



# TESTIMONY

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## TAX INCREMENT FINANCING AND THE BRANSON ADVENTURES PROJECT

*By Patrick Tuohey*

Testimony before the Branson Board of Aldermen

### TO THE HONORABLE MEMBERS OF THIS BOARD

My name is Patrick Tuohey, and I am the Director of Municipal Policy 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 briefly discuss research by Show-Me Institute analysts and others that demonstrates the failure of tax-increment financing (TIF) projects to deliver on promises of spurring investment or creating jobs.

The original intent of TIF was noble. It was meant to reduce the cost to developers of building in economically declining areas. But because the standards for awarding TIF in Missouri are so weak, cities have instead used it to subsidize construction in areas that are economically vibrant, or just to make a project that would

be profitable without the subsidy even more profitable for private investors. According to Steve Potter, head of the Mid-Continent Public Library, “Every piece of property can be declared blight under the statute”—including, Potter observed, the Governor’s Mansion in Jefferson City.<sup>1</sup>

Before you is a development plan that asks the taxpayers of Branson to divert hundreds of millions of dollars of tax revenue to developers to build a water park that they project will bring 600,000 visitors each year. This would make it the 7th most popular water park in the United States. The developers claim the project will create 900 full-time jobs immediately, ramping up to 1,200 as the park is completed. The park also would include restaurants and hotels. While the possibility of new jobs and economic activity is obviously appealing, the likelihood of

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success apparently is not high enough for the project to attract sufficient private investment from professionals who invest their own capital.

Having failed to get enough private investment from the marketplace, the developer is now asking taxpayers to become the investors of first resort so that the project becomes more attractive to private investors. In short, the developer has a bad idea and needs public subsidies to make it a good idea.

## ECONOMIC RESEARCH

In study after study, in Missouri and across the country, researchers find that TIF fails to deliver on its promises.

First, multiple studies in Missouri and elsewhere have concluded that TIF does not increase investment or create jobs. In fact, the very corporation that oversees TIF in St. Louis commissioned a study in 2016<sup>2</sup> that found:

- Development incentives have little or no positive economic development benefits. The \$709 million St. Louis has spent on TIF and tax abatements (TA) over the past 15 years have not created jobs, revitalized neighborhoods, or increased long-term tax revenues.
- Rather than TIF and TA being used in economically depressed areas, they are used mostly in neighborhoods with strong housing markets.
- The level and quality of reporting on incentives is so poor that officials and the public “cannot readily determine what may or may not be deemed a project worthy of consideration for a City tax incentive.”

Prior to that study, in 2011 the East–West Gateway Council of Governments<sup>3</sup> concluded that TIFs and TDDs have increased the job base in Saint Louis at a rate of one retail job for every \$370,000 of taxpayer subsidies. Subsequent studies by the Brookings Institution,<sup>4</sup> the Upjohn Institute for Employment Research,<sup>5</sup> the University of North Carolina–Chapel Hill,<sup>6</sup> and a Show-Me Institute study of TIF in Missouri<sup>7</sup> have demonstrated time and again that TIF does not spur investment or create jobs.

As an example of the weakness of the standards upon which TIF may be adopted, consider Exhibit 14 of the TIF development plan before you. It is an affidavit from

the developer himself that states, “The Company would not and could not be reasonably expected to develop the Redevelopment Area without the adoption of the TIF Plan.” In short, the developer asking for public subsidies is allowed to present evidence on the need for the subsidy itself, and the evidence is his word.

Also, please note that on page 3 of the Springsted report, the internal rate of return for this project is projected to be 7.41 percent without public assistance, where the market range for such projects is 7.79 percent to 18.06 percent. In short, the project would be profitable on its own, but is less than four-tenths of a percent outside the market range for such endeavors. The developer is asking the taxpayers of Branson—and most notably the public school children, 57% of whom qualify for free and reduced lunch—to go without so that a profitable project can become even more profitable.

Perhaps the developer’s plan is too ambitious, and a smaller water park would be more attractive to his private investors. And, like other successful Branson entrepreneurs, the developer could grow the park slowly over time. But directing taxpayer money away from schools, public safety, and infrastructure is not a worthwhile use of limited city resources.

Lastly, let me address an argument that is universally made by proponents of TIF: that without TIF, the land would sit undeveloped, and as a result the taxing jurisdictions would never see an increase in taxes. There are three reasons why this argument should be rejected.

- First, when TIF is used, the property taxes on the site are frozen at a dollar amount, and the taxing jurisdictions are to receive only that amount for up to 23 years. Any increased increment, of course, is returned to the developer. This means that the land will not even see any value increase as a result of inflation or development nearby. How many parcels of land have not increased in value for 23 years? So yes, TIF does deny the schools money they would be receiving without the TIF.
- Second, the research from Bill Lester of UNC–Chapel Hill demonstrates that in the aggregate, areas that do not receive TIF grow as fast as those that do. TIF does

not create growth. At best it might shift the location of development, or the size, but if this project is as good as advertised, the developer and his investors will find a way to do it even without taxpayer money.

- Third, and perhaps most important, TIF projects place demands on the very services they do not fund. TIF-funded housing developments do not contribute to the school district, but they increase the district's costs. A project like this would place additional demands on infrastructure and public safety while diverting money away from infrastructure and public safety. How many additional calls to police or emergency services would be generated by a water park with 600,000 visitors each year? How would Branson pay for the additional services if not from the tax revenue provided by the park itself?

## CONCLUSION

The appeal of TIF to developers is understandable in projects such as the Branson Adventures project under consideration. The standards for approving TIF are so weak that businesses are understandably eager to seek it out—which is why public officials need to be wary. TIF should only be used to address real and harmful blight that stops private investment from taking place.

The case that redirecting public subsidies is necessary has not been made here.

The project at hand would be profitable without taxpayer subsidies. But the developer wants it to be more profitable, and so he is asking for city leaders to redirect taxes away from schools, infrastructure, and public safety.

Everyone wants their city to grow and realize new opportunities. But too often, the promises made when projects are proposed are not realized, and taxpayers are left worse off. If the developer and his colleagues want to invest in Branson, the city should encourage it. But in this case the developer is asking the taxpayers of Branson to invest in him—and that is another matter completely. The mountains of research on the failure of TIF should concern to everyone in Branson. For this reason, and because of the specifics of this proposal, this TIF Plan should be rejected.

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for the Show-Me Institute*

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## NOTES

1. <https://www.bizjournals.com/kansascity/print-edition/2012/07/13/kansas-city-commission-endorses.html>
2. <https://www.stlouis-mo.gov/government/departments/sldc/documents/upload/City-of-St-Louis-Economic-Development-Incentives-Report-May-5-2016.pdf>
3. <http://www.ewgateway.org/wp-content/uploads/2017/08/TIFFinalRpt.pdf>
4. <https://www.brookings.edu/wp-content/uploads/2016/06/lucetif.pdf>
5. <http://research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports>
6. <https://curs.unc.edu/files/2013/05/Lester-Tax-Increment-Financing-in-Chicago-Working-Paper-2-12-13-FINAL-rm.pdf>
7. <https://showmeinstitute.org/publication/subsidies/does-tax-increment-financing-pass-test-missouri>



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