



TESTIMONY

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TAX ABATEMENT FOR THE CENTENE CAMPUS EXPANSION IN CLAYTON

By Michael Highsmith

Testimony Before the Clayton Board of Aldermen

TO THE HONORABLE MEMBERS OF THIS COMMITTEE:

My name is Michael Highsmith, and I am a policy researcher 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. This testimony is intended to discuss the use of tax incentives for the Centene Campus Expansion in the City of Clayton, and to summarize research on economic development credits performed both by staff of the Show-Me Institute and by other organizations in Saint Louis.

Before deciding whether the City of Clayton should devote \$75.6 million of public funds to assist in the construction of the \$755 million Centene Campus Expansion, policymakers should consider research regarding the use of tax incentives and their impacts on the surrounding

community. In addition, policymakers should consider whether Clayton needs to grant incentives, or if those funds should be put toward other municipal services.

ECONOMIC RESEARCH

Last year the Saint Louis Development Corporation (SLDC) commissioned a study by the PFM group that explored the use of economic development incentives in Saint Louis. In May 2016 the report was released, and it stated that in the past 15 years, the City of Saint Louis has spent \$709 million on tax increment financing (TIF) and tax abatement (TA).¹ These are significant amounts of money to be diverted away from other municipal services such as schools and libraries. In addition, the study explored where the subsidies have been used and what impact they have had on their surrounding communities. Some of the study's findings are quoted below.

- “There is little relationship between incentive use and an increase in jobs within neighborhoods.”
- “...there is little evidence of significant [t] spillover effects around incentivized parcels after the use of incentives. Across most project types, there is no significant change in the trajectory of assessed value, permit investments or jobs.”
- “...there is significant incentive use, particularly through tax abatement, in neighborhoods with strong housing markets. This suggests, absent a more formal ‘but for’ process to providing incentives, a need to set clear policy on at what point city incentives will not be used.”
- “...many of the considerations within the applications do not lend themselves to quantification or explain their relative value among the many requirements to be considered. As a result, potential applicants—and the general public—cannot readily determine what may or may not be deemed a project worthy of consideration for a City tax incentive.”

The report concludes that tax incentive use is highly concentrated in markets that already have strong housing markets, and that the use of these tax incentives has done little to boost the region’s economic health. While the study looks at Saint Louis City alone, its findings are in line with other organizations’ studies. In 2011 the East-West Gateway Council of Governments published a report assessing the effectiveness and fiscal impacts of development incentives.² The report’s key findings include the following:

- “Broad measures of regional economic outcomes strongly suggest that massive tax expenditures to promote development have not resulted in real growth”
- “Across all incentive programs, the provisions for uniform reporting of revenues, expenditures, and outcomes (jobs, personal income, increases in assessed value, etc.) are remarkably weak.”
- “Evidence exists that the use of TIF and other tax incentives, while positive for the incentive using municipality, has negative impacts on neighboring municipalities.”

These findings are not unique to the Saint Louis region. Studies conducted by scholars at universities such as the University of North Carolina–Chapel Hill³ found no evidence that TIF provides tangible economic development benefits for local residents.

In light of such studies, Clayton should be wary of diverting large sums away from the city’s tax base, especially when there are still issues regarding accountability measures and questions about how to accurately capture the benefits in terms of job creation and economic stimulation.

CENTENE’S EXPANSION:

The East-West Gateway report concluded that tax incentives may be positive for the local municipality, but at the cost of neighboring municipalities. Part of Centene’s development plan involves moving 1,000 jobs from other parts of the Saint Louis region to Clayton.⁴ There is nothing wrong with a company seeking to consolidate (it could certainly improve business efficiency), but using taxpayer dollars to do so is unhelpful to the Saint Louis region as a whole. If public funds are used to pay for the buildings that enable this relocation of employees, then Clayton is simply spending millions of taxpayer dollars to move jobs from one part of Saint Louis to another. Without subsidization it is possible that the development would not be undertaken on so large a scale. Instead, Centene might reduce construction costs by building only enough office space to house new employees while maintaining its current offices in other municipalities, thus generating growth for Clayton that doesn’t come at the expense of other municipalities in the region. If Centene chooses to build expansively and consolidate employees into Clayton, they have the right to do so; however, this raises the question of whether public dollars should be spent toward the development.

At least one aspect of the development may negatively impact Clayton if Centene is granted subsidies. In addition to creating space for 2,000 Centene employees, the development includes plans to build extra office space that Centene may then lease out to other businesses for profit. Centene has every right to diversify its income portfolio, but again, policymakers should ask if it is appropriate to use public funds to support this type of lucrative business venture. Subsidizing one company’s

expansion may give it an unfair competitive advantage over other businesses that don't receive tax breaks. If other leasing companies would have competed in the marketplace anyway, then tax subsidies are unnecessary.

Furthermore, Clayton is a very desirable place for businesses to lease space and operate. Clayton's office vacancy rate is half that of Saint Louis City's, so it is difficult to understand why Clayton needs to offer subsidies in order to attract businesses.⁵ Clayton has recently been referred to as a "new downtown" by the *St. Louis Post Dispatch*.⁶ In an area this prosperous, economic development subsidies may result in little additional investment taking place despite significant public dollars being spent. Assessed property values may increase, but if the taxable value does not, then revenues for essential government functions will stagnate.

Centene is also doing well. In 2015 the corporation added 4,800 jobs nationwide and revenues grew 35% from \$15.7 billion to \$21.3 billion.⁷ Last year the healthcare giant found itself in 4th place on *Fortune*'s list of the nation's fastest-growing companies. This success by itself should not disqualify Centene from consideration for subsidies, but a rapidly growing company's development project in an area with an attractive business climate is, at the very least, a situation where a request for tax incentives should be given careful scrutiny.

Centene is certainly free to consolidate workers into Clayton and to renovate the area around its existing headquarters, but the use of public funds to do so is difficult to justify. After evaluating the impact that past economic development subsidies have had on the region, policymakers should consider whether granting \$75.6 million in public subsidies is necessary, or if it may harm Clayton and slow the region's growth as a whole.

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¹<https://www.stlouis-mo.gov/government/departments/sldc/documents/upload/City-of-St-Louis-Economic-Development-Incentives-Report-May-5-2016.pdf>

²<http://www.ewgateway.org/pdffiles/library/dirr/TIFFinalRpt.pdf>

³<https://planning.unc.edu/people/faculty/williamlester/LesterTIFinChicagoforthcoming.pdf>

⁴<http://www.bizjournals.com/stlouis/news/2016/11/04/centene-to-move-1-000-employees-from-chesterfield.html>

⁵http://www.colliers.com/-/media/files/united%20states/markets/stlouis/market%20reports/2016/stl%20office%20market%20report_colliers_2016_q3.pdf

⁶http://www.stltoday.com/business/local/is-clayton-emerging-as-the-st-louis-region-s-new/article_9c8cbf5a-b794-55cc-b0ea-58256868c4e2.html

⁷<http://www.centene.com/wp-content/uploads/2016/03/CenteneAnnualReport2015.pdf>

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