Matthew D. Gallagher: Let's get real about property taxes

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Through the years, in publications like the *The Wall Street Journal*, *National Review*, and *The Baltimore Sun*, Loyola University Professor Stephen Walters has gradually evolved a proposal to quickly cut Baltimore's property tax rate in half. He maintains that Baltimore (which Walters has previously described as a "hellhole") will see its tax base rebound as residents and investment flow back, mitigating otherwise disastrous budget effects. But Walters' application of supply side economics to Baltimore's property tax rate is what hopeful gamblers call "betting on the come," and here's hoping that candidates for local offices can be discouraged from making such unrealizable promises to dramatically reduce the property tax.

Walters' belief in the dynamic stimulative effects of tax cuts is well-chronicled, but he hasn't shown the math works. He writes of the abuses of development incentives, bemoans the excesses of social spending, and hints of opportunities for entitlement reform. Recently, Walters has been effectively doubling down by touting a borrowing plan to bridge any temporary revenue gap between tax cuts and dramatically accelerated population growth and private investment.

Packaged in pseudo economic speak ("crony capitalism") and tired partisan rhetoric ("tax and spend"), Walters' policy prescriptions remain unburdened by actual estimates of budgetary and service impacts. Usually the only evidence he cites to validate his ideas has been the experiences of San Francisco and Boston, never mind their wholly dissimilar tax and revenue structures and their comparative wealth. Perhaps that's why no local community or business groups, let alone a government credit rating agency, endorse his strategies or judge them viable.

Let's get real. Tax reductions on the scale proposed by Walters would cost over $430 million per year, the rough equivalent of Baltimore's annual spending on police or twice its base contribution to public education. City analysts estimate that replacing that lost revenue would require some combination of over 200,000 new households or borrowing equivalent to development subsidies for four Harbor Point-sized projects every year. Those are big bets and discerning policymakers shouldn't take the odds.

This isn't an attack on the cozy confines of Professor Walters' academic's ivory tower or the policy pronouncements of a City Hall apologist. It's a plea to elevate the level of public discourse around Baltimore's pressing challenges, like its uncompetitive property tax rate. With mayoral and City Council elections approaching, it's time for actionable plans that will make a difference.

Mayors O'Malley, Dixon, and Rawlings-Blake lowered Baltimore's property tax rate six times over the past decade. With each action, these mayors and their Council colleagues laid accurate claim to reducing rates to their lowest point since the early 1970s. Pairing those actions with incremental reductions already planned for the 2016 - 2020 period will total an 11 percent cut representing a cumulative savings of more than $3,000 for a homeowner with a $200,000 assessment.

Reducing Baltimore's rate between one penny and one percent each year has a demonstrably manageable cost of $4 - $9 million across a $1.7 billion General Fund budget. The real challenge will be sustaining the discipline to ensure incremental cuts continue and finding opportunities to responsibly accelerate reductions in ways that don't rely on an unidentified and unrealistic influx of new resources. How might that actually be accomplished?

First, to resist the constant temptations to sacrifice annual, smaller cuts in order to deal with perceived crises, rate reductions should be tied to revenue or population growth thresholds that, when achieved, trigger accelerated schedules. City leaders should publish these goals and commit to faster action as they are achieved. These public commitments will help sustain the healthy pressures that already encouraged the past six incremental reductions.

Second, when development incentives will diminish property tax revenues in the short term, make their projected costs more transparent to ensure an appropriate net benefit accrues to the city in the longer term. Independently verify whether promised gains have been achieved, and put in place clawback provisions if anticipated gains don't materialize.

Third, as the City makes incremental reductions, dispense with the notion that Baltimore's rate is more than twice that of any other county. Follow regional neighbors like Anne Arundel and Howard counties, and Maryland's most-populous Montgomery and Prince George's counties, by creating a solid waste enterprise fund, bifurcating property tax and trash collection charges, and rebasing the City property tax rate. This would immediately lower the rate by another 15 cents or seven percent and make Baltimore's practice consistent with four of the state's six largest counties. A side benefit would be to focus public attention on the considerable cost of local waste collection and disposal services and more sustainable strategies being pursued by other cities.

Looking back over the past decade, remember that Baltimore led the nation in the rate of reduction of violent crime and experienced fewer than 200 homicides, enjoyed periods of population and student enrollment growth, and successfully advocated for a doubling of drug treatment funding and a $1 billion public school construction initiative. Perhaps it's the still fresh memories of real progress that make the setbacks of 2015 even more discouraging, though they should be an impetus for reestablishing civic expectations of sustained progress on important issues through the creation, adoption, implementation, and monitoring of real plans that serve Baltimore's interests. Rather than betting on one dramatic, unaffordable gesture to solve our problems, we can and must do the hard work to develop policy proposals around public finance with real math, and real, achievable outcomes.

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