an ice facility—in an effort to replace one that just went out of business—is a prudent use of limited public resources.

Proponents may answer that, as the same market analysis I mention notes, the owner-operator structure of the proposed sports complex insulates it from market forces. That is, since the CHA will own, operate, and use the sports complex, it won't need to worry about generating enough revenue to stay afloat. In fact, the analysis indicates the sports complex will have a monopoly on the Chesterfield ice sports market, and therefore ought to fare quite well.

But why would it have such a monopoly? Will Chesterfield residents be forced to use it? And while the location is more convenient to Chesterfield than other ice venues, so was the Hardee's Iceplex; and that was not enough to make the Iceplex a going venture.

The programs that would generate revenue for a new sports complex were not sufficient to keep the Iceplex afloat. So, unless the CHA will do far more business with its own facility than it did with the Hardee's Iceplex, it seems doubtful the new facility will fare much better than other ice facilities in the area. The market analysis indicates

that the sports complex may draw other, non-ice sports programs. If so, it will do so primarily by luring programs away from existing venues—the West County YMCA and the JCAA to name just two. Subsidizing an ice complex would thus amount to picking winners and losers in the market.

Now for my second question: Why should taxpayers subsidize an ice facility in Chesterfield when another, much larger (and duly subsidized) ice complex is planned in Maryland Heights, just a few miles away? To be blunt, what is the fascination with publicly subsidizing venues for a particular market that has not been big enough to support such venues in the past, and that is not growing? Related to this is another question: Were there discussions with proponents of the facility planned for Maryland Heights? If so, why was it settled that both proposals would go forward and that both would ask for public assistance? Just this past week the County Executive recognized that, as a region, our governments need to think about cost savings. Well, there is no time like the present. Here is a golden opportunity for the county to begin exercising such thoughtfulness.

My third question is, briefly: How and why did we get here? That is, why is this body prepared to ask voters to subsidize a \$22.6 million facility? Was a facility of this size and cost the only and/or best option available? Might an adequate ice facility for Chesterfield be constructed with, say, \$15.6 million (i.e., the sum of the bank loan and charitable donations)? While I cannot generate the figures myself, I can imagine the cost of doing so would be significantly lower if a \$7 million taxpayer subsidy were not available. Moreover, how was it decided that the improvements a subsidy would cover, (viz., items included in the "Additional Transportation Project") were needed or genuinely in the public interest? While a parking lot open to the public can be a public good, is there a dearth of parking in Chesterfield this project is supposed to remedy? Given that TDDs are supposed to fund needed public improvements, the use of such a special taxing district in this case may be seen as abusive.

In short, one wonders if the currently considered proposal was the only option forward. It seems highly unlikely that it was, which raises the question of whether public funds need to be involved in a Chesterfield ice complex

at all. In fact, the CHA has itself proven that no public money is genuinely needed for a sports complex. On May 1, the CHA announced that “Through the generosity of a private investment group, an existing building in the southwest metro area has been placed under contract for use as an ice rink.”<sup>1</sup> But, while it is great that private funds are being used for this project, it’s troubling the current proposal is still moving forward. The supposed impetus for bringing a sports complex to Chesterfield was to address a lack in available ice—to find a new home for the CHA. But it now has a home—one that doesn’t require taxpayer assistance. For what plausible reason could the sports complex proposal still be moving ahead?

Before raising a number of other questions, and while we’re on the topic of economics, let me address the claim that the proposed Chesterfield Sports Complex will boost the economy. Proponents have likely paid a consultant to produce a study estimating the economic impact of the proposed sports complex. I’m no clairvoyant, but I can assure you it will conclude the project will be a boon for the local economy, that the complex will bring tourists from all over, who will fill up local hotels and restaurants, and buy all sorts of goods and services in Chesterfield. It will also say that if no facility fills the gap left by the Hardee’s Iceplex closure, Chesterfield will lose out on tens, if not hundreds, of millions of dollars. Thus, for the economic health of Chesterfield, we must invest!

This line of thinking is misguided in a number of ways. For one, any “gap” in the Chesterfield economy left by the closure of the Hardee’s Iceplex will be more than filled by the property’s new tenant, Top Golf. Thus, there is no economic reason to bemoan the Iceplex’s closure—its place is being taken, not wiped off the face of the Earth.

Second, economic impact studies of this sort almost never examine the opportunity costs associated with the examined projects. That is, they seldom consider if the public subsidy could be used for other, more productive uses than (in this case) a sports complex. So, even assuming the rosy assumptions about the complex’s impact are accurate, are there not better, more lucrative projects the \$7 million might be invested in?

Third, there is much more to the economy than hotels and restaurants. By creating demand for these select, privileged businesses we do not thereby make society, or the average

Chesterfield household, any richer. We simply redirect economic activity that would have happened in some other form. And, since taxes take money out of people’s pockets, those people will have less to spend at other businesses—the businesses not benefiting from taxpayer support. In short, it is not the duty of taxpayers to create artificial demand for a select few businesses. If a new sports complex really is a boon for local businesses, perhaps these businesses can foot the bill themselves and not rely on taxpayers.

To conclude, there is little reason to think the proposed sports complex in Chesterfield will have a measurable effect on the local economy, whatever its promotional economic “analysis” concludes.<sup>2</sup>

## WHY NOT ALL OF CHESTERFIELD?

Proponents of the project claim that Chesterfield is a “Hockey Town” and so, ought to invest in the proposed sports complex. Whatever this nebulous claim actually means, the idea that a community should invest in certain communal assets is reasonable. But shouldn’t the community have a say in it?

Project proponents are asking for funding from a special taxing district, not from the City of Chesterfield. The laws that govern these districts state that only registered voters who reside within a district’s boundaries are eligible to vote on tax increases and other district matters. While there are 19,224 households in the City of Chesterfield, only voters in roughly 140 households will have a say on whether the sports complex should be subsidized.<sup>3</sup> Yet the special sales tax that would support the sports complex is levied on every shopper in the valley retail area. So, even while many (if not most) of the shoppers in the valley area are Chesterfield residents, and so would pay taxes for the sports complex if it is approved, they will not be able to vote on the matter. To put this in perspective, if we divide the \$7 million in subsidies by the 400 hockey players that register each fall with the CHA, we arrive at a total of \$17,500 for each player!

If Chesterfield really is a “Hockey Town”, why are over 99 percent of Chesterfield residents being denied any say in whether or not their tax dollars support the proposed sports complex?

## WILL VOTERS KNOW THE DETAILS?

While the proposed sports complex has been publicly discussed for months, little is known about the details of the project. Here are some questions that need to be asked and answered: What will the ownership structure of the sports complex be? Will the TDD or the City of Chesterfield or Saint Louis County, or some combination thereof, partially own the complex or the land it sits on? If there is no public ownership, and the facility is sold or folds, will taxpayers receive a share of the profits (or be saddled with a share of the losses) or gain control of the facility? In short, will the taxpayers' "investment" be protected? Given that the market analysis states the sports complex is insulated from market conditions by its unique "owner-operator" structure, has an ownership arrangement been decided but not publicly discussed? Will the public have free or discounted access to the facility? Since taxpayers are covering roughly a third of the project's construction costs, it's entirely reasonable for the public to have access to the facility. If Chesterfield residents do have free or discounted access to the facility, will it be at reasonable times? Given the sports complex is being promoted as the new home of Chesterfield hockey and ice sports, will there ever be time for the public to actually use the facility? If so, how much time? Suppose the convenient findings of the market analysis—that the complex will generate exactly enough revenue to cover its operating costs—do not reflect future market conditions. That is, suppose the complex experiences an operating deficit. Will tax dollars be used to fill this budget gap? Will TDD, City, or County voters make up any shortfall the complex incurs? If so, will taxpayers be asked to approve such a bailout?

Again: Will these relevant details be available to the public before they're asked to open their wallets? Will they be nailed down before residents of the TDD are asked to vote? I hope this board understands how irresponsible it would be for things to be otherwise.

## TO LUMP OR NOT TO LUMP

In previous testimony delivered to this board, I presented several best practices to improve transparency and accountability.<sup>4</sup> One of those best practices was to avoid "lumps":

*Many proposals brought before voters are what we might call "lumps." A lump is a single ballot question that commits taxpayers to many different, sometimes unrelated, projects. Rather than keep funding decisions separate, lumps make funding decisions "all-or-nothing" propositions. There is no need to make any future proposals of this board or the district it governs lumps. Separating projects by presenting them to voters in separate questions allows for the most flexibility, and will likely lead to the most democratic results possible. From a public policy perspective, voter flexibility is something that should be enhanced, not curtailed.*

Given that this board is considering the partial funding of an interchange with I-64/40 near Long Road—a project unrelated to the proposed sports complex—it would be best for the board to keep that proposal separate from the sports complex question. So, will this board lump the sports complex with an interstate improvement project, making an election an all-or-nothing proposition? Or will this board avoid such game-playing?

## CONCLUSION

I hope this testimony is not taken as opposition to the construction of a sports complex in Chesterfield. A complex could benefit certain members of the local community. But as the questions I have raised highlight, its construction through the use of public dollars is poor public policy, and the process that is being followed is questionable. I hope the members of this board, proponents of this project, residents of the TDD, and taxpayers in general understand the importance of the issues raised and the need for clear answers.

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*Graham Renz is a policy researcher at the Show-Me Institute.*

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## ENDNOTES

1. “New Ice Rink Announcement” Chesterfield Hockey Association. Available at: <http://assets.ngin.com/attachments/document/0123/5828/New-Ice-Rink-Announcement-5-1-17.pdf>
2. For a thorough discussion on the flaws these studies suffer from, see Dennis Coates and Brad Humphries. (2008). “Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?” *Econ Journal Watch* 5 (3): 294–315.
3. American Fact Finder, Census Bureau. Available at: <https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF>
4. Renz, Graham. “Best Practices and the use of Public Funding for an Ice Facility in Chesterfield”, Graham Renz (Show-Me Institute Testimony, 12/17/2016). Available at: <http://showmeinstitute.org/sites/default/files/20161216%20-%20Funding%20for%20Chesterfield%20Ice%20Rink%20-%20Renz.pdf>

## NOTES

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**5297 Washington Place | Saint Louis, MO 63108 | 314-454-0647**

**3645 Troost Avenue | Kansas City, MO 64109 | 816-561-1777**

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