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Testimony for the Saint Louis County Capital Investment Blue Ribbon Commission

July 30, 2008

By [David Stokes](#)

Chairman Mange and Honorable Members of the Commission:

Thank you for the opportunity to submit my comments about Saint Louis County's capital investment proposals. I attended the public forum on June 12, where a presenter stated that capital investment in public infrastructure leads to job creation. That is certainly true in many capacities, but there is another thing that leads to more job creation: low taxes. A lower tax rate leads to an increase in private investment in the county, which grows the tax base and expands revenues without the heavy hand of a tax increase.

The infrastructure needs discussed in the presentation are no doubt real, but the tax increases proposed to pay for them are not without costs of their own. These proposals, if implemented, would have counter-effects for the county's economy. Saint Louis County might well get more money after passing its proposals, but residents and businesses in the county would have less money to spend and invest as they see fit. In some cases, the higher taxes could encourage people or businesses to shop less, or even to move out of the county, thereby achieving the exact opposite of the proposals' goals. To quote famed economist Frederic Bastiat about the effects of any tax increases, you should consider both "What is seen and what is not seen."

Passing a new transportation sales tax, a park sales tax, and a use tax in close proximity, all while issuing bonds that will require bonding property tax rates to remain consistent — or, perhaps, increase — would have a detrimental impact on Saint Louis County as a whole. It is not my place here to debate whether or not voters would pass these proposals. I would, however, like to remind the members of this commission about the dangers of initiating a cycle similar to the one the city of Saint Louis has experienced in recent years, constantly asking voters for, and usually receiving, a small sales tax increase here or a minor property tax increase there. Since 2000, the city of Saint Louis has placed 11 citywide tax increases, tax renewals, or bond issues on the ballot, and nine of them have passed. This cycle turns vicious as the small increases add up over time and harm the very economic environment that many of the taxes were intended to help improve, under the guise of "investment."

A use tax aimed at businesses could be a particularly harmful proposal. Saint Louis County needs to make itself more inviting to all businesses. Increasing general business taxes, and then giving some back to chosen companies as subsidies, is not the way to accomplish this. Saint Charles County provides a useful contrast. Although it has generally lower property tax rates than Saint Louis County, the differences particularly stand out in the commercial tax surcharge, which is just \$0.53 per \$100 dollars of assessed valuation in Saint Charles, while in Saint Louis County it is \$1.70. That difference of \$1.17 can mean thousands of dollars each year to a commercial enterprise. One competitive advantage Saint Louis has over Saint Charles, though, is its lack of a use tax. If Saint Louis County were to institute a use tax, this important competitive advantage would disappear — serving as another incentive for businesses to move outside the county, as Mastercard did several years ago. Private capital flows to the areas in which it is subject to fewer taxes; that is a fact of economics at all levels.

Saint Louis County should continue to look for opportunities to work with the private sector in providing services, such as its extremely successful privatization of pharmacy services. The emergency communication system is one such area, in which private companies could be asked to submit proposals (although this has, admittedly, been very rare in the United States for this field). Metro should be encouraged to allow competitive bidding on its bus routes and consider using private companies to provide a portion of the area's transit operations, as Denver has done. One of the currently proposed tax increases is a sales tax for the parks. Has the county considered contracting out security services for county parks to a private security company? More radically, the county should work with the city to have Saint Louis re-enter the county as its 92nd municipality, significantly expanding the county's tax base and allowing for both revenue increases and tax reductions.

As you move forward in your considerations, the substantial amount of bonding authority available to Saint Louis County should be the primary vehicle for addressing the county's infrastructure needs. The county benefits from an excellent combination of the low level of current bonding (just 3 percent of the county's legal limit), the county's excellent bond rating (for which current county leadership deserves credit), and the upcoming retirement in 2013 of many current bonds (plus the Edward Jones Dome bonds, ten years later). This allows for bonds to be a reasonable and valuable way for the county to meet many of its legitimate infrastructure goals. Property taxes are less mobile than sales taxes, and in any event the county bond retirement property tax might only be extended, but not necessarily increased, in order to pay off the bonds. Furthermore, bonds paid off via property taxes are readily deductible from taxpayers' state and federal income taxes, unlike sales taxes.

Strong consideration should be given to further expanding county operations outside of the Clayton central business district. There is no absolute need to keep the Family Court Center in Clayton. The city of Saint Louis has its family courts located in midtown, away from the other courthouses. The election board in Maplewood and the police and fire academies in Wellston provide excellent examples of how county offices can operate successfully outside of Clayton. The buildings at 121 and 111 South Meramec may well need to be replaced, but they should be sold by the county to private business interests. Some of the most valuable real estate in the county could then go back on the tax rolls, helping to fund improvements to such needs as the crime lab, which could certainly be redone close to — but not in the heart of — downtown Clayton.

Saint Louis County and this commission must consider the economically harmful aspects of tax increases alongside the infrastructure needs that those increases are proposed to finance. Thank you again for this opportunity to share my thoughts and ideas. Please feel free to contact me if I may be of any further assistance.

Sincerely,

David Stokes
Show-Me Institute

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