



TESTIMONY

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THE NEW PROPOSED RESIDENTIAL TIF PROJECT IN BOONVILLE

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Testimony Before the Planning and Zoning Commission of the City of Boonville

TO THE HONORABLE MEMBERS OF THE COMMISSION:

Thank you for the opportunity to present this testimony. Our names are David Stokes and Elias Tsapelas, and we are policy analysts 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 our own.

The proposal for a 400-home subdivision in Boonville is welcome, but the now-standard assumption of public subsidies for these projects is unfortunate. It is our understanding that the developers will be asking for a subsidy of approximately \$40 million. Even if it is less than that, any subsidy for this development is unwarranted, unnecessary, and harmful.

Boonville does not have a significant history of granting tax-increment financing (TIF) to redevelopment projects. That fiscal discipline should

be commended. Now is not the time to start giving out subsidies, just as other areas of Missouri are coming to the realization that they do not work.

While we recognize the commission's work is focused specifically on the annexation piece of the proposed TIF, we believe the merits of entire proposal should be considered as well. This latest proposal is an excellent opportunity for this commission to reject the subsidy-based approach to economic development. Nothing about this project should involve public assistance. The idea that a new development needs a public subsidy is misguided. Redevelopment can go forward in this area without subsidies. The fact that many other developments in Missouri may have received subsidies means that they are easy to get, not that they are necessary.

THE TIF PROCESS

In theory, establishing a TIF district involves serious and impartial

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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 process designed to test whether certain tax incentives are allowed. The city contracts with urban planners who “independently” determine if the proposal could happen “but-for” the taxpayer assistance, and also if the area meets the eligibility standards for a designation of “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, invariably result in rubber-stamp approval of each proposal because of the biases of interested parties. How else can we explain the fact that we 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 everyone involved in the process from hard decisions and risk. Everyone (planners, architects, lawyers, and developers) benefits if the project goes forward. Who among them is going to jeopardize the entire deal by saying, for example, that the development would likely happen even without taxpayer assistance?

EFFECTS OF TIF IN MISSOURI

TIF has had the following effects throughout Missouri:

- It has increased government management of the economy, further empowering planners and bureaucrats to decide where investment occurs instead of letting the market make these determinations.
- It has made subsidies an all-too-common fixture of development in the community. This issue is particularly relevant to this proposal. If Boonville approves this project, where will the line be drawn for future projects? What type of project would *not* qualify for a subsidy?

- TIF transfers the cost and the risk of profit-making enterprises from the business and its lenders to the taxpayers.
- 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 Boonville is making tax choices that will negatively impact entities such as the Boonville School District.¹ What is going to happen when people with children move into new homes in Boonville R-1 and those new homes are not paying real estate taxes to the school district? There is only one answer to this question: the school district will be forced to raise taxes on everyone else.

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 path to growth—it is a road to ruin.

In a 2017 study of the use of TIF in Missouri, the authors determined that they “do not find evidence that the use of TIF generated economic development opportunities that would not have arisen in the absence of TIF.”³

A study on 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.”⁴ A study out of Chicago showed that the city’s heavy use of TIF has not led to net job creation for residents.⁵ Another study on Illinois’ use of TIFs found that economic growth was stronger in cities that did *not* use TIF than in cities that did. From the study⁶:

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.

The one thing TIF succeeds at is 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. The City of Boonville, for instance, is significantly financed by gaming and sales taxes, not just property taxes. Boonville, itself, may be fine with this TIF, but the school district, county road fund, health department (in a pandemic, no less), and other entities that depend primarily on property taxes will be severely harmed.

TIF is not a requirement for developments to proceed or succeed. This can easily be seen in the numerous subdivisions that have been developed around the Boonville area in recent years, including the Boone Point proposal being considered by the commission today. 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 has 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 last year. Boonville should strongly consider following their examples.

CONCLUSION

It is understandable that TIF might be an attractive option for local economic development. Boonville residents and policymakers might fear “unilateral disarmament” in the economic development game. Other cities still use subsidies, and that could put Boonville 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.

Instead of using TIF to spur economic development, Boonville could work with Cooper County to consider lowering its above-average commercial surtax rate of \$0.66 per hundred of assessed valuation. If high taxes are inhibiting growth in Boonville, then the solution is to give all businesses a reasonable tax cut instead of giving one developer an enormously wasteful tax subsidy.

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, Boonville should reject this most recent proposal and find new ways to foster economic development without burdening taxpayers.

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ENDNOTES

1. The purchasers of the new homes will continue to pay real estate taxes under TIF, but instead of distributing those tax dollars to the various governmental bodies, they will be returned to the developers of this project.
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. View online here: <http://www.ewgateway.org/dirr/datafiles/2012update.xls>
3. Lester, T. William, and El-Khattabi, Rachid, “Does Tax-Increment Financing Pass The “But For” Test In Missouri?” Show-Me Institute Policy Study No. 41, Nov. 2017, P. 10.
4. Swenson, David, and Liesl Eastington. “Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?” Department of Economics, Iowa State University, April 2002: 11.
5. Moser, Whet. “Do TIFs Create More Jobs? New Study: ‘No.’” Politics and Urban Life, Nov. 13, 2013. View online here: <http://www.chicagomag.com/city-life/November-2013/Do-TIFs-Crete-Jobs-A-New-Study-Says-No/>.
6. Dye, Richard, and David Merriman. “The Effects of Tax Increment Financing on Economic Development.” Journal of Urban Economics 47, Issue 2, March 2000: 306-328.



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