



**COLUMBIA TAX MODERNIZATION COMMITTEE MEETING MINUTES
THURSDAY, MAY 19, 2022**

The Columbia Tax Modernization Committee met on Thursday, May 19, 2022 in Council Chambers at City Hall, 1737 Main Street, Columbia, SC. The Honorable Joe E. Taylor, Jr., Chairman called the meeting to order at 2:00 p.m.

Attendee Name	Title	Status
Daniel J. Rickenmann	Mayor	Remote
Joe E. Taylor	Chairman	Present
Edward H. McDowell	District II	Present
James Bennett	Member	Present
Billy Cantey	Member	Present
Scottie Hughes	Member	Present
Steve Taylor	Member	Present

INVOCATION

The Honorable Edward H. McDowell, Jr. offered the invocation.

WELCOME

1. Meeting Overview - The Honorable Joe E. Taylor, Chair

The Honorable Joe E. Taylor, Chairman announced that the final draft of the Columbia Competitive Tax Plan will be presented today. Mr. Bennett suggested that our mayor and others gain as much community input as we can during June, July, and August. The committee will come back in September to receive the final plan and recommendations from the mayor for an implementation committee. The legislative process will begin in January 2023.

PRESENTATIONS

2. A Vicious or a Victorious Cycle: The Impact of Property Taxes on Communities, Schools, and People - Dr. Stephen Walters, Chief Economist at the Maryland Public Policy Institute

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said when you talk about tax modernization you will invariably run across a sense that you are endangering very important and very valuable public services. I have been working on tax reform in a lot of jurisdictions and the first question is what you are going to cut if you engage in tax modernization, tax competitiveness, or tax reform. There is a false perception about how we get



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more. We need to have a healthy local economy in order to have healthy government finances that can provide what we all want from government. We want more. The perception is that high tax rates will get us that and if we talk about tax cuts we are endangering government finances and we will get less services. That is a dangerous misconception at the local level because we have human mobility (people move) and capital mobility (investment flows are directed to where they are treated best). The best evidence we have of that comes from Columbia. The real per capita property tax revenues in Columbia have fallen by 9.1% over the past decade. That bespeaks a shrinking inflation-adjusted property tax base in the City of Columbia. You simply cannot finance more if the tax base is shrinking. The tax base is shrinking because the investment that is the crucial lifeblood of a healthy economy is being directed elsewhere: that is the competitiveness problem that this tax modernization is trying to solve. The danger is that if we don't do this, then cuts are inevitable. Then a shrinking tax base and a limping economy will not provide more jobs and opportunities or better parks and schools that we all want. A non-competitive tax rate at a local level violates this necessary condition for a healthy local economy. We talked about how non-competitive Richland One and Richland Two are relative to some of the cities that are competing for investment dollars, population, location decisions, and so forth. If you locate elsewhere, you get a steep annual discount on your property tax bill and your return on investment is more attractive. If we do nothing, things get worse but in slow motion. Investment flows don't happen over years and then slowly we start to perceive that there is flight of population and capital investment. With lower productivity we get lower wages. With lower wages we get relative poverty and then we get all of the ill social consequences of that vicious cycle. Columbia city's data on its real per capita property tax revenues is an indication that we are starting this vicious cycle and unless something is done, the future is very much in danger. If you get a competitive property tax and a policy in place, things can turn around rapidly and dramatically. San Francisco used to be an economic basket case. The state imposed a property tax rate cap, Proposition 13 kicked in and the playing field was leveled at 1% for every jurisdiction in the state of California. Once San Francisco's property tax rate was competitive, people started investing there. It was a tidal wave of new investment and the population started growing. These days, San Francisco's population and municipal finances are incredibly rich in resources. It turned the city around. They didn't think anybody would be so foolish as to vote for Prop 13 and vote to reduce their property tax rate from 3% to 1%. They campaigned against it and voters imposed it on them. After Prop 13 with a two-thirds reduction in the property tax rate and a roll back in assessments, San Francisco had to tighten their belt for three years. During this time, investments started to flow in and new populations flooded in. People started paying property taxes, wage taxes, hotel taxes and other kinds of ancillary revenue started to accumulate. San Francisco was out of the fiscal woods and was growing rapidly by the fourth year after Prop 13. Their spending was 60% higher than it had been before tax reform. That is the virtuous cycle in action. The dynamic here is very favorable to the production of more. You can



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afford to invest more in schools, parks and recreation, libraries, zoos, and so forth. The virtuous cycle contributes to further reductions in tax rates. Boston was rejuvenated by Proposition 2.5 and has since had successive property tax reductions simply because the greater flows of investment brought people to that economy. As the tax base grew, more services could be provided at lower effective tax rates. It happens organically. Here, our job is more complicated because we have Act 388 and we have an odd situation for schools. This is important for school boards because the tax base is much narrower in South Carolina. It is important for rental and commercial property and the investment climate to be healthy or that is going to endanger school finance. The children are in danger if we don't take care of the cornerstone of municipal school finance. The schools operating budgets are highly dependent on the health of that commercial and rental property sector. You have to pay attention to how competitive you are at the local level. You also have complications having to do with multiple jurisdictions. Lobbying, convincing and educating at multiple levels is going to be a much more complicated job than it was in Massachusetts or California. To get the virtuous cycle going, there has to be an education effort. Everybody has to understand that this is a necessary condition. I have been studying cities for forty years as an urban economist and I have never found a healthy city economy in a place where there was an unhealthy investment climate and a bad tax climate. I am setting the stage for the legislative strategy. The strategy has to involve equity on the assessment rate. Commercial and rental property has a 6% assessment rate and primary residences have a 4% assessment rate. The goal is to go from 6% to 4% assessment rates on commercial and rental properties over a transition period. The major advantage is having the time to do this in an orderly fashion. We can delay the phase-in and have a step wise reduction in the assessment rate so that we can build towards a competitive property tax rate in a way that doesn't do any violence to any municipal services in the short run and allows those municipal services to grow in the long run. There are people taking a pass on Columbia because of its non-competitive property tax rate. Projects are put on the board immediately during this phase-in period and we start to build an escrow account we can use when the assessment rate reduction starts to come in over the succeeding years, that's when we draw on the escrow account to make sure the services we are accustomed to can be financed. As the tax base starts to grow, all the evidence points to the fact that the municipal services can be enhanced at a rapid rate. That is the path to virtue.

The Honorable Edward H. McDowell, Jr. said you have given us a pathway, but how do we do that? We talked about the escrow account and how long that will take to lock itself into place. Talk to me more about the shrinking tax base.

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said the hard thing about this is the slow pace at which these consequences become clear to people. A shrinking tax base is invisible on a weekly, monthly and annual basis. In Baltimore, we reassess



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property every three years. Here, it is done every five years. There is a lot of inertia built into valuations and that can hide some of the bad consequences of a bad investment climate. Property values may be falling due to high property taxes and reduced amenity levels sometimes and in certain areas but you may be stuck with your property tax bill for five years during which we are pretending that property values are where they used to be. That data shows the shrinking amount of investment relative to changes in the ordinary price level and changes in population. Over a decade things become obvious that aren't obvious annually or monthly. When people don't invest in your town, they don't usually tell you why; they just move on. The perception that things aren't changing is an illusion because of the slow motion nature of the problem. There is a wealth effect here. Every dollar you invest in a high tax environment has a lower return than it would in a more favorable environment. This is a great impediment to wealth creation. It is hidden because the reduced rate of property values and the reduced rate of wealth creation happens slowly over years or decades. You are talking about things that happen in a way that is very difficult to perceive but is very tangible and it is very important. How many businesses are starting? How many jobs are those businesses creating? How are your property values improving over time? All of these things are related to the investment climate and the investment climate is crucially influenced by the property tax rate.

Mr. James Bennett, First Citizens Bank agreed that the danger is doing nothing. It is important to understand how we got here, the predicament we are in, and how we bring others with us towards action. If we don't, that could be worse than no action. In 2006, Act 388 took the burden of school operations off owner-occupied homes. That's a tremendous burden for every entity to bear. In the city of Columbia, we have talked about all of the entities (Fort Jackson, state, city, and county governments, school districts, religious organizations, and non-profits) that are off the tax records. It comes down to non-owner occupied, investors, and things of that nature. Councilman Taylor mentioned that the school boards' budgets tend to be higher than the growth in the area. Matching that sounds reasonable but it is hard for us to move forward without engaging our stakeholders whether it is the assessors, auditors, treasurers, the three school districts, and the superintendents. Part of the economic progression is the idea that a rising tide lifts all boats. We have to trust that but we also have to create confidence within our community. That's why collaboration is so important. The city of Columbia is a tale of two cities. The confidence for those at the bottom may not be as high as the middle and upper. We must continue to cast the net wider. The pie isn't but so big and it is an obligation that we all have. People are hesitant when we tell them that we are taking a piece of the pie. It is a whole lot better if they decide to give you a piece of what they have. I trust the process and I hope we achieve dividends from the process.

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said we



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tend to think the pie is fixed and it is a question of slicing it up the way we like. We say we want more and we get it now by raising the tax rate. Investors do the math and they say no. We want more so we go back, slice the pie, and it shrinks. The goal is to transform it from a shrinking pie to a growing pie. We have to price ourselves competitively. All of the stakeholders have to understand in the long run that the fate of our children is crucially tied to a healthy economy. At a local level, you can't be healthy unless you are competitive.

Mr. Steve Taylor, Wolfe & Taylor Realtors said in the conversations going forward, we need to include examples of people who haven't invested in recent times. We had examples of that at the last meeting. Maybe we can come up with more examples for the conversations with others.

The Honorable Edward H. McDowell, Jr. said we have to make it collaborative and the stakeholders have to become a part of the pie. Do we want to section it off or collaboratively allow the stakeholders to decide how to divide the pie?

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said the growth of the pie is in everybody's interest. We just need to talk about this more broadly. All of their individual interests should be united behind a competitive tax climate.

The Honorable Joe E. Taylor, Jr., Chairman said we all need to acknowledge that Act 388 is universal across the state; every county deals with that. When we look at our competitive disadvantage, we have to understand that all of those counties are also dealing with Act 388. That has not necessarily driven us here. I think it took a couple of decades for us to get in this situation. There is governmental inflation like we are seeing in the consumer economy now. Historically, government inflation ran slightly higher than consumer inflation. If you don't attract enough new tax base every year to cover the inflationary cost of government, you either have to cut government or raise taxes. No one gets to point the finger. We have not recruited enough investment annually to overcome that inflation, so we raise the millage rates. We have been fortunate enough to look into the issue. Two weeks ago, I saw hands go up when Mayor Rickenmann asked who is going to do additional deals if we fix this. I feel extraordinarily confident in the San Francisco model of what we will see here in Richland County when we fix this. The message we need to get comfortable with is if we get our soil conditions right and bring the investment in, the pie gets bigger and everybody's slices will get bigger. I am stunned by the amount of annual new taxes we've missed. We talk about new investments and growing our small businesses, but we have to talk about the impact this has on housing affordability, affordable rents, and the least among us. This past week, Ryan Coleman reported that the city center of Charleston has 9,000 residents. We have 3,000 here. We need to get this right where we can build apartments, houses, and new things that are affordable in our city center where people



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are coming back and spending more money. We forget that the state gets all of the income tax. We have to survive on local options sales taxes, hospitality taxes, accommodations taxes, and property taxes. The things that we need to do to make those things grow will make the pie bigger and the slices bigger. I want to acknowledge Mr. Bennet's advice; it was very good. I am proud of Mayor Rickenmann and each of you because somebody had to start the conversation.

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said this is a huge opportunity waiting to happen.

The Honorable Joe E. Taylor, Jr., Chairman said your contribution to this discussion has been immeasurable since we began three years ago. I thank you because you had done most of that on a volunteer basis.

The Honorable Edward H. McDowell, Jr. said thank you. You have given me a new concept in terms of the pie structure. It is great to fix a pie. What goes into that pie indicates how deep and how wide you are going to cut that pie. Investment opportunities and investment values are critical and part of putting the ingredients into that pie shell has a lot to do with those components.

Mr. Stephen Walters, Ph.D., Chief Economist at the Maryland Public Policy Institute said the ingredients are great here.

3. Legislative and Local Action Plan - Mr. Charles Terreni, Esq., Terreni Law Firm, LLC

Mr. Charles Terreni, Esq., Terreni Law Firm, LLC said I have lived in the City of Columbia for 47 years. I am a homeowner and a business owner. I have a vested interest in this town's success. This is a roadmap, not a GPS. We don't have all of the answers, but we have a solid foundation. The 6% assessment rate is enshrined in the South Carolina Constitution. All property other than residential then agricultural and manufacturing is assessed at 6%. This includes commercial property and non-owner occupied housing, which is about 39% of Richland County. Renters are paying three times the taxes. Article 10, Section 3 of the South Carolina Constitution allows the General Assembly to exempt some property from taxation. It takes a two-thirds vote of each house but the General Assembly has been willing to pass exemptions over the years. We want to model our solution after Act 40 of 2017, the Gas Tax Bill that included a tax exemption of 14.2857% of the property tax value for manufactured property. The significance of this percentage is that when you apply it to the 10.5% rate on industrial it reduces the effect of the assessment to 9%. What happens if we do the same thing for non-owner occupied property? The concept is to phase in an exemption. The General Assembly phased this exemption in over six



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installments. The tax exemption will be fully phased in by 2023. We can do the same thing. We can include revenue safeguards. North Carolina indexed their income tax cuts to revenue growth. We should develop this concept by setting stakeholder meetings and by vetting this with other lawyers, the city attorney, city fiscal staff, bond counsel, local and state officials, the business community, government relations staff and other members of the community. This is a road map, not GPS. I am confident that we can come up with a plan by the end of the summer.

The Honorable Joe E. Taylor, Jr., Chairman said we would spend some time this summer with the Senate Finance Committee and the House Ways & Means Committees. We are fortunate to have two local members of the House Ways & Means Committee: Representative Kirkman Finlay and Representative Micah Caskey. The key today is knowing that it can be done and other places have used triggers to effectively lower taxes in the least risk-adjusted way. We can protect our entities and safeguard against anything negative.

Mr. James Bennett, First Citizens Bank said we will approach our local delegation first.

The Honorable Joe E. Taylor, Jr., Chairman agreed to meet with every delegation over the course of the summer. We have to decide if this will be local legislation or offered statewide.

4. Additional Information Regarding Implementation and Hedges for the Schools, the County and the City - Ms. Rebecca Gunnaugsson, Ph.D., President of Acuitas Economics

Ms. Rebecca Gunnaugsson, Ph.D., President of Acuitas Economics presented implementation scenarios for the Columbia Competitive Property Tax Plan. Essentially, we have high property tax rates that leads to slow tax growth and poor property valuations. In turn, these result in smaller tax revenues, prompting leaders to raise tax rates, which further deters growth and depresses valuations. We are stuck in this negative continuous loop. We want to flip that so we have low tax rates that lead to high growth and higher valuations that lead to higher tax revenues that prompt leaders to reduce the tax rate even further without sacrificing revenues. We want to phase this out over a ten-year period starting with two years of escrows. We want to use triggers. We can shorten the ten-year period if we start seeing the revenue. I was asked to talk more about the school districts over this ten-year cycle. The schools levy two millages: one to fund school operations and owner-occupied housing does not pay that and the other is to repay bonded debt and all properties pay that. The historic debt millage for Richland School District One was 53 in 2011. On a compounded annual growth rate, it has grown at 1.9%. The revenues into the debt service fund followed the actual property rates and has grown at 3.38%. Increases in tax rates have provided new revenues for schools. The students have had a relatively steady decline. If we



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slowly implement this phased in tax plan the millage will stay the same. The revenues grow at a steady rate at 0.63% compounded annually. Under a worst-case scenario, we will see a decline in revenues from commercial and rental properties, but we also see growth in all other properties to make up for the decline. We do not see a decline in revenues. Richland One has been seeing a decline in students. It is difficult to project out the impact per pupil. School districts have other funds, but property taxes flow into the general fund. Historically, the millage rate increased from 2.36 in 2011 and it has gone up 1.25% compounded annually. Property taxes have grown at 2.95% compounded annually and state revenues have grown at 4.02%. If we implement the tax plan, the property tax will grow at 0.6% compounded annually. Under this worst-case scenario, we do see a decline in commercial, but it is made up by growth in other properties. For Richland School District Two, they have a much higher debt service millage rate. The revenues have mostly grown because of increases in the property tax rate. They have seen growth in students. A lot of people are building houses in Richland School District Two, but they are working in Richland School District One. All of the new houses help with debt tax base to build new schools, but not with the operations. The revenues will grow at the historic rate. The student rate has historically grown at 0.68% compounded annually but we might see something different going forward.

Mr. James Bennett, First Citizens Bank said the higher the property value, the lower the millage rate. Should we expect the millage to go down?

Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics said if we get in more revenues than the school district, county or city needs to spend then that is the opportunity to lower millage rates. During this phase in period, we are trying to get all of the excess revenues to fill in the gap left by lowering the tax rates. We are trying to hold one constant while lowering the other. If we flip the continuous loop, we can hold the assessment rate constant and start lowering the millage rate. You can use one of those two levers. The general fund revenue for Richland School District Two is significantly higher and it has grown significantly faster. In the past year, there was a decline in property tax revenues and the millage rate didn't change. We start seeing depressed values, slower growth and slower revenue. This is the slowest case implementation scenario over ten years. Projecting is difficult. We assume that state revenues and property growth occurs at the same rate as they have for the past ten years. Total property tax still grows at 1.07% compounded annually. Property taxes overall make up a lesser portion of the general fund for Richland Two than it does for Richland One.

The Honorable Joe E. Taylor, Jr., Chairman said in your original tax study you compared the non-property tax paying real estate between our peer cities and us. If I remember correctly, it was not a consequential impact that drove our taxes.



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Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics said we had data from Greenville and Rock Hill. We had slightly more exempt acreage and exempt parcels but it wasn't enough to drive the discrepancy in rates.

The Honorable Joe E. Taylor, Jr., Chairman said while an entity like the University of South Carolina doesn't pay taxes, it has driven a huge amount of 6% assessed properties in and around the university.

Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics said yes, USC and state government are two of the biggest entities that generate consulting services, business, and other properties.

The Honorable Joe E. Taylor, Jr., Chairman inquired about the percentage of people that rent in the Columbia.

Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics said 54% rent in the city and there is a greater proportion of homeowners to renters in the county.

The Honorable Joe E. Taylor, Jr., Chairman said we are talking about investment, opportunity and job growth. We are talking about affordability and attainability for over half the population in the city and the county. When we talk about tax modernization, the assumption is that it is to benefit the rich. What we are talking about today has a disproportionate positive impact on working people in our community.

The Honorable Edward H. McDowell, Jr. asked how the non-owner occupied homes compare in each school district.

Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics agreed to look into that.

COMMITTEE DISCUSSION

5. Recommendation of a Final Draft Plan - Ms. Rebecca Gunnlaugsson, Ph.D., President of Acuitas Economics

The Honorable Joe E. Taylor, Jr., Chairman said the people of Richland County and the City of Columbia are indebted to you for your service. We see what our final draft is. Are you comfortable with this as the draft to take to the community and begin the discussions?



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Mr. James Bennett, First Citizens Bank said yes.

Mr. Billy Cantey, Cantey & Co. said absolutely.

Mr. Steve Taylor, Wolfe & Taylor Realtors said I absolutely agree.

The Honorable Edward H. McDowell, Jr. said yes. There is still concern about diving deeper into the substance of most of these issues. It paves the way for continued conversation.

6. Final Meeting Schedule - The Honorable Joe E. Taylor, Chair

The Honorable Joe E. Taylor, Jr., Chairman said we will begin discussions in the community over the course of the next two to three months. We will come together during early September to finalize and create an implementation committee that the Mayor will put together. We will invite email feedback, suggestions and thoughts over the summer.

ADJOURNMENT

The meeting was adjourned at 3:29 p.m.

Respectfully submitted:

Erika D. Moore Hammond, CMC
City Clerk