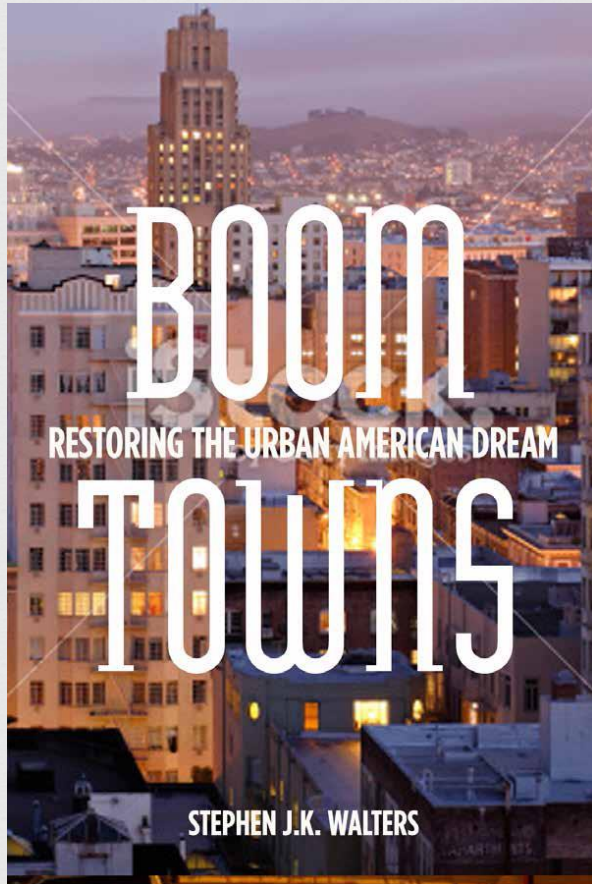


# Columbia's Tax Modernization Committee



Remarks by

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# Three things



Feel free to raise questions as we discuss:

1. What's the problem with Columbia's economy?
2. What are the consequences of *inaction*?
3. What's to be done?





# 1. What's the problem?



❧ "I don't have a problem! I own a \$250,000 house...

❧ My property tax bill in (e.g.) RSD1 is just **\$1,873**

❧ That's just **0.75%** of market value, well below the state and national average

❧ *So, why should I care about the property tax issue?"*

❧ "I *do* have a problem! I own a \$250,000 rental property or business...

❧ My tax bill in RSD1 is **\$7,288**

❧ *That's **2.92%** of market value - or 4X the owner-occupied property, and over 2X the national average*

❧ *So, I'm looking elsewhere"*

# 1 (cont.). What's the problem?



- ⌘ This disparity is a by-product of (i) Act 388, which exempts owner-occupied property from school operating millage and (ii) higher assessment rate imposed on rental and business property
- ⌘ But other jurisdictions are subject to the same constraints, and *investors in rental or business properties will seek them out*

- ⌘ So expect investment in rental and business property to flow where it is treated more kindly:

<b><i>\$250,000 property in:</i></b>	<b><i>Tax</i></b>	<b><i>Discount</i></b>
Columbia RSD2	\$8,886	0.00%
Columbia RSD1	\$7,288	-17.98%
West Columbia	\$6,186	-30.38%
Rock Hill	\$5,859	-34.06%
Greenville	\$5,339	-39.92%
Charleston	\$3,810	-57.12%

# 2. The consequences of inaction



- ❧ That “flight of investment” from the non-competitive tax environment(s) will result in:
  - ❧ Reduced job opportunities
  - ❧ Less supply of rental property, higher rents
  - ❧ More poverty
    - ❧ Less capital (“tools”) makes workers less productive, so they earn less
  - ❧ Reduced amenity value
    - ❧ *“Bedroom communities” can be pretty dull!*



## 2 (cont.). The consequences of inaction



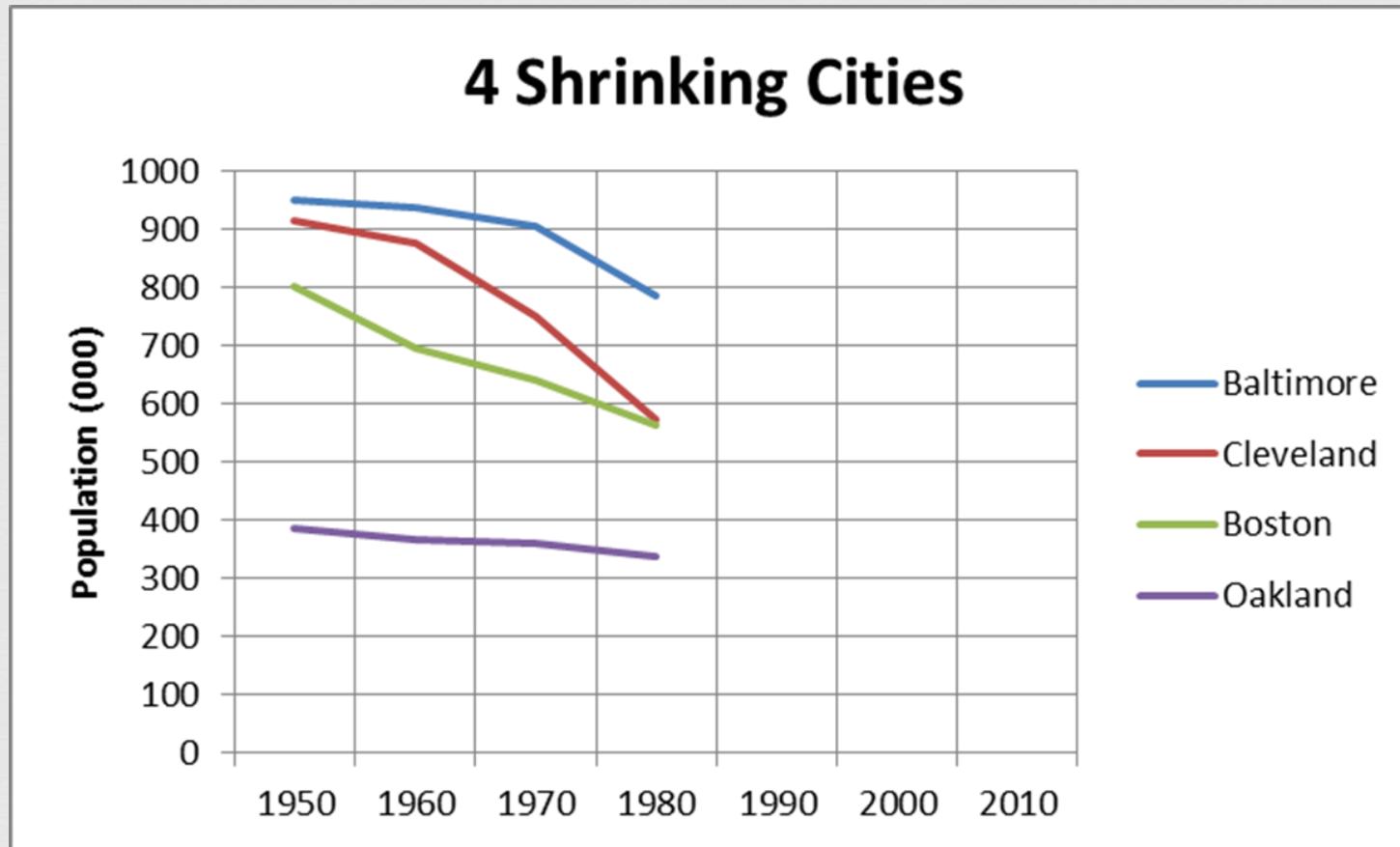
- ❧ Eventually, even the owners of lightly-taxed residential property will notice something's wrong
  - ❧ Reduced job opps, lower amenity levels & earnings reduce demand for residential property in the non-competitive area
  - ❧ Less business / rental investment shrinks the tax base that pays for schools, leading to diminished school quality, further reducing demand
- ❧ The “Detroit Problem” and local public finance
  - ❧ A lot of local gov't costs are fixed (e.g., pensions, street maintenance), and a shrinking population of taxpayers increases the cost/taxpayer – which can lead to a vicious cycle that in some cases has pushed cities to bankruptcy

# 3. What's to be done?



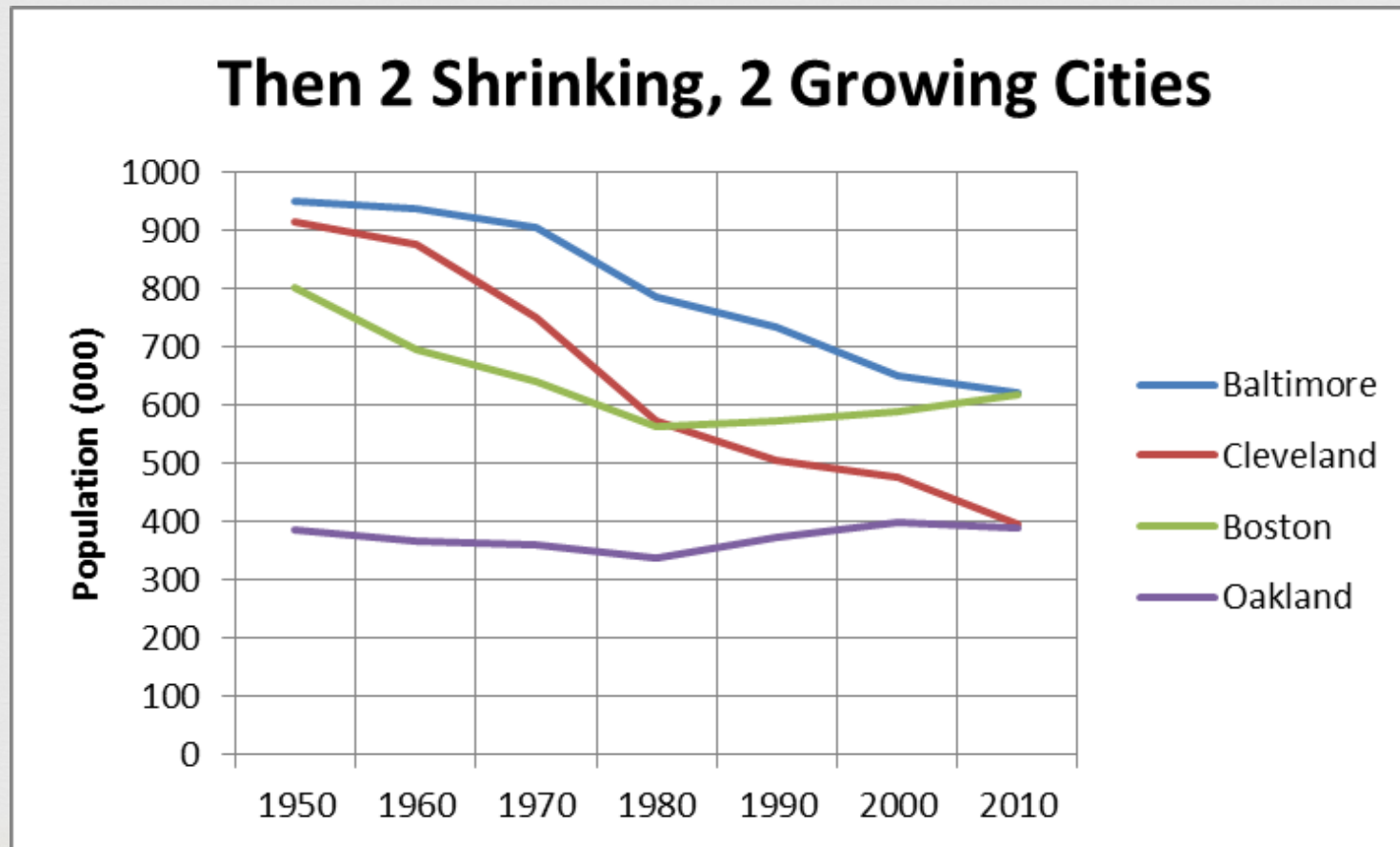
- ❧ *Tax competitiveness is a necessary condition* if a city is to have a sound economy that provides opportunities for all its citizens to flourish
- ❧ There's simply no choice about this; trying to play "Robin Hood" at the local level simply does not work in the long run
  - ❧ *In 40+ years of studying urban tax policy, I've never found a city with a property tax rate that is non-competitive relative to its rivals / neighbors that has been economically healthy*
- ❧ Becoming tax-competitive *fuels dynamic growth* of the tax base – and it can be done *without doing violence to municipal services or spending*

# An aside: A tale of four cities





# Aside (cont.): Be competitive, or decline



# 3 (cont.). What's to be done?

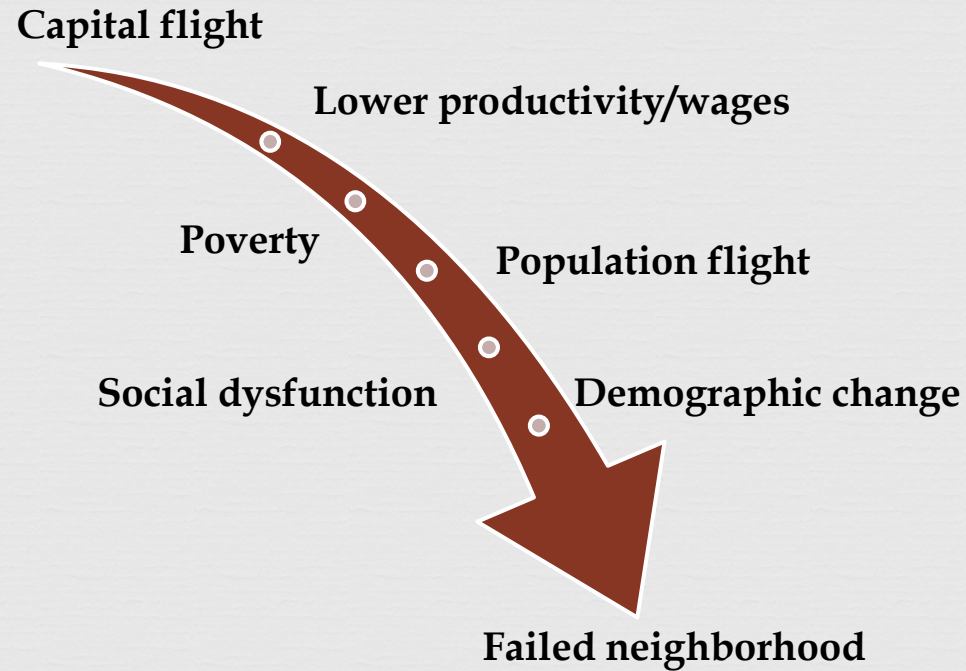


☞ The key to making a city's tax environment competitive without short-term cuts to services and programs:

**Build a financial bridge before you have to cross the river**

- ☞ Adopt a competitive tax rate a.s.a.p., but deliver that rate over a transition period
  - ☞ Investors will “get it on the ground floor” on the credible implementation of the competitive rate;
  - ☞ Dynamic growth in several tax bases (property, sales, etc.) will begin, and receipts over a pre-set growth rate can be set aside in escrow (“lock box”) to pay for lower effective rates as they arrive

# In sum: Do nothing, and risk decline



*“Decaying cities, declining economies, and mounting social troubles travel together. The combination is not coincidental.”*

Jane Jacobs





# Or get competitive, and *transform*



“[A] metropolitan economy, if it is working well, is constantly transforming many poor people into middle-class people, many illiterates into skilled (or even educated) people, many greenhorns into competent citizens. ...Cities do not lure the middle class – they create it.”

*Jane Jacobs*