Speaker 1 (00:00):

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Nikki Dobay (00:14):

The name of the paper is Replacing the Irreplaceable. What an eerie title, Jared.

(00:25):

Hello, and welcome to GeTtin' SALTy, a state and local tax policy podcast hosted by Greenberg Traurig. My name is Nikki Dobay, shareholder in the Sacramento, California and Portland, Oregon offices. Today, we're going to be talking property tax, and I am very pleased to be joined by a GeTtin' SALTy podcast regular, Jared Walczak. Jared is a senior fellow with the Tax Foundation and also the founder of Walczak Policy Consulting. Jared, thank you so much for, once again, joining us.

Jared Walczak (00:55):

Well, thank you for having me to talk about what, I think, is a really interesting issue.

Nikki Dobay (00:58):

Yes. We've dabbled in property tax discussions on many of our podcasts, but it looks like you've been really focusing on this, one of the areas you've been focusing on, you're focusing on a lot. And you have recently published a paper, which is on the Lincoln Institute of Land Policy's website. The name of the paper is Replacing the Irreplaceable. Unpack that for us, and get into the substance of this paper, and what you're working on, here.

Jared Walczak (01:27):

Right now, there is a lot of focus on reducing, or even eliminating, real property taxes. This is popping up in states across the country. And what I've often said is, I think people are being asked roughly half of a question. They're being asked, "Wouldn't you like to no longer pay property taxes?"

Nikki Dobay (01:43):

Yes.

Jared Walczak (01:44):

And it's really easy to raise your hand to that. I'll raise my hand to that. That sounds great.

Nikki Dobay (01:48):

Right. It sounds great.

Jared Walczak (01:49):

They're not being asked the other half of the question, what are you going to replace it with? If you find something you could replace it with, how are you going to allocate that back to local governments to make them whole, or to make this work? So, this is one of my efforts to quantify that, to actually answer the full question. We do yield answers, but I think they're the sort of answers that raise more questions like, is this really a particularly good idea? Because I look at, in one particular state, I'm using Ohio in this particular study, as sort of a case study for what this would look like elsewhere.

(02:21):

I look at what the alternative rates would be on individual income or sales taxes. I look at what it would mean if you replace that revenue at the state level and then try to allocate it back under a number of different formulas for redistribution of that revenue, and what that looks like for net tax liability, for individuals. And I try to quantify a little what this really means, if we were to repeal the property tax.

Nikki Dobay (02:46):

Looking at Ohio, what is that number? What is that property tax number that, if everybody raises their hand and everybody agrees we should eliminate it, what's the hole?

Jared Walczak (02:57):

So, there's a measure. It did not make the ballot this year, but people were trying to circulate this to get it on a ballot in another year. And, if it passed, you would immediately have a $21 billion revenue hole that you have to patch, and there's no solution for that. The measure just says-

Nikki Dobay (03:13):

Right.

Jared Walczak (03:13):

... there are no real property taxes. And I guess it's up to the legislature, at that point, to figure out how do you patch $21 billion? And there are ways.

Nikki Dobay (03:23):

Yes.

Jared Walczak (03:23):

I suppose, there are ways. You could take the state's single rate, 2.75% individual income tax, and you could turn that into an 8.74% flat income tax.

Nikki Dobay (03:35):

Okay.

Jared Walczak (03:35):

Now, maybe you wouldn't want to do that. That's a pretty high flat rate. So, you say, "Well, what about graduated rates?"

Nikki Dobay (03:40):

Right.

Jared Walczak (03:41):

So, I looked at three different possible graduated rate structures. I didn't want to just completely make these up, so I modeled them after things. I did one that's basically taking the old graduated rate structure that Ohio used to have, and then I just sort of expanded out to what it would need to be, with those brackets. I looked at Washington, DC as a model of a somewhat more progressive version. And then, I use a proposal from an Ohio legislator, not for replacing the property tax, but just for a significantly graduated progressive rate tax, as more of your millionaire's tax style. And I try all three. And under the first two, you are looking at top rates well over 12%, plus the local rates.

Nikki Dobay (04:19):

Okay.

Jared Walczak (04:19):

So, we're getting to 14.5% income taxes in most places, as the top rate.

Nikki Dobay (04:24):

Starting to sound like Portland.

Jared Walczak (04:26):

Yeah. You're talking about Portland, or California, or New York City-

Nikki Dobay (04:29):

Yes.

Jared Walczak (04:30):

... but, we're talking all of Ohio. You're talking not just, okay, San Francisco, or Portland, or New York City, but Youngstown, Ohio. And that's maybe a little different.

Nikki Dobay (04:39):

Right. Lima, Ohio.

Jared Walczak (04:41):

Absolutely.

Nikki Dobay (04:42):

Yeah.

Jared Walczak (04:43):

Some great Eastern Ohio locations here.

Nikki Dobay (04:45):

Yes.

Jared Walczak (04:47):

And then, you could do it with the sales tax.

Nikki Dobay (04:49):
Yeah.

Jared Walczak (04:49):
You could raise the sales tax to 14.5%.

Nikki Dobay (04:52):
Okay.

Jared Walczak (04:53):
And that's also a pretty high rate.

Nikki Dobay (04:55):
That's a little increase. Okay.

Jared Walczak (04:57):
Just a little.

Nikki Dobay (04:58):
Yeah.

Jared Walczak (04:58):
So, those are your options. You can do this. Now, what I didn't do as much in this paper, but I've done previously, is ask the question, do you want to raise this revenue at the state level or the local level?

Nikki Dobay (05:09):
Yeah.

Jared Walczak (05:09):
Here, I looked at raising it at the state level. The reason I did that is, if you wanted to do this at the local level with additional local option sales tax authority, local income tax authority, you have some jurisdictions that, basically, don't have a sales tax base. You have some jurisdictions that have very little income. So, it's, in many respects, even worse. For instance, if you wanted to do income tax replacement, there is a county that would, on average, need about a 27% flat rate-

Nikki Dobay (05:38):
Yeah.

Jared Walczak (05:38):
... to be able to replace its property tax. That's just not realistic. So, I said-

Nikki Dobay (05:42):

Is that income or sales tax?

Jared Walczak (05:44):

Income.

Nikki Dobay (05:44):

Wow, okay.

Jared Walczak (05:44):

27% flat rate income tax, one border county. And, of course, that's not average, but there are plenty that are 12, 13, 15, 18%. So, that seems unrealistic.

(05:56):

So, okay, you look at a statewide tax. And then, of course, you have the second question. We've raised all this money-

Nikki Dobay (06:03):

Right.

Jared Walczak (06:03):

... it's probably done some real economic harm. How do we give it back? Because you don't have a property tax anymore. You can't just replace the property tax. It is gone.

Nikki Dobay (06:11):

Right.

Jared Walczak (06:12):

So, there's options. You can potentially use some sort of formula based on need, but that's going to be radically different than what you have right now. So, I modeled that. I did something that sort of uses the school funding formula, its needs-based formula, and extrapolated that out, as just an example of one way. But, I also did what I think is the most likely approach in this whole realm of things that just seem wildly implausible, and bad ideas, and said, okay, take the final year of property tax collections and then adjust them as you go forward for population growth and inflation.

(06:48):

So, basically, it's just replacement. And the first problem with that is that growth doesn't look like this. The additional expenses that local governments may incur when there's a new development may not just be a population adjustment. So, it's hard to model that going forward. I decided to go backwards. I said, let's look back 20 years ago, and do the population and inflation adjustment to the present, and see how much it diverges. And, of course, it's massive.

Nikki Dobay (07:14):

Yeah.

Jared Walczak (07:14):

I mean, you can find jurisdictions that are off by 40% or more. So, you can see some of that. I think there was one that was off by 67% because it's had some new industries come in-

Nikki Dobay (07:25):

Right.

Jared Walczak (07:25):

... and there's expenses associated with those new industries, more than just population. But, basically, most counties, most jurisdictions lost a handful gained in this. But, on the whole, it grows slower than the property tax, so you're losing revenue. And then, of course, there's how do you lose or gain relative to others? I then say, all right, create this income tax or the sales tax. I modeled both. You raise all this revenue. So, someone in such-and-such jurisdiction is paying income tax, but they are also receiving back, perhaps, a very different amount in property tax. We have low property tax jurisdictions, we have high property tax jurisdictions.

Nikki Dobay (08:07):

Yeah.

Jared Walczak (08:08):

This basically, forever, subsidizes the formerly high property tax jurisdictions, takes away all of your local accountability-

Nikki Dobay (08:16):

Yep.

Jared Walczak (08:16):

You can no longer say, "I want more or less government. I want it to be responsive to my needs." You just have to subsidize someone or be subsidized, and you have to pay under this new tax that is completely unrelated to the benefits you receive as a local taxpayer. One of the really interesting findings here, not surprising, but I think notable, maybe ironic, given where a lot of the support is coming from, is this hammers rural counties and rural jurisdictions. I calculated that, under an income tax shift-

Nikki Dobay (08:48):

Yeah.

Jared Walczak (08:49):

... if you went to a graduated income tax, rural counties' net tax liability would increase by 18%-

Nikki Dobay (08:54):

Okay.

Jared Walczak (08:55):

... compared to where they are now. Under sales tax, 26%.

Nikki Dobay (08:58):

Okay.

Jared Walczak (09:00):

So, sure, you're not paying property tax, but you are paying-

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Jared Walczak (09:03):

... [inaudible 00:09:00]. So, sure-

Nikki Dobay (09:00):

[inaudible 00:09:01].

Jared Walczak (09:01):

... you're not paying property tax, but you are paying substantially more net tax than you are right now to subsidize other jurisdictions who now are paying less and getting more.

Nikki Dobay (09:12):

Yeah. Well, I mean, I guess you could avoid that by not making any income and/or buying anything. We could [inaudible 00:09:19]-

Jared Walczak (09:19):

Well, I mean, if you don't do that, yeah. I mean-

Nikki Dobay (09:20):

Yeah, it's perfect.

Jared Walczak (09:22):

Become a hermit, go off the grid.

Nikki Dobay (09:24):

Right. Thank you so much for that. And thank you for this study because I think that that is really needed information to have this type of discussion. Because without understanding any of the numbers, as this conversation has gone on, I have always just thought eliminating the property tax just eviscerates local control. You've quantified that, but also you made a statement that really hits that on the head that the locals just lose all control over what services they want to provide going forward.

Jared Walczak (10:02):

The great thing about the property tax, which, obviously, is not everyone's favorite tax, is it's transparent, it's directly tied to the benefits you receive, not just that you are paying roughly commensurate to the benefits you receive, which is true, a more expensive property gets more value out of these local services, but also that they have a positive feedback loop where these local services make your property more valuable. Better school district, more valuable property. Better roads, better police and fire protection, better parks, more valuable property. You don't get that sort of connection with an income tax, with a sales tax, with really anything else that you could imagine. And you have the capacity to intervene at the local level in a way that you really don't at the state house, where, sure, people gripe about every level of tax and they gripe about property taxes because they see them, they see that burden. It's much more transparent. You don't know what you paid in your sales tax. You don't know that, but you do know what you paid in property tax. I think that's a virtue because now you can say, "I think I'm getting less value for my money than I'd like. I'm going to vote for people who have a different point of view." You can do that if you want. Or you can say, "You know what? I actually think we need to invest more in infrastructure. I think that it'd be great if we could grow in these ways. I want to support this." And of course, no one's going to be satisfied all the time. That's just the nature of any political arrangement. But there's a local control aspect that just doesn't exist with any other tax, and there's a direct connection between the property tax and the benefits you receive that doesn't exist anywhere else.

(11:38):

And I just think it's fascinating that there's anyone who would like to say, "I want to completely give up any ability to determine the level of spending in my jurisdiction. It might be high, it might be low, but it will always, in perpetuity, be frozen based on this formula funded by the state. I will pay something that just goes into the state's fund and gets allocated out by possibly paying dramatically more while being perpetually left behind." It's surprising. Normally we would say maybe a bizarre position for people to take, but there is just this visceral response to property taxes. I get some of it. But again, it goes to that half a question. It's really easy to dislike the property tax, but I think that a lot of that changes when you consider what the alternatives look like.

Nikki Dobay (12:27):

So, Jared, thinking about just this concept that everybody hates the property tax, and we often hear, you and I go to a lot of the same conferences and we hear state legislators talking about this and they're hearing from their constituents. It seems to me that one of the biggest pain points with property tax increases really goes often to senior citizens or people that have been in a property for many years and just don't have the income coming in to pay the property tax.

(13:01):

Are there targeted ways to address some of these challenges, I will say, the property tax has? But by and large, the property tax is doing what it's supposed to do. As value goes up, you pay more property tax. And there are the other levers that I know we've talked about before where if a locality wants to put in place caps on their spending to try to control some of that, that could be used. But as we're thinking about, "Okay, people hate property tax. How can we solve that issue?" this paper clarifies that it leaves a hole that is really difficult to fill, maybe impossible. Are there other ways?

Jared Walczak (13:40):

There are. There's a number of things that local and state governments can, and I think in some cases should do. So, firstly, one of the reasons we're having this whole conversation right now is that assessed values have risen dramatically over the past six years. And in some jurisdictions, the mill levies or the rates have gone down roughly commensurately. So the people's burden hasn't risen that dramatically or maybe not at all. Sometimes that's not the case. Some people are paying way more on the same property and they don't really understand what the value proposition is. Again, I think that's something where the property tax gives you the capacity to go to your local government and ask those questions and get involved. Whereas when inflation drives up sales tax revenues, you don't really have the capacity to lower your sales tax rate. So, I think that's a good thing that at least that pain gets converted into potential action and pressure, but it's there right now.

(14:31):

There are solutions to this. A levy limit, which is one thing you were alluding to, is one way to address this, where there's essentially a revenue cap, that revenue can increase perhaps inflation plus some certain amount. You exclude new growth because if there's more people, more businesses, you expect there to be revenue associated with that. But you say within, for any given year, the property that's unchanged from year to year, revenues can only grow by such and such amount, and the rates need to roll back to hit that target. That avoids these large, perhaps unwarranted increases and forces a vote of the people or some other mechanism to raise beyond that. So, I think that's one really responsible way. And that solves a lot of the problem for everyone, your lower income individuals, but really everyone who might be worried about a large unlegislated tax increase or people who are truly lower income.

(15:21):

Often the phrase fixed income shows up here, and it's actually maybe a bit of a misnomer. There aren't a lot of fixed income people in modern society. Social security is inflation adjusted. All of these things are. So, if we're just talking about property taxes rising due to inflation, probably your pension, Social Security, 401(k), there's going to be some [inaudible 00:15:42]-

Nikki Dobay (15:42):

Commensurate offsets.

Jared Walczak (15:43):

... But if your property taxes rise really high, have an issue. You have limited income. There are a couple of mechanisms the state and local governments have turned to that are targeted to provide relief without throwing the baby out with the bathwater. The most significant one is called a circuit breaker. Usually it uses some combination of measuring your income and maybe looking at the value of your property compared to others and says, "For a low-income individual with a relatively modest property, maybe above a certain age, like retirement age, we are going to put some additional caps on property tax liability or the growth of liability. Not for everyone. We're not going to distort the entire property market. We're going to solve a narrow problem for a group of affected taxpayers."

(16:26):

The other thing you can do that I like, I think it's a good idea as well, is deferral options for certain eligible taxpayers, low income, senior citizens, certain limits on the size and value of your house, all of these things. But to say, if you really can't afford to pay, and this would actually be the difference between you potentially losing your home, you can actually stop paying. Now, there's going to be additional accrual of liability. If you ever sell this home, of course, you're going to have to pay them. If you live your entire life there and then it's inherited by someone, then at that point, they've got to pay the bill. And that solves the liquidity problem. It solves the pricing you out of your house.

(17:07):

And the interesting thing is, not many people take this up. And it's not just a lack of knowledge because people, a lot of states send information about these, especially people who are behind on their payments or who are lower income. They'll say, "This is an option." And some people take it, not that many do. I think that tells us two things. One, you're going to be priced out of your home. It's real, but it's often used more as a talking point than as a massive problem. But two, we can fix that problem. We can take that problem entirely off the table, and we should, without doing something drastic, like getting rid of a major tax that funds local government in a pretty economically efficient way that, again, makes more sense probably than anything else we could come up with.

Nikki Dobay (17:52):

Do most states offer these types of deferrals? Is that something that's already out there as a self-help mechanism?

Jared Walczak (17:58):

It's becoming increasingly common. It's not all of them, about half, maybe a little less than half. And I-

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Jared Walczak (18:03):

... pretty common. It's not all of them, about half, maybe a little less than half, and I think it should be maybe most or all of them. I think it's a good reform. So if a lawmaker's concerned about this, go look at deferral options. They're out there and they can be good policy. But I also think it's interesting, again, they don't have a high take up rate, and I don't think that's a bad thing. I think this isn't a major problem, but you fix it for those for whom it is a real problem.

Nikki Dobay (18:23):

What I also think is noteworthy about that is it takes a lot of these arguments off the table as to why property taxes are so bad. I think you believe this as an economist, but we hear this all the time by state legislators. You want a broad base and a low rate. Take away the property tax, you've got a three-legged stool, you've just eliminated a really large tax base for your overall state tax base. But people with a lot of money that can afford to pay, pay a lot of property tax. There's progressivity built into that. And what your research has shown, you eliminate the property tax, your income taxes and sales taxes are going to have to go up.

Jared Walczak (19:03):

Yeah, substantially with significant economic harm and a lot more effect on cross-border activity. If your income taxes are three times what your neighbors are, that is going to drive more mobility, more investment decisions, more labor force participation issues than your property taxes raising the same amount of revenue. Just the dollar amount is not the only thing that matters. So states need to be very aware of what it means if they shift away from these taxes for their overall competitiveness, for bringing businesses in, for having an attractive place for people to live for the long term.

(19:37):

Again, I think it's really easy for policymakers to, in the abstract, talk about this. And one of the reasons it hasn't gone further in most states thus far is that eventually you have to put together a plan. Once you see a real plan, it looks terrible when you say, okay, the highly progressive system I looked at in Ohio, because honestly, the ones that were ordinarily progressive that at a top rate of 12%, the reality is that very middle income people were hitting 10%, maybe not 12, but they were very middle income people were hitting 10% and that's unattractive.

(20:09):

So you say, "No, let's go highly progressive." Now you've got a top rate of 22% plus the local tax. Now we're getting 24, almost 25% top rate. We're talking close to double California in Ohio. It's not going to work. These are not options. You can't sell that to people. You can't do that.

(20:28):

The fear that I have is that we eventually see this happen somewhere on the ballot rather than the legislature, because lawmakers would probably have to put together a full plan. But a ballot measure can just say, "Go on, fix it." Someone else's responsibility. That's what the Ohio one would do. Even in Florida where there is legislative involvement, it's so much in my mind, an abdication of responsibility. It's a punting. Lawmakers didn't want to decide this. So they basically, initially they thought, "Let's put seven different options on the ballot and let voters decide." Now they backed off that, and they're not eliminating the property tax under this measure, but they're putting in a really substantial homestead exemption that dramatically reduces tax revenues. There's no offset. There's no pay for.

(21:15):

I mean, again, it's not elimination. It's not outside of the realm of possibility to reduce revenues by this amount and survive, but it's a really significant cut. And no one's talked about how you do that. It's just localities will figure it out.

Nikki Dobay (21:29):

And let's talk about Florida because doing the analysis you just did in this paper, they don't have a personal income tax. So they either option A, get a personal income tax and that kind of will ruin their street cred 'cause that gets them a lot of folks moving there, or they're going to have to increase the sales tax. Has there been any analysis done under this proposal or prior Florida proposals about what rate the sales tax would have to go up to?

Jared Walczak (22:02):

Yeah, so if Florida were to fully repeal real property taxes, which is not what this proposal is, but in that circumstance, you are looking at a state sales tax of 13%. Or if you're doing this at the local level, you could see ranges all the way up to about 33% in some counties. And probably in a lot of your major jurisdictions of your big cities, 18-ish is about average. So we're talking some really substantial sales tax rates to make this work.

(22:31):

Again, it's not elimination of property taxes. It's a very large homestead exemption. It would go up to 250,000. But this is combined with an existing assessment limit called the Save Our Homes Amendment. So 250,000 is not 250,000. It's 250,000 of taxable value, which may be very different than your market value. So if you bought your home a couple of decades ago, that 250K of taxable value might be more like 600K of market value. So you can take a lot of homes completely off the rolls with this.

(23:06):

And then local governments have a couple of options. One, they can live with pretty significant revenue losses, and some will probably do that. There's cost to that, but they can do that. Two, they can look to their existing tax mix. And they generally don't have a lot of capacity to raise local sales taxes. They may be at their cap, or at least they're probably close enough to it that you certainly can't replace this. The other option is to raise the property tax. So there's caps on that as well, but on what's left.

(23:33):

Most jurisdictions, not all, but most jurisdictions are well under the cap. So they could dramatically raise their rates on the property that is not excluded from this. So that'll be newer purchasers, whether they're young people or people moving to the state that don't have as much of an exemption to claim because the assessment limit's not doing as much for them.

(23:55):

It's also commercial property, industrial property, so it makes it less attractive to start a business there, to put out there. It's rental properties. This is an enormous shift. If a locality does that, it's an enormous shift onto renters. Either way, it hurts them. In a scenario where they don't raise rates, renters don't get any benefit because they're still paying indirectly the full amount, but they get reduced services because of the cuts.

(24:20):

If the jurisdiction says, "No, we've got to fix this, we're going to raise rates," then renters bear the full brunt of that much higher rate because rental property is not subject to a homestead exemption, so they pay much more comparative to homeowners. It doesn't make a whole lot of sense, but again, it's the super thing you get when policymakers are just throwing things at the wall trying to say they did something on property taxes.

Nikki Dobay (24:42):

So that one is on the ballot, correct?

Jared Walczak (24:45):

That is on the ballot.

Nikki Dobay (24:46):

Okay. So we'll find out in November.

Jared Walczak (24:49):

We will.

Nikki Dobay (24:51):

Okay.

Jared Walczak (24:51):

And again, it sounds great. There's going to be an interesting messaging campaign around this, I'm sure. And you'll hear from the localities, you'll hear from service providers, you'll hear from all kinds of people who say this is a problem. But you're also just going to have people who look and say, "I would like to not pay property taxes or to pay way less property taxes." And it's appealing, I get it, but that doesn't make it a good policy.

(25:16):

And another interesting aspect of this, one of the reasons we're here is because of previous poor policy. I mentioned that assessment limit. So the previous effort, early '90s, I think it was '94 or thereabouts where Florida said, "We are going to limit the increase and assess value of a home as long as you continue to live in it." There's some portability, there's some other provisions, but basically huge benefit for incumbent homeowners whose property is valued at way less than market value, very different than for someone who bought recently. So the average effective rate of property taxation on residential property in Florida is like 0.77%. That's way below the national average.

Nikki Dobay (25:56):

So it's already low.

Jared Walczak (25:59):

It's already low, but it's not 0.77 for everyone. If you bought in '94, your effective rate might be like 0.2%. So you are not beating down the door to Tallahassee. You are good right now. But lawmakers never hear people say, "Hey, this is great." They only hear people say, "This is horrible." And if you live in a lot of jurisdictions that have fairly high rates right now because they're trying to deal with this, and you just bought in the last few years, you might be paying 2.4%. And if you're paying 2.4%, you are mad. Florida to fix a problem created the very problem that is now leading to this next effort to fix a problem, which would create still more problems.

Nikki Dobay (26:36):

Well, I was going to bring up Oregon 'cause Oregon passed Measure 50 back in the '90s. About that time as well, the Florida cap sound very similar to Measure 50 here in Oregon. We always hear about Prop 13 and all the challenges that's created in California. But I like to tell people like, "Well, we have a worse version of Prop 13 in Oregon because Measure 50 doesn't reset on set ...

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Nikki Dobay (27:03):

... in Oregon because Measure 50 doesn't reset on sale. We had a home in Portland, 100-year-old house, property tax value was very low because it was around in 1997 when our caps were put in place. No matter how many times that house gets sold, that value, that maximum assessed value is going to stick with it and only able to go up, I think, 2% a year. But we move to a place like Bend where everything is new, values are much higher here. Now, I will say just the size of the community... There's a lot of other factors. We're still paying lower property tax, but we don't get the benefit of that Measure 50 cap. It's a bad system.

Jared Walczak (27:44):

The incentives it creates, the perverse incentives are just fascinating.

Nikki Dobay (27:48):

Yeah.

Jared Walczak (27:48):

In an era where we talk a lot about housing affordability and availability, and we all know that one of the key ways you address this is build houses. You're essentially saying the new house you build gets taxed dramatically more than the older existing house. That makes no sense. If you renovate, if you make changes, that can reset in a lot of states. So you improve that house, you make it more habitable.

Nikki Dobay (28:11):

Yep. And now you have a bigger property tax bill. I do have a condo in Portland. We had a fire, so we had to do some renovations. Guess what happened after that?

Jared Walczak (28:19):

Yep.

Nikki Dobay (28:20):

Higher property taxes. Very counterintuitive. I would also say just anecdotally, we see in California and Oregon, states that have these longstanding caps in effect, guess what we have out here? Higher income taxes. Well, Jared, I think we've come full circle on this one. I really encourage the listeners to read this paper and look at it. And I know you and I spend a lot of time with legislators and we hear a lot about this issue, but I think it is so important for folks to know the visceral hatred of the property tax is understandable, but there are ways to make improvements. But this is a tax that's by and large working.

Jared Walczak (29:01):

It is, and it's a tax that we've had since the founding of the country, and of course we got it from others. The property tax is a very old tax, and not all taxes are good ones, but this one has survived because it has a lot going for it. Economists like it because it's economically efficient. It doesn't distort behavior in the ways that other taxes do. Local governments like it because it does raise a fair amount of revenue and it also is quite stable. Taxpayers should like it because it's associated with and even supports the benefits to their property and gives them a much more direct say in the value proposition of local government than any other tax would. And what's undercutting it I think is primarily that transparency. A good thing, but you see that property tax bill, you don't see your sales tax bill.

(29:44):

And I think this just visceral sense of, "Hey, I own my property. Why am I still paying this?" The honest answer is because roads and schools and police and fire keep costing things no matter how long you've owned something. That you're paying for the services associated with it and those don't go away. But I get it at some level, but when you really stop and think about it, it's no different than paying your income tax or sales tax. In fact, it's more closely associated with what you're receiving. If we're looking for the perfect tax that does no harm and never yields an outcome anyone doesn't like, if you've found it, please tell me because I haven't.

Nikki Dobay (30:20):

Oh, okay. I thought you were going to give it to me.

Jared Walczak (30:23):

This one is pretty good.

Nikki Dobay (30:24):

Okay.

Jared Walczak (30:24):

This one is better than most. It's worth saving. Sometimes that means worth reforming. There are things we can do to make it better and to solve some of the legitimate problems out there, particularly for people who have seen dramatic tax increases just because assessed values have risen. That's something to solve, and there's solutions for that. But again, the property tax itself fundamentally is a key element of local public finance. There isn't a good replacement for it. I hope this new paper helps quantify that, helps answer a little more of that question to say, "What would it look like if we got rid of the property tax?" And I think most people looking at it would say, "That's actually a whole lot worse."

Nikki Dobay (31:03):

Yeah, I think that's a great point. I'm hoping that you don't get hired by the Florida legislature this November to solve their problems. I'll just say that.

Jared Walczak (31:15):

I think they're trying to make it the local government's problems. That's everyone's favorite thing to do. Someone else's problem.

Nikki Dobay (31:20):

That's right. That's right. Well, Jared, thank you so much for this conversation and for joining today. But I can't let you leave without a surprise non-tax question. Just because you and I have gotten to know each other over the years, I'm always just curious about where you're going to be traveling next. So I'm just going to ask you, probably, I think we've asked this before, but what are your fun trips planned for the summer? We're heading out next week to Oregon Wine Country to spend about a week there. We spend a fair amount of time there, but I've never been for a week. We have a bunch of friends coming into town and joining us too, so really looking forward to that. And then back to the regular old work travel and CSL, MTC, and whatnot. But what fun trips are you doing?

Jared Walczak (32:05):

So my upcoming travel is mainly that conference travel. It's in perfectly nice cities.

Nikki Dobay (32:09):

Yes.

Jared Walczak (32:10):

But kind of repeats. And they're great, but they're not maybe new and exciting. June was a ** fascinating month for me.

Nikki Dobay (32:16):

Awesome.

Jared Walczak (32:17):

I had opportunities to go to both Alaska and Hawaii for work, which you really can't complain about. And I was able, while in Alaska, to take a bush plane to Lake Clark National Park and do a day's worth of hiking and kayaking out there. When in Hawaii I took advantage of the opportunity. It's the closest I'm going to ever get to American Samoa, so I went the rest of the way. Did that park. Some jungle bushwhacking on trails that maybe have officially been closed for several years, but who's going to stop you? So some fascinating places there, some really fun trips that will get me through the rest of much more ordinary summer conference season.

Nikki Dobay (32:57):

Well, Jared, that sounds amazing. And thank you as always for joining, and thank you to the listeners. Information for Jared and I will be in the show notes. Be sure to check out his paper. We'll link that in the show notes as well. And I will be back in a few weeks on the next GeTtin' SALTy.

PART 4 OF 4 ENDS [00:33:15]