



TESTIMONY

June 27, 2022

THE OSAGE BEACH OUTLET MALL TAX-INCREMENT FINANCING PROPOSAL

By David Stokes

Testimony before the Osage Beach
Board of Alderman

TO THE HONORABLE MEMBERS OF THIS BOARD

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 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 \$65 million in taxpayer subsidies for the Osage Beach Outlet Mall redevelopment plan. The Lake of the Ozarks region is 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 the 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

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one of these classifications. The overwhelming majority of TIF proposals pass these supposed “tests” 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, I am 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 that the project in question needs \$18 million in TIF subsidies **and an astonishing \$46 million in additional tax subsidies**, including a community improvement district (CID), a transportation development district (TDD), a GIF sales & entrance fee (more on that shortly) and others to succeed.¹ 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.

The proposed inclusion of GIF tax revenues as part of this plan is highly troubling. Missouri state law is clear that all local taxes must be authorized by the state. Yet I am aware of no provision in state law that allows the addition of “GIF taxes” or fees that apply to the purchase price of a good exactly as a sales tax would, just as this development plan appears to do.² The developers seem to be inventing a new tax to pass onto future customers of the stores within this development—a tax that does not appear to be authorized by state law. (A listing on page 26 of the Osage Beach Outlet Mall TIF application of sales taxes to be collected on purchases within the project clearly includes a “GIF Sales Fee” as part of the overall sales tax collections that make up part of the subsidy.³) In discussion with city officials, I have been told that it was not the intention to create a new tax and the “GIF revenues” will be reviewed and addressed by the city and commission. As

economically harmful as this entire project may be, and as mammoth as the total \$65 million subsidy request is, the creation and use of GIF revenues (whatever “GIF” stands for—the term is never explained in the documents), is the most concerning aspect of the proposal.

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

1. It has increased government management of the economy, further empowering planners and bureaucrats to determine where businesses locate instead of economic best practices.
2. It has sparked the abuse of eminent domain for private purposes.
3. It has made subsidies a permanent fixture of development in our community.
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 TDDs 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.⁴
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, the Camden County Fire District, and other local taxing agencies.

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.⁵ 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.”⁶ 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 study⁷:

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)

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. 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 heavy use of TIF has not led to economic growth for the Lake of the Ozarks region as a whole even though TIF is the safe move for local leadership. Other cities use TIF, and approving TIF for a project can make it appear that you are out there fighting for your community. Everyone wants a “do-something” leader, so despite evidence that TIF is bad for the overall economic health of the region, local leaders often support it.

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 TIF? That is impossible to know in every situation. But what is known is 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.⁸

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.⁹ Byrne gives a hypothetical example where the potential 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 board for the City of Osage Beach to be one of the first political bodies to recognize that the constant quest for retail 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. More importantly, it will just continue the downward spiral of incentive-based retail 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 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 100 dollars of assessed valuation. That is the second-lowest county rate in the entire state, dramatically lower than the average commercial surcharge rate.¹⁰ Local government should

focus on keeping tax rates low for everyone instead of artificially lowering them for the chosen few and making them marginally higher for everyone else.

CONCLUSION

This proposal before this commission and board for TIF, CID, TDD and, most egregiously, the GIF tax incentives for the Osage Beach Outlet Mall is a harmful and wasteful use of tax dollars. The enactment of this plan would be a poor choice for the city, an abuse of taxpayers around the state, and a large step in precisely the wrong direction for economic development in the Lake of the Ozarks region. In particular, the inclusion of “GIF Revenues” by the developers in this plan would be a drastic error by the city.

ENDNOTES

1. Osage Beach Outlet Mall Tax Increment Financing Redevelopment Plan, May 2022, <https://osagebeach-mo.gov/ArchiveCenter/ViewFile/Item/3126>
2. Ibid, pages 5 and 14.
3. Osage Beach Notice of Meeting and Agenda, June 13, 2022, page 26 of attached document, <http://mo-osagebeach2.civicplus.com/ArchiveCenter/ViewFile/Item/3148>
4. 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.
5. 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.
6. 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.
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 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.
9. Bryne, Paul. “Tax Increment Financing and Missouri: An Overview of How TIF Impacts Local Jurisdictions,” Show-Me Institute policy study No. 32, April 2012.
10. 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. Anyway you look at it, this specific tax rate (and others in the region) are comparably low.



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