Broadway Economics

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The Broadway Inn is convenient for all the universities in Columbia, and its owner wants to build a $20 million expansion that would include a second hotel tower. Adding on to the hotel could be good for the area and a worthwhile investment for the owner, but the $2 million in tax-increment financing (TIF) built into the expansion proposal make it a bad deal for Columbia.

Let's walk through this. The project will add about $20 million to the productive capital in Columbia. Between 2001 and 2016, each dollar of capital added, on average, 17 cents to the value of output—that is, goods and services—produced in Columbia. Based on this historical average, Columbia would produce an additional $3.5 million in output when the project is completed in a couple of years. One more piece of information: Columbia collects about one cent of revenue for every dollar of output produced. Consequently, city coffers would increase by about $35,000 in the first year that the expansion was operating. However, even allowing for this additional output to increase at Columbia's average annual growth rate, which is 1.8 percent, there is not enough revenue for the city. After discounting future revenues to their present value and summing over the 23-year period, the value of the stream of city revenues comes to about $650 thousand. In other words, the city gives the developer $2 million to get back $650 thousand. Not a good return.

Proponents of the deal contend that without TIF, the expansion (and accompanying economic growth) won't happen at all—that without an infusion of taxpayer money, development won't be profitable enough to attract investment. However, data from cities like Chicago, Saint Louis, and Kansas City say otherwise. Comparing employment or income, the evidence indicates that economic outcomes are no better in areas that award TIF than in areas that do not.

The Broadway expansion proposal offers the appearance of certainty. At the very least, we have a good idea of what a new hotel tower will look like, so it's easy to imagine that it will lead to an increase in economic activity. It can certainly seem riskier to turn down the proposal and wait to see what (if any) productive use the land next to the current hotel is put to. But there is no guarantee that the expanded hotel will be successful, either.

Fundamentally, economies grow when people put labor and machines and capital together in a way that yields more valuable stuff. Growth is the product of creative and innovative people who are trying to earn a profit. The law permits people to ask the city government for a subsidy to make a profit. But city officials must determine if granting the request is the best use of resources collected from citizens. Looking at the numbers, one is hard pressed to show that the Broadway expansion is the best use of city funds.

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