



RIPEC

Comments on Your Government

A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

Pathway to Property Tax Relief Support Senate Bill S-3050 to Limit Property Tax Growth

A survey of cities and towns indicates that once again most Rhode Islanders will be facing property tax increases in the coming fiscal year beginning on July 1, 2006. Based on a survey and FY 2007 budget proposals, property tax rates are projected to increase in at least 26 communities, decrease in one, and remain constant in another (FY 2007 budget information is currently not available for eleven cities and towns).

Since FY 1996, property tax levies have grown by 50% to over \$1.7 billion in FY 2006, increasing at an average annual rate of 4.2%. On average, property tax bills currently represent 25.0% of monthly mortgage payments. It is clear that Rhode Island's property taxes are not affordable for many working Rhode Island families. However, help could be on the way.

There are two immediate opportunities to put Rhode Island on the road to property tax relief and reform. First, the State's Senate Leadership has introduced a bill that would limit property tax levy growth to no more than 4.0% (phased down from 5.5% over five years).

And second, the Governor has committed to placing an Advisory Question on the November 2006 ballot to gauge voter interest to pursue a Constitutional limit on State spending and property tax levy growth. Both of these initiatives warrant support as they move the State closer to limiting property tax burdens in the future.

Limits on what government can tax and spend should be viewed as a positive force in improving productivity, emphasizing efficiency, highlighting vital services, and freeing government from the obligation to do things whose benefits do not match their cost.

Therefore, RIPEC and the Affordable Rhode Island Coalition strongly endorse passage of S-3050, the Senate Leadership's proposal to establish a more realistic property tax limitation.

May 22, 2006

Local Property Tax Trends

Home-owners and businesses are feeling considerable pressure from growing spending demands, particularly from school spending pressures. Property taxes are creating financial hardships for many Rhode Island families - especially those on fixed incomes and those trying to purchase their first home. A recent poll commissioned by RIPEC asked “which tax (property, income or sales) would you want to see permanently reduced?”; nearly 58.0% said the property tax. The results were consistent among demographic sub-groups of voters (income, age, party preference, and ideology). As the survey data shows, property tax relief is a key concern among Rhode Island citizens.

The Rhode Island Association of Realtors recently published information that showed property taxes paid as a percentage of monthly mortgage costs for buyers of median-priced homes. This ranged from a low of 8.1% in Little Compton to 37.3% in Cranston. North Smithfield represented the median at 25.1%.

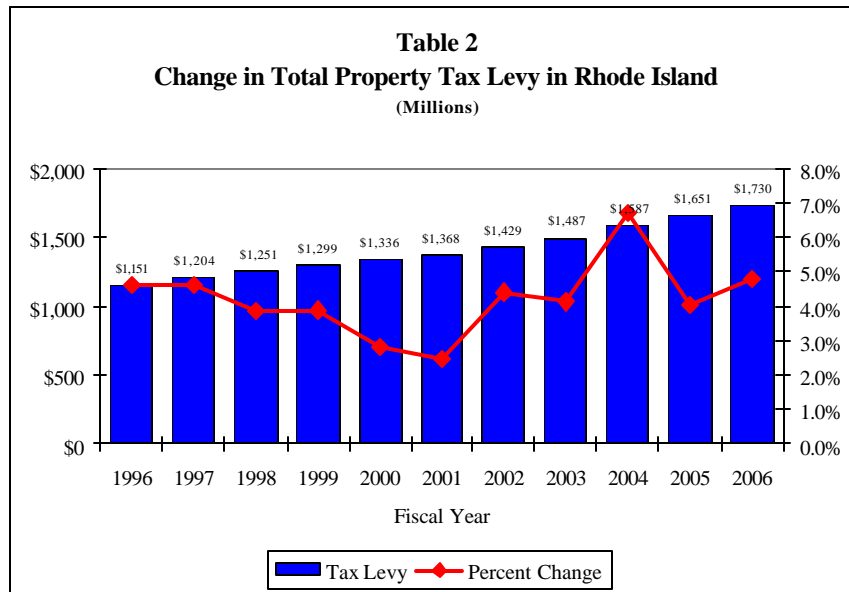
In FY 1996, adjusted full market value was \$68.8 billion, and in FY 2006, that number increased to \$126.8 billion; an increase of 84.3%. Since FY 1996, the annual rate of growth has been 6.3%; however, since FY 2002, the average annual rate of growth has been 11.4%. In FY 1996 commercial and industrial property represented 20.6% of the property tax base in the State and residential property represented 69.6%. Today residential property equals 74.0% and the State’s commercial and industrial base approximately 16.0%.

From FY 2005 to FY 2006, the total property tax levy in Rhode Island increased 4.8% – as compared to the average annual rate of growth in the levy since FY 1996 of 4.2%. In terms of total levy, no community in the State saw overall property taxes decrease, although there was a wide range of increases; from 0.2% in Central Falls to a 9.3% increase in Westerly.

Table 1
Which tax would Rhode Island voters
want to see permanently reduced?
 (percent of respondents)

	Property Tax	Sales Tax	Income Tax
Republican	60	15	22
Democrat	53	20	22
Other	61	20	14
Liberal	53	23	21
Moderate	68	15	11
Conservative	57	17	22
18 – 44	58	22	19
45 – 64	58	16	23
65 +	57	17	22
Less than \$50,000	56	25	14
\$50,000 - \$100,000	59	14	26
\$100,000 +	60	20	20
All	58%	20%	19%

Source: Opinion Dynamics, Inc. 2006



From FY 1996 to FY 2006, the statewide levy increased 50.3%. The average annual rate of growth was 4.2%. Twenty six of the State's 39 communities had an average annual rate of growth at or above the State-wide average annual growth rate. Of the 26 communities, 16 experienced growth rates that exceeded 5.0%. The remaining 13 communities experienced an average growth rate below the State average. Growth in property tax revenue can result from a number of different factors: increases in the property tax rate, growth in the property values on existing land or structures due to market changes, or new construction that adds to the tax base. In addition, the amount and distribution of State school aid impacts the overall rates of property tax levy growth.

Property Taxes and School Spending

In FY 2006, 55.8% of the local property levy was allocated to support education - up from 51.7% in FY 1996, demonstrating that the increasing demand on property taxes has been principally from the educational side of the budget. Relatively high residential property taxes are more of a burden for suburban and rural communities when compared to their urban core neighbors. This trend is in part dictated by the level and distribution of State education aid to cities and towns.

Overall education spending has increased from \$1.1 billion in FY 1996 to \$2.0 billion in FY 2006 – a \$922.8 million increase – representing an average annual rate of growth of 6.4%. Direct State education aid has increased from \$400.7 million in FY 1996 to \$657.6 million in FY 2006 – a \$256.9 million increase, representing an average annual rate of 5.1% during this ten-year period. Local property taxes made up nearly all of the \$666.0 million difference in resources to support the additional school spending. Because state aid has provided approximately 28.0% of the net growth in school spending since FY 1996 and property taxes provided the balance, the State's share of public school spending declined from 40.3% in FY 1996 to approximately 36.0% in FY 2006.

Table 3
Change in Property Tax Levies - Actual Experience

Community	FY 1996	FY 2006	Change	Percent Change	Ave Annual Change	Ave Annual Rank	Share of Change
Barrington	\$25,609,011	\$43,086,859	\$17,477,848	68.2%	5.3%	10	3.0%
Bristol	19,288,072	29,350,483	10,062,411	52.2%	4.3%	24	1.7%
Burrillville	13,116,497	19,162,222	6,045,725	46.1%	3.9%	29	1.0%
Central Falls	9,292,770	9,477,934	185,164	2.0%	0.2%	38	0.0%
Charlestown	9,371,962	16,823,683	7,451,721	79.5%	6.0%	4	1.3%
Coventry	28,895,109	50,446,107	21,550,998	74.6%	5.7%	5	3.7%
Cranston	94,132,535	145,337,455	51,204,920	54.4%	4.4%	22	8.8%
Cumberland	30,406,838	44,961,635	14,554,797	47.9%	4.0%	28	2.5%
East Greenwich	20,863,957	34,691,160	13,827,203	66.3%	5.2%	14	2.4%
East Providence	52,055,533	72,631,325	20,575,792	39.5%	3.4%	33	3.6%
Exeter	6,192,777	9,996,307	3,803,530	61.4%	4.9%	17	0.7%
Foster	5,637,423	7,843,650	2,206,227	39.1%	3.4%	34	0.4%
Glocester	11,096,067	15,647,919	4,551,852	41.0%	3.5%	30	0.8%
Hopkinton	7,405,301	14,019,545	6,614,244	89.3%	6.6%	3	1.1%
Jamestown	9,095,614	15,215,000	6,119,386	67.3%	5.3%	12	1.1%
Johnston	31,624,876	52,022,784	20,397,908	64.5%	5.1%	15	3.5%
Lincoln	25,633,953	42,923,047	17,289,094	67.4%	5.3%	11	3.0%
Little Compton	5,213,282	8,109,180	2,895,898	55.5%	4.5%	21	0.5%
Middletown	19,417,108	33,631,581	14,214,473	73.2%	5.6%	6	2.5%
Narragansett	23,566,987	36,186,903	12,619,916	53.5%	4.4%	23	2.2%
New Shoreham	3,396,455	5,802,143	2,405,688	70.8%	5.5%	8	0.4%
Newport	39,368,988	53,298,045	13,929,057	35.4%	3.1%	36	2.4%
North Kingstown	31,217,616	54,015,438	22,797,822	73.0%	5.6%	7	3.9%
North Providence	36,022,574	50,609,828	14,587,254	40.5%	3.5%	31	2.5%
North Smithfield	12,130,049	19,562,352	7,432,303	61.3%	4.9%	18	1.3%
Pawtucket	59,992,053	73,296,650	13,304,597	22.2%	2.0%	37	2.3%
Portsmouth	21,745,878	34,128,893	12,383,015	56.9%	4.6%	20	2.1%
Providence	170,882,013	259,991,095	89,109,082	52.1%	4.3%	25	15.4%
Richmond	6,515,244	11,112,169	4,596,925	70.6%	5.5%	9	0.8%
Scituate	12,027,417	20,086,630	8,059,213	67.0%	5.3%	13	1.4%
Smithfield	23,055,758	37,721,249	14,665,491	63.6%	5.0%	16	2.5%
South Kingstown	28,860,757	54,722,909	25,862,152	89.6%	6.6%	2	4.5%
Tiverton	15,631,129	23,623,340	7,992,211	51.1%	4.2%	26	1.4%
Warren	11,612,559	17,177,949	5,565,390	47.9%	4.0%	27	1.0%
Warwick	126,262,267	171,526,009	45,263,742	35.8%	3.1%	35	7.8%
West Greenwich	6,054,572	12,187,033	6,132,461	101.3%	7.2%	1	1.1%
West Warwick	29,964,533	42,061,061	12,096,528	40.4%	3.4%	32	2.1%
Westerly	31,517,148	50,780,778	19,263,630	61.1%	4.9%	19	3.3%
Woonsocket	36,969,781	36,794,838	(174,943)	-0.5%	0.0%	39	0.0%
Total (Median)	\$1,151,142,463	\$1,730,063,188	\$578,920,725	50.3%	4.2%	-	

Source: RIPEC Modeling Based on Office of Municipal Affairs Data

Again, since FY 1996, direct education aid has increased by \$256.9 million - an average annual rate of 5.1% during this ten-year period. However, nearly \$168.7 million (65.7%) of the net increase in State education aid since FY 1996 was allocated to the State's five urban core school districts (Central Falls, Newport, Pawtucket, Providence and Woonsocket). Therefore, given that State education aid has targeted urban centers, the State's suburban and rural communities have had to rely on their residential tax base to raise funds to support their education needs.

Table 4
Change in State Aid to Local School Districts - Actual Experience

School District	FY 1996	FY 2006	Change	Percent Change	Ave Annual Change	Ave Annual Rank	Share of Change
Barrington	\$1,692,513	\$2,479,907	\$787,394	46.5%	3.9%	15	0.3%
Bristol/Warren	15,192,295	19,554,956	4,362,661	28.7%	2.6%	35	1.7%
Burrillville	9,364,224	13,150,857	3,786,633	40.4%	3.5%	19	1.5%
Central Falls	19,085,182	41,320,564	22,235,382	116.5%	8.0%	2	8.7%
Chariho District	10,370,739	14,148,676	3,777,937	36.4%	3.2%	21	1.5%
Coventry	14,890,966	19,151,316	4,260,350	28.6%	2.5%	36	1.7%
Cranston	22,534,694	33,943,639	11,408,945	50.6%	4.2%	14	4.4%
Cumberland	9,628,421	12,654,786	3,026,365	31.4%	2.8%	31	1.2%
East Greenwich	1,102,384	1,860,042	757,658	68.7%	5.4%	9	0.3%
East Providence	16,177,102	25,530,776	9,353,674	57.8%	4.7%	11	3.6%
Exeter/W Greenwich	5,077,427	7,308,493	2,231,066	43.9%	3.7%	17	0.9%
Foster	1,030,296	1,351,283	320,987	31.2%	2.7%	32	0.1%
Foster/Glocester	4,057,499	5,466,199	1,408,700	34.7%	3.0%	23	0.5%
Glocester	2,348,549	3,065,960	717,411	30.5%	2.7%	33	0.3%
Jamestown	267,561	507,431	239,870	89.7%	6.6%	7	0.1%
Johnston	7,142,572	10,413,716	3,271,144	45.8%	3.8%	16	1.3%
Lincoln	5,360,479	7,064,696	1,704,217	31.8%	2.8%	29	0.7%
Little Compton	181,972	351,839	169,867	93.3%	6.8%	5	0.1%
Middletown	7,399,838	10,014,086	2,614,248	35.3%	3.1%	22	1.0%
Narragansett	948,558	1,809,860	861,302	90.8%	6.7%	6	0.3%
New Shoreham	36,102	101,451	65,349	181.0%	10.9%	1	0.0%
Newport	7,048,861	11,253,278	4,204,417	59.6%	4.8%	10	1.6%
North Kingstown	8,849,056	11,434,463	2,585,407	29.2%	2.6%	34	1.0%
North Providence	8,843,076	12,624,509	3,781,433	42.8%	3.6%	18	1.5%
North Smithfield	3,477,535	4,616,141	1,138,606	32.7%	2.9%	25	0.4%
Pawtucket	32,192,673	63,784,560	31,591,887	98.1%	7.1%	3	12.3%
Portsmouth	4,530,091	5,962,443	1,432,352	31.6%	2.8%	30	0.6%
Providence	93,951,874	185,050,151	91,098,277	97.0%	7.0%	4	35.5%
Scituate	2,464,816	3,250,400	785,584	31.9%	2.8%	28	0.3%
Smithfield	4,005,569	5,483,207	1,477,638	36.9%	3.2%	20	0.6%
South Kingstown	7,433,939	9,948,816	2,514,877	33.8%	3.0%	24	1.0%
Tiverton	4,264,509	5,659,091	1,394,582	32.7%	2.9%	26	0.5%
Warwick	27,187,917	35,894,621	8,706,704	32.0%	2.8%	27	3.4%
West Warwick	12,487,388	19,499,965	7,012,577	56.2%	4.6%	12	2.7%
Westerly	4,320,704	6,528,189	2,207,485	51.1%	4.2%	13	0.9%
Woonsocket	25,802,389	45,455,694	19,653,305	76.2%	5.8%	8	7.6%
State	\$400,749,770	\$657,696,061	\$256,946,291	64.1%	5.1%	-	

Excludes Charter Schools, Teacher Retirement and Housing Aid.

Source: Compiled by RIPEC based on Department of Education Data

Effective Tax Rates in Rhode Island

The ten highest residential property tax communities are primarily suburban and rural. No urban core community is in the top ten when it comes to the property taxes paid on a \$350,000 home, and three urban ring communities – Cranston, West Warwick, and, North Providence – were among the top ten. This has been driven by the rapid residential growth and limited commercial property in Rhode Island’s suburban and rural communities, coupled with state education aid funding that primarily targets the urban core communities.

Conversely, when one looks at commercial property tax burdens, eight of the top ten communities are considered urban core or urban ring communities. The State's future economic competitiveness in the regional economy could be adversely affected by continued efforts to shift the property tax burden between classes of property. In each of the communities in the top ten, overall effective tax rates on commercial property exceed those of residential property. Rhode Island's urban centers have a higher concentration of commercial and industrial property value, and therefore can shift some of the property tax burden to these entities. However, the cost of shifting the burden onto business-owned property may hinder efforts to bring in business development, or to maintain current levels of commercial and industrial activity.

Table 5
Top Ten Estimated Property Tax Burdens

\$350,000 Single Family Home				\$1.2 million Commercial Facility			
Rank	Community	Estimated Tax Burden		Rank	Community	Estimated Tax Burden	
		Bill	ETR			Bill	ETR
1	Coventry	\$6,106	1.74%	1	Central Falls	\$44,558	3.71%
2	East Greenwich	5,494	1.57%	2	Providence	40,230	3.35%
3	Cranston	5,252	1.50%	3	Woonsocket	37,506	3.13%
4	Hopkinton	5,216	1.49%	4	North Providence	34,225	2.85%
5	Glocester	5,114	1.46%	5	Pawtucket	29,012	2.42%
6	West Warwick	5,035	1.44%	6	Lincoln	28,766	2.40%
7	North Smithfield	4,817	1.38%	7	West Warwick	27,864	2.32%
8	Johnston	4,739	1.35%	8	East Providence	27,532	2.29%
9	North Providence	4,551	1.30%	9	Cranston	27,358	2.28%
10	Richmond	4,542	1.30%	10	Johnston	27,215	2.27%

Source: RIPEC Calculations based on RI Municipal Affairs Data

Current State Spending and Local Property Tax Limitations

There are provisions in State law limiting revenues available for expenditure, overall State spending levels, and local property tax growth. As the following section outlines, each have their strengths and weaknesses.

Local Limits - Rhode Island's 1985 Property Tax Relief and Replacement Act (RIGL 44-5-2) was designed to restrict the growth in property taxes and to expand the State's role in funding public education. The Act placed a 5.5% cap on property tax growth in each city or town. The cap may be applied to either the actual levy or the growth in tax rate.

There are a number of exceptions to the law. First, the city or town may exceed the cap if it forecasts or experiences a loss in non-property tax revenues, it forecasts or experiences an increase in debt service expenditures which exceed the 5.5% cap, or if the municipality experiences or anticipates an emergency situation.

The City or town that wishes to exceed the cap for any of the above conditions must seek approval from either the State Department of Administration or the State's Auditor General. Even if approved, the municipality must also gain an affirmative vote from the governing body (or financial town meeting).

There are a number of weaknesses in the current 5.5% cap that should be highlighted. First, because the cap can apply to either the rate or the levy, there is considerable flexibility to live within the cap. For example, communities that experience rapid growth in their property tax base have been able to live under the existing cap through the rate. In other words, a community may only raise its tax rate by 2.0% but generate property tax revenue that exceeds 5.5% growth in the levy from the prior year. However, they are technically under the State property tax cap.

Conversely, those communities that typically have limited growth tend to stay under the 5.5% property tax cap under the levy because if the community increased the tax rate in excess of 5.5%, it might not generate as much as the community could if it focused on remaining under the cap using the levy restriction.

As noted above, communities can exceed the cap should they forecast or experience a loss in non-property tax revenues. This includes the situation where a community uses a portion of its fund balance to balance its budget. In the following year, those resources are no longer available and therefore are considered a "loss" of non-property tax revenue. The State permits the community to exceed the cap by this amount in the following year.

Another aspect of property tax limitation is the State's Property Tax and Fiscal Disclosure Act (RIGL 44-35). The Act outlines a procedure under which municipalities may levy property taxes and requires full disclosure of the effect tax rate and base changes have on property tax revenues. The Act also establishes a balanced budget requirement for cities and towns.

State Limits – There are two limits worth noting that impact State spending choices. First, Rhode Island’s Constitution (Article IX, Section 16) states that no appropriation, supplemental appropriation or budget act can cause the aggregate state general revenue appropriations to exceed 98.0% of the estimated general revenues. It goes on to establish a budget reserve account that can reach up to 3.0% of estimated general revenues. The reserve fund can be used for emergencies or to close an unanticipated deficit. Once the reserve account has reached and is maintained at 3.0%, excess funds are transferred to the State’s capital fund, where the monies can be used for either pay-as-you-go capital projects or State debt service.

The Budget Stabilization Fund has increased from \$36.9 million in FY 1997 to \$98.1 million in FY 2007 – more than doubling over this period of time. The Rhode Island Capital Fund – the spillover fund that may be used for debt service or capital projects - has increased from \$33.8 million in FY 1997 to \$64.4 million in FY 2007 – again, more than doubling during this period of time.

From FY 1997 to FY 2007, a total of \$534.9 million has been spent from the Capital Fund, of which \$296.0 million (55.3%) was used to support debt service and \$238.9 million (44.7%) for capital projects. In the FY 2007 budget request, approximately 61.1% (\$39.0 million) of the \$63.8 million in the Capital Fund is proposed to be used for debt service, and the 38.9% (\$24.8 million) balance for capital and asset protection activities.

A limitation of the current design of the budget stabilization fund is that all excess funding is allocated to debt service and/or capital projects. Should a major emergency occur, the State would have to forgo both the capital projects and the debt service prior to accessing the reserve account. Therefore, the State would have to shift the debt service back to the general revenue fund, making the financial emergency that much worse. While this certainly serves as a deterrent to accessing the reserve fund when it might be tempting in difficult financial times, it makes it increasingly difficult to access these funds should a major financial emergency occur.

The second provision limits the growth in the Governor’s budget submission each year. Under Rhode Island General Law 35-3-7, the proposed appropriations (includes all sources of funding) submitted by the Governor for the coming fiscal year “should not be more than five and one half percent (5.5%) in excess of total state appropriations. This excludes supplemental appropriations. Rhode Island General Law 35-3-20.1 reiterates the language outlined in the Rhode Island Constitution noted above.

This provision only provides a marginal control over what the Governor may submit as a budget request. It does not in any way control what level of spending growth can occur through the enacted budget.

Next Steps – Where Do Taxpayers Go From Here?

RIPEC recently published a report – *Rhode Island 2010* - which projected the financial, economic and social conditions the State will face in 2010. The report demonstrated that Rhode Island faces and will continue to face significant demographic challenges and the report concludes that we will not be able to sustain important public services with a “business as usual” approach. For example, by 2010, Rhode Island will be older, yet have fewer workers in their prime productive years. It will be less self-sufficient, with one in four Rhode Islanders potentially eligible for Medicaid programs. And Rhode Island will continue shifting the burden for funding schools to the property tax and rely on fewer income taxpayers to support growing public services.

Coupled with these trends is the fact that since FY 1996, the State’s general revenue spending growth has outpaced both inflation and personal income growth and Rhode Island’s property taxes are becoming increasingly unaffordable. Therefore, it is essential for the State to develop a spending plan that is affordable, sustainable, and fiscally responsible to maintain a fair and competitive economic and tax climate. In order to achieve this goal, Rhode Island must focus on controlling the rate of growth in spending, setting investment priorities, and effectively managing its limited resources.

Therefore, the Affordable Rhode Island Coalition proposed a Constitutional Amendment seeking to curtail both State and local spending through limits on spending and property tax growth. The Amendment proposes to limit State general revenue spending growth to the change in CPI (common measure of inflation) plus 1.5% annually and limit the increase in the aggregate property tax levy for any fiscal year to no more than 4.0% of the property levy for the prior fiscal year (requiring voter approval to exceed the 4.0% cap).

It is now clear that a Constitutional Amendment to limit State spending and property tax growth will not be considered during this Legislative Session. However, there are two immediate opportunities for moving the State in the direction of property tax reform.

First, the Rhode Island Senate Leadership has submitted a multi-faceted proposal that would make some of the changes proposed the Affordable Rhode Island Coalition, albeit statutorily rather than through a Constitutional Amendment. The primary opportunity is the property tax component of the Senate proposal, where the legislation would apply the local property tax cap of 5.5% to only the levy (not the rate) beginning in FY 2007 and the cap would be reduced to 4.0% by FY 2013 in 0.25% increments.

Exceptions to the cap include net non-property tax revenue loss or net debt service expenditure increase above the cap. The proposed legislation defines emergency to be if the community’s health care, retirement contributions and/or its utility costs increase at least twice the rate of the cap on the levy. The community would have to seek approval from the governing body (council or financial town meeting) for any of these exceptions. Voters must approve any levy growth in excess of the local property tax levy cap.

In addition to the cap changes noted above, the Senate proposal permits communities to adopt the prior year's budget should the community fail to adopt the next fiscal year's budget on time. The proposed legislation also requires the State's Office of Municipal to update and expand its Study of Tax Treaties and Exemptions by November 2006. Given the wide range of treaties and exemptions available in the different municipalities, this will provide the necessary information to assess the kind of parameters necessary to ensure equitable treatment of like taxpayers across jurisdictions. The legislative proposals also establish a Legislative Commission to explore a range of tax issues facing municipal government, to include, but not limited to local taxing authority, capping school spending, and collective bargaining financial statements.

The Senate Leadership's proposal also includes several initiatives designed to curtail State spending growth. The Senate Leadership has proposed to change the existing limit on the Governor's Budget submission in several respects. First, as noted earlier in this report, RIGL 35-3-7 requires that proposed appropriations (includes all sources of funding) submitted by the Governor for the coming fiscal year "should not be more than five and one half percent (5.5%) in excess of total state appropriations. This excludes supplemental appropriations.

The Senate Leadership has proposed that this cap apply to general revenues only and that the cap be brought down from 5.5% to 4.5% over a five year period (FY 2008 – FY 2013). In addition, the Senate Leadership has proposed that in order to exceed this cap when the budget is enacted, there must be a three-fifths (3/5) vote of the General Assembly membership.

The Senate Legislation includes statutory language that requires a fiscal impact statement as well as State funding of future mandate proposals prior to implementation. In addition, the Senate proposal would extend these provisions to administrative rulings. Like the Affordable Rhode Island Coalition proposal, this language is intended to limit the State's ability to shift costs to municipalities without providing the necessary resources to meet the demands of the services.

Given that it is unlikely that a Constitutional Amendment limiting State spending and local property taxes will be placed before the voters this November, the best opportunity to provide meaningful property tax relief to Rhode Island home-owners and business would be to enact Senate Bill S-3050 entitled "Relating to Taxation – Property Taxes".

The second opportunity to continue moving property tax reform forward is placing an Advisory Question on the November 2006 ballot to gauge voter interest in limiting State spending growth and limiting growth in local property taxes. The Governor has proposed to place such a question on the ballot this November. Specifically, the question would read:

“Should the Rhode Island Constitution be amended to limit the growth of state spending and to limit annual increases in local property taxes?”

RIPEC and the Affordable Rhode Island Coalition support the Governor’s initiative and will work towards ensuring strong support from the voters to send a message to elected officials that it is time to curtail spending and property tax growth. It should be noted that the Rhode Island House of Representatives recently voted to repeal the Governor’s ability to place a non-binding question on the ballot. This concerns RIPEC and the Coalition given that the non-binding ballot question represents a process to gauge Rhode Island interest in major public policy issues facing the State while still requiring General Assembly action prior to enactment. Eliminating this mechanism is a step in the wrong direction and should be discouraged.

Appendix

The following Appendix compares the Affordable Rhode Island Coalition's Constitutional Amendment with the Senate Leadership's proposal.

Comparison of 2006 Tax Limit Proposals		
Issue	Affordable RI Coalition	Senate Proposal (S-3050)
Local Property Tax Limitation		
Method of Codification	Constitutional	Statutory
Local Limit Provisions	Property tax levy cannot exceed 2.5% of estimated Full Market Value of property	None
	Community's property tax levy cannot increase by more than 4.0%.	Community's property tax levy cannot increase by more than 4.0% once fully implemented (FY 2013)
Implementation	Takes effect in the fiscal year following the passage of Constitutional Amendment	Six-year implementation, applying cap on levy only in FY 2007 and thereafter, and reducing the cap by 0.25% per year to 4.0 percent in FY 2013.
Exceptions to Cap	Debt service and/or if net loss in state aid from prior year.	Net non-property tax revenue loss or net debt service increase above cap.
Emergency Provisions	Voter over-ride required	Emergency is established if health care, retirement contributions and/or utility costs exceed twice the cap.
Voter Approval	Voters must approve any levy in excess of cap (excludes exceptions)	Voters must approve any levy in excess of cap. (including exceptions)
Anti-Mandate Provision	The state can not impose any part of the total costs of new programs or services, or increases in existing programs or services, unless a specific State appropriation is made available to cover the costs.	Requires fiscal impact statement and State funding of future mandate proposals prior to implementation - applied to administrative rulings as well.
Other Provisions	None	Requires updating the State Mandate Report through OMA
	None	Community can adopt prior year's budget if budget not adopted in time
	None	Requires Office of Municipal Affairs (OMA) to update and expand Study of Tax Treaties and Exemptions by November 2006
	None	Establish Legislative Commission (reports by November 2006) to explore range of city and school finance issues, including taxing authority, capping school spending and collective bargaining financial statements

Comparison of 2006 Tax Limit Proposals

Issue	Affordable RI Coalition	Senate Proposal (S-3050)
State Expenditure Limitation		
Method of Codification	Constitutional	Statutory
Proposal	No appropriations, supplemental appropriations or budget act can cause the aggregate general revenue appropriation to exceed 98% of available revenues; and	No appropriations, supplemental appropriations or budget act can cause the aggregate general revenue appropriation to exceed 98% of available revenues; and
	Total general revenue appropriations shall not exceed the product of total general revenue appropriations for the base year AND the percentage change in the CPI between the base year and the December 31 immediately preceeding the fiscal year AND 1.5% for each year after base year.	Beginning in FY 2008, reduce 5.5% cap on Governor's budget submission (applies to general revenues only) to 4.5% over five years (by FY 2013).
Emergency Provisions	Governor must request and 2/3 of General Assembly membership must approve exceeding cap for emergency.	Requires 3/5 General Assembly membership to exceed cap for spending puposes
Rainy Day Fund	Any unencumbered general revenue is transferred to budget reserve account until it reaches 5% of State general revenues (up from 3%).	Does Not Impact - Current Law Applies
	After meeting 5% in budget reserve account, the first 2% of unencumbered general revenues funds capital projects or unfunded State pension obligations.	Does Not Impact - Current Law Applies
Taxpayer Relief	Any balance is refunded through an agreed upon method between the Governor and the General Assembly.	None
Other Provisions	The limit contains a sunset provision requiring affirmative vote every 10 years to extend limit.	None
	The Superior Court is given jurisdiction to adjudicate alleged violations, and provides standing for general officers and those economically aggrieved.	None