

# **FY 2005 Property Tax Burdens in Rhode Island**

**Published as a Public Service**

**by the**

**Rhode Island Public Expenditure Council**



**RIPEC**

**February 2005**

## **FY 2005 Property Tax Burdens in Rhode Island**

The following RIPEC report presents an overview of property tax trends in Rhode Island, including property value and levy trends as well as tax rates and tax burden measures by city and town. The report includes a number of new features to measure property tax burdens among the cities and towns – the estimated property tax on a \$300,000 home, the burden on the median price of a single family home in each community, and a commercial property located in each municipality. While there are additional findings within this report, the following highlights some of RIPEC’s key findings:

- Based on a home valued at \$300,000, the estimated FY 2005 tax bills ranged from \$1,314 in Little Compton to \$6,474 in Coventry. The estimated effective tax on homes valued at \$300,000 ranged from a low of 0.44 percent in Little Compton to a high of 2.16 percent in Coventry;
- Based on a commercial property with \$1.0 million in real estate value and \$200,000 in tangible property, the tax burden ranged from \$45,679 in Providence to \$5,287 in Little Compton. The effective tax ranged from a high of 3.81 percent in Providence to a low of 0.44 percent in Little Compton;
- FY 2005 property tax collections of \$1.7 billion represent the single largest source of State and local tax revenue in the State – nearly equal to the \$1.8 billion in combined collections from State personal income and sales taxes anticipated to be collected in FY 2005 (November 2004 Revenue Estimating Conference);
- Adjusted for inflation, full property value statewide increased by 58.8 percent from FY 1995 to FY 2005 – by nearly \$41.9 billion. Unadjusted, full value of property increased from \$56.6 billion to \$113.2 billion – doubling over this period of time;
- While overall full value in the state was essentially stagnant from FY 1995 through FY 2000, there has been rapid growth in the overall value since FY 2000, especially in residential markets;
- Adjusted for inflation, the property tax levy statewide increased by 19.7 percent - from \$1.4 billion in FY 1995 to \$1.7 billion in FY 2005. Unadjusted, the total property tax levy increased by 50.7 percent during this period;
- In 1995, approximately 51.6 percent of the property tax levy statewide was allocated to support schools. This has since increased to 56.1 percent in FY 2002; and
- Rhode Island’s property tax collections per \$1,000 of personal income of \$45.86 ranked 6<sup>th</sup> highest in the U.S. and were 43.0 percent above the U.S. average (2002 data). Rhode Island localities derived 54.0 percent of their own-source revenues from property taxes compared with the national average of 27.1 percent.

## I. Overview of Property Tax Burdens

Property taxes serve as the largest single source of revenue for the Ocean State's municipalities. The following looks at how Rhode Island's dependence on the property tax compares with other states in the region and the Nation as a whole. RIPEC uses 2002 data (most recent national comparison data available) collected by the U.S. Bureau of the Census in this portion of the analysis.

**Table 1**  
**Distribution of Local Revenue Only**  
(Millions)

Revenue Source	Rhode Island			New England			United States		
	FY 1995 Amount	FY 2002 Amount	Percent of Total	FY 1995 Amount	FY 2002 Amount	Percent of Total	FY 1995 Amount	FY 2002 Amount	Percent of Total
<b>Intergovernmental</b>	<b>\$628.1</b>	<b>\$952.6</b>	<b>35.2%</b>	<b>\$9,895.8</b>	<b>\$16,950.7</b>	<b>39.6%</b>	<b>\$259,093.2</b>	<b>\$398,496.9</b>	<b>40.0%</b>
Federal Funds	104.3	128.9	4.8%	1,484.0	1,834.6	4.3%	26,286.2	42,953.0	4.3%
State Funds	523.8	823.6	30.4%	8,411.8	15,116.1	35.3%	232,807.0	355,544.0	35.7%
<b>Own Source</b>	<b>\$1,289.5</b>	<b>\$1,754.4</b>	<b>64.8%</b>	<b>\$19,587.4</b>	<b>\$25,831.1</b>	<b>60.4%</b>	<b>\$417,267.6</b>	<b>\$597,359.0</b>	<b>60.0%</b>
Property Taxes	1,129.3	1,460.9	54.0%	15,528.6	20,140.1	47.1%	193,932.9	269,419.3	27.1%
Sales and Gross Receipts	1.0	3.9	0.1%	66.3	164.0	0.4%	40,417.9	61,679.2	6.2%
Individual/Corp Income	0.0	0.0	0.0%	0.2	0.1	0.0%	14,651.3	20,190.3	2.0%
Motor Vehicles License	0.0	0.0	0.0%	6.6	26.1	0.1%	1,080.7	1,302.7	0.1%
Other Taxes	13.2	29.9	1.1%	219.1	392.2	0.9%	11,347.0	17,138.7	1.7%
<i>Subtotal - Taxes</i>	<i>1,143.5</i>	<i>1,494.6</i>	<i>55.2%</i>	<i>15,820.8</i>	<i>20,722.4</i>	<i>48.4%</i>	<i>261,429.8</i>	<i>369,730.2</i>	<i>37.1%</i>
Charges	107.0	169.9	6.3%	2,850.0	3,595.6	8.4%	107,279.8	153,381.7	15.4%
Other	39.0	89.8	3.3%	916.6	1,513.0	3.5%	48,558.0	74,247.1	7.5%
<b>Total - All Sources</b>	<b>\$1,917.6</b>	<b>\$2,707.0</b>	<b>100.0%</b>	<b>\$29,483.2</b>	<b>\$42,781.8</b>	<b>100.0%</b>	<b>\$676,360.8</b>	<b>\$995,856.0</b>	<b>100.0%</b>

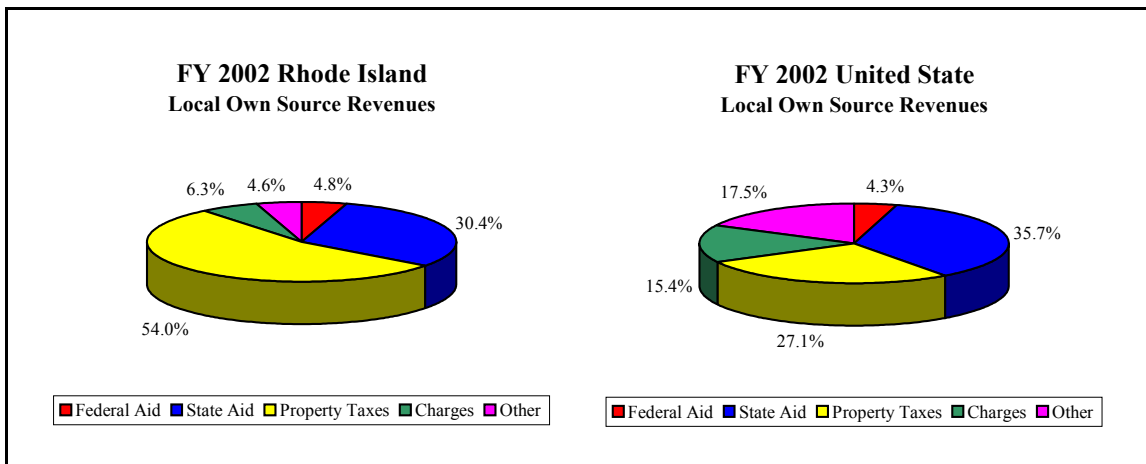
Note: New England figures include Rhode Island

Source: Bureau of the Census, General State and Local Finances, 2002 & 1995

Overall, local revenue from all sources in Rhode Island increased from \$1.9 billion in FY 1995 to \$2.7 billion in FY 2002, representing a 41.2 percent increase (\$789.4 million). This rate of growth was slower than both the New England region (45.1 percent) and the Nation as a whole (47.2 percent).

Of all local revenue sources, the local property tax continues to represent the largest source in Rhode Island. In FY 2002, local property taxes represented 54.0 percent of all local revenue sources, which includes state and Federal aid. Rhode Island's local property tax collections increased from \$1.1 billion in FY 1995 to \$1.5 billion in FY 2002 - an increase of 29.4 percent - or \$331.6 million. Given that all local revenue sources increased by \$789.4 million, the growth in local property taxes in Rhode Island represented 42 cents of every new \$1.00 raised since FY 1995.

New England localities generated 47.1 percent of their local revenues from the property taxes, increasing from \$15.5 billion in FY 1995 to \$20.1 billion in FY 2002 (a 29.7 percent increase over this period of time). The \$4.6 billion increase in property tax collections represented nearly 35 cents of every new \$1.00 raised in new revenue since FY 1995. Across the country, localities generated 27.1 percent of their net local revenues from the property tax, increasing by 38.9 percent since FY 1995. The \$75.5 billion increase represented approximately 23.6 cents of every new \$1.00 raised in new revenue since FY 1995.



There are some additional observations worth noting from this data. For example, Rhode Island property taxes generated \$331.6 million of the \$789.4 million increase in total local revenues from FY 1995 to FY 2002 while State aid increased by \$299.8 million. Conversely, on average, New England States' state aid increases were approximately 45.0 percent higher than the contribution from property taxes, and nationally, state aid increases were 63.0 percent higher than the increase in the contribution from property taxes.

However, it is clear that the State of Rhode Island has made an effort to drive resources to local communities. The increase in state aid was nearly the same as total property tax levy increases from FY 1995 through FY 2002 – reflecting increases in Rhode Island education aid, property tax relief (phase-down of the inventory and motor vehicle excise taxes), and other general aid. State aid as a percent of total local funds has increased from 27.3 percent in FY 1995 to 30.4 percent in FY 2002, and property taxes as a percentage of total local revenues have declined from 59.0 percent in FY 1995 to 54.0 percent in FY 2002. State aid provided 38.0 cents of every \$1.00 in new revenue generated during this period.

Property Tax Collections Per \$1,000 of Personal Income: Table 2 shows property tax collections per \$1,000 of personal income from FY 1990 to FY 2002 in four-year increments. Property tax collections per \$1,000 of personal income are calculated by dividing the total property taxes collected by the total personal income of the state.

Rhode Island's FY 2002 property tax collections per \$1,000 of personal income of \$45.86 ranked 6<sup>th</sup> highest nationally, exceeding the national average of \$32.07 by 43.0 percent. Rhode Island's property tax burden exceeded the New England average of \$40.36 by 13.6 percent. Property taxes collected per \$1,000 of personal income were higher in Maine (\$54.81), New Hampshire (\$51.03), and Vermont (\$46.35). It should be noted that Rhode Island's property tax collections per \$1,000 of personal income peaked at \$52.00 in FY 1995 – ranking 5<sup>th</sup> highest in the Nation.

**Table 2  
Property Tax Collections  
Per \$1,000 Personal Income**

<b>State</b>	<b>1990</b>	<b>1994</b>	<b>1998</b>	<b>2002</b>
United States	\$35.62	\$36.78	\$33.22	\$32.07
New England	41.28	46.33	42.80	40.36
Connecticut	43.41	47.80	43.13	41.05
Maine	44.64	50.35	58.83	54.81
Massachusetts	35.68	40.43	36.43	34.99
New Hampshire	56.89	65.74	56.53	51.03
<b>Rhode Island</b>	<b>45.09</b>	<b>49.45</b>	<b>47.29</b>	<b>45.86</b>
Vermont	49.85	54.50	55.39	46.35
<b>Rhode Island Rank</b>	<b>12</b>	<b>8</b>	<b>6</b>	<b>6</b>
<i>RI - Percent of U.S.</i>	<i>126.6%</i>	<i>134.4%</i>	<i>142.4%</i>	<i>143.0%</i>
<i>RI - Percent of NE</i>	<i>109.2%</i>	<i>106.7%</i>	<i>110.5%</i>	<i>113.6%</i>

Source: Calculations based on U.S. Department of Commerce Data

## **II. Property Taxes in Rhode Island**

As noted above, Rhode Island's dependence on the property tax is significantly greater than most states. While the U.S. Census data is helpful in understanding Rhode Island's relative dependence on property taxes to fund local services, the following analysis provides additional insight in the various trends in local property values and taxation within Rhode Island and among the State's 39 cities and towns.

Statewide Property Value: If tax rates remain constant, growth in property tax revenue can result from increased property values on existing land and structures due to market changes within the jurisdiction and/or new construction that adds value to the tax base. One should note that the State Office of Municipal Affairs (OMA) calculates full value of property in each community based on recent sales data and market conditions. Full value of property represents what the estimated market price of the property tax base would be in each fiscal year. As required by law, the OMA calculates full value based on data three years prior as part of the State aid to education formula, which means the latest data available are for FY 2003 (12/31/01). Therefore, RIPEC estimated full value of property for FY 2004 and FY 2005 (12/31/02 and 12/31/03) based on the most recent ratios of assessment available, general market trends, and recent revaluations and statistical updates.

As shown on Table 3, from FY 1995 to FY 2005, estimated full value increased by 100.0 percent (\$56.6 billion). If one adjusts full value by inflation (2005 dollars), there was a 58.8 percent increase in property value over this ten-year period. This translates into a \$41.9 billion increase statewide in adjusted full value (2005 dollars). While overall full value in the state was essentially stagnant from FY 1995 through FY 2000, there has been rapid growth in the overall value since FY 2000, especially in residential markets.

**Table 3**  
**Local Property Value in Rhode Island**  
(FY 1995 - FY 2005)

Fiscal Year	Certified Full Value (1)	Change in Value	Adjusted Full Value (2)	Change in Value	Percent Urban	Percent Non-Urban
1995	\$56,609,728,052	-3.5	\$71,289,626,035	-6.1%	48.4%	51.6%
1996	56,243,575,821	-0.6	68,797,113,267	-3.5%	47.7%	52.3%
1997	56,263,370,147	0.0	67,277,669,773	-2.2%	47.1%	52.9%
1998	56,465,184,556	0.4	66,483,424,663	-1.2%	46.6%	53.4%
1999	57,510,867,596	1.9	66,251,414,820	-0.3%	46.3%	53.7%
2000	59,881,664,473	4.1	66,739,193,064	0.7%	45.8%	54.2%
2001	63,093,166,664	5.4	68,372,899,752	2.4%	45.3%	54.7%
2002	68,152,259,774	8.0	72,705,846,002	6.3%	44.7%	55.3%
2003	80,282,374,766	17.8	83,738,007,419	15.2%	44.3%	55.7%
2004	92,580,755,364	15.3	94,060,871,199	12.3%	43.6%	56.4%
2005	113,198,227,164	22.3	113,198,227,164	20.3%	43.3%	56.7%
<b>1995-2005</b>	<b>\$56,588,499,112</b>	<b>100.0%</b>	<b>\$41,908,601,129</b>	<b>58.8%</b>		

- 1) Certified Full Value provided by RI Office of Municipal Affairs and projected by RIPEC.  
2) Certified Full Value adjusted by CPI - Bureau of Economic Analysis

Source: Compiled by RIPEC based on Office of Municipal Affairs Data

While both urban and non-urban communities experienced increases in the overall tax-base, the differences in the rate of growth among Rhode Island communities has resulted in a continued shift in the location of net property wealth in the State. In FY 1995, approximately 48.4 percent of the total value was located in the State's ten urban communities and the 51.6 percent balance was in the 29 non-urban communities. In FY 2005, 43.3 percent of the statewide-full value is estimated to be located in the urban communities and 56.7 percent in non-urban communities.

Statewide Property Tax Levy: Table 4 shows the statewide tax levy used to support local programs and services. It should be noted that Table 4 does not include levies associated with special purpose districts (fire, water, etc.). Therefore, the property tax levy shown understates property taxes actually paid by some Rhode Island property owners.

From FY 1995 to FY 2005, the statewide levy increased by 50.7 percent (\$558.3 million). However, adjusting for inflation (2005 dollars), property tax levies experienced real growth of 19.7 percent (\$273.0 million) during this ten-year period. In 1995 approximately 51.6 percent of the property tax levy statewide was allocated to support schools and the 48.4 percent balance supported municipal services. However, in FY

2005 there has been a slight shift in how the local property tax levy is allocated. Approximately 56.1 percent of the FY 2005 local property tax levy was allocated to support schools and the 43.9 percent balance was allocated to support municipal services.

**Table 4**  
**Local Property Tax Levies in Rhode Island**  
**(FY 1995 - FY 2005)**

<b>Fiscal Year</b>	<b>Certified Tax Levy (1)</b>	<b>Change in Levy</b>	<b>Adjusted Levy (2)</b>	<b>Change in Levy</b>	<b>Percent Education</b>	<b>Percent Municipal</b>
1995	\$1,100,528,715	3.9	\$1,385,915,164	5.4	51.6%	48.4%
1996	1,151,142,463	4.6	1,408,076,874	1.6	51.7%	48.3%
1997	1,204,184,172	4.6	1,439,919,167	2.3	52.6%	47.4%
1998	1,250,577,827	3.9	1,472,459,488	2.3	52.3%	47.7%
1999	1,299,138,674	3.9	1,496,582,799	1.6	52.7%	47.3%
2000	1,335,565,299	2.8	1,488,511,569	-0.5	53.5%	46.5%
2001	1,368,144,745	2.4	1,482,633,199	-0.4	54.3%	45.7%
2002	1,428,574,477	4.4	1,524,024,534	2.8	54.7%	45.3%
2003	1,487,299,471	4.1	1,551,318,013	1.8	55.3%	44.7%
2004	1,587,402,706	6.7	1,612,780,981	4.0	55.0%	45.0%
2005	1,658,875,956	4.5	1,658,875,956	2.9	56.1%	43.9%
<b>1995-2005</b>	<b>\$558,347,241</b>	<b>50.7%</b>	<b>\$272,960,792</b>	<b>19.7%</b>		

1) Does not include ad valorem taxes levied by special districts.  
Certified Tax Levy is the tax roll reported by municipalities as of December 31 of each year.

2) Certified Tax Levy adjusted by CPI - Bureau of Economic Analysis

Source: Compiled by RIPEC based on Office of Municipal Affairs Data

Current Property Tax Rates: Table 5 shows which communities have homestead provisions and the FY 2005 tax rates by class of property for each community. Actual residential tax rates per \$1,000 assessed valuation ranged from \$4.53 per \$1,000 of assessed value in Little Compton to \$29.65 per \$1,000 of assessed value in Providence. Because of classification, homestead exemptions and recent initiatives to phase-out certain property taxes (motor vehicles and inventory), all 39 municipalities essentially have some form of classified property tax structure, which makes inter-jurisdictional comparison difficult.

In FY 2005, 25 municipalities apply the same property tax rate for all real property (residential, commercial and industrial). This is down from 34 communities in FY 2002. The increasing use of property tax classification is an outgrowth of rapid growth in residential property values compared to non-residential property values. More communities are looking towards different rates or homestead exemption provisions to divert some of this pressure away from homeowners. A homestead exemption will essentially provide a different net tax burden on residential taxpayers than on non-residential taxpayers by lowering the taxable value of the residence prior to applying the tax rate. As of FY 2005, seven communities actively employ a homestead exemption as part of their property tax structure – both East Greenwich and Newport have enabling legislation but currently do not use a homestead exemption as part of their local tax structure.

**Table 5  
FY 2005 Rhode Island Actual Property Tax Rates - By Class**

Community	Implemented Update/Reval	Homestead Provision	Tax Rates by Class				MV
			Residential	Commercial	Personalty	Inventory	
Barrington			\$18.99	\$18.99	\$18.99	\$8.88	\$42.00
Bristol			16.85	16.85	16.85	6.97	17.35
Burrillville	Revaluation		12.55	12.55	12.55	12.55	40.00
Central Falls	Revaluation	Yes	13.04	34.85	51.33	19.47	48.65
Charlestown			12.59	12.59	12.59	5.38	13.08
Coventry			25.63	25.63	25.63	7.75	18.75
Cranston			23.23	30.80	34.84	12.70	42.44
Cumberland			16.73	16.73	22.71	10.03	19.87
East Greenwich		Yes (3)	17.91	17.91	17.91	9.48	22.88
East Providence	Update	Yes	15.20	19.35	44.59	15.44	37.10
Exeter			14.70	14.70	14.70	12.82	32.59
Foster			14.11	14.11	14.11	7.39	36.95
Glocester			20.91	20.91	28.46	10.06	24.37
Hopkinton			17.71	17.71	17.71	8.30	21.18
Jamestown	Revaluation		11.58	11.58	11.58	6.05	14.42
Johnston	Revaluation	Yes (3)	16.40	16.40	44.11	13.86	41.46
Lincoln	Revaluation	Yes	18.64	22.74	26.84	9.82	30.66
Little Compton	Update		4.53	4.53	4.53	0.00	13.90
Middletown (1)			15.85	17.90	15.85	6.64	16.05
Narragansett			10.57	15.86	15.86	6.74	16.46
New Shoreham	Revaluation		3.77	3.77	3.77	0.00	9.75
Newport		Yes (3)	13.72	16.30	16.30	9.48	23.45
North Kingstown	Revaluation		14.38	14.38	14.38	0.00	22.04
North Providence		Yes	28.71	31.02	57.50	17.54	41.95
North Smithfield	Revaluation		14.26	14.26	37.24	12.43	37.62
Pawtucket			17.25	25.88	52.09	20.83	53.30
Portsmouth			16.20	16.20	16.20	9.19	22.50
Providence	Update	Yes	29.65	37.00	49.50	30.70	76.78
Richmond			18.83	18.83	18.83	9.10	22.64
Scituate	Update		22.08	27.75	33.05	0.00	30.20
Smithfield	Revaluation		13.95	13.95	41.00	15.60	39.00
South Kingstown	Revaluation		12.58	12.58	12.58	7.75	18.71
Tiverton			14.36	14.36	14.36	7.71	19.14
Warren	Update		14.82	14.82	14.82	7.87	26.00
Warwick	Update		14.81	22.22	29.62	12.73	34.60
West Greenwich			18.50	18.50	18.50	7.79	19.02
West Warwick (2)	Revaluation		17.31	24.80	28.17	11.77	28.47
Westerly	Update		9.64	9.64	9.64	5.05	29.67
Woonsocket		Yes	23.85	38.25	46.58	18.63	46.58

- 1) Middletown has a rate of \$17.90 for commercial tangible property
- 2) West Warwick has a rate of \$19.65 for 2 family, non owner residential, \$23.75 for 6 or more residential units
- 3) Communities have enabling legislation for homestead exemptions but do not currently employ one in levying property taxes

Source: Rhode Island Office of Municipal Affairs and Tax Certification Reports

The General Assembly enacted multi-year programs to phase-out inventory and motor vehicle taxes. The phase out of the inventory tax requires each community to reduce its property tax rate on inventories by 10 percent each year until completely phased-out. The phase-out of the local motor vehicle tax, which has been frozen, required that the tax rates imposed by communities in FY 1998 remain frozen and the state reimburses communities for not taxing the first \$4,500 in taxable value on vehicles.

Looking at actual local property tax rates, homestead provisions and classified tax structures only provides one picture of the differences among the State's 39 cities and towns. This data, while useful, does not provide a full picture of how these differences

translate into actual tax burdens, nor does the actual tax rate data clearly demonstrate the differences in the communities' tax base and ability to pay for essential services. Therefore, the remainder of the analysis looks at various ways to evaluate the differences in local property tax burdens.

It should be noted that RIPEC has used an overall effective tax rate analysis in past property tax comparisons. However, the overall effective tax rates, designed to reflect a rate that represented the total property tax levy as it relates to the estimated full value of property had limited utility. The effective tax rate only compares the overall effective property tax rate by community, not taking into account the various classification systems, homestead exemptions and other taxing authorities (e.g., fire districts) levying property taxes in Rhode Island. All these factors impact property tax burden and rate comparisons among the communities. RIPEC has found that a similar but more responsive overall measure is to reflect total property tax levy as a percent of total full market value.

Percent of Levy: Rhode Island's 1985 Property Tax Relief and Replacement Act 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 percent cap on property tax levy growth in each city or town. The cap may be applied to either the actual levy or the growth in tax rates.

In 1980 Massachusetts voters approved an initiative designed to reduce property taxes. While Proposition 2½ had a number of provisions worth noting, the key to the program was to prohibit property tax levies from exceeding 2½ percent of the full and fair cash value of the local tax base. This was designed to limit the net growth in property tax levies based on the market value of property in the community. There is currently no such provision in Rhode Island's property tax cap structure.

Should such a provision exist, Table 6 displays how communities would compare if the Massachusetts provision existed in Rhode Island. No Rhode Island community would be at or exceed the 2 ½ threshold. Both Cranston and Providence would be at or above 2.0 percent of total market value, while the state as a whole would be at approximately 1.5 percent of value. This is a dramatic change to the relative position only three fiscal years ago. In FY 2002, the state's overall property tax levy was 2.2 percent of value and there were six communities that exceeded the 2½ percent threshold. This shift has occurred because of the rapid growth in the tax base relative to the growth in local property tax levies.

**Table 6**  
**Estimated Property Tax Levy as a Percent of Full Value**

<b>Community</b>	<b>Estimated Full Value</b>	<b>FY 2005 Local Levy</b>	<b>Levy as % of Full Value</b>	<b>Rank</b>
Providence*	\$11,030,790,852	\$256,688,743	2.3%	1
Cranston	6,874,361,584	142,694,201	2.1%	2
North Providence	2,482,656,407	46,952,889	1.9%	3
West Warwick*	2,213,105,821	40,283,276	1.8%	4
Pawtucket	3,890,018,631	69,570,402	1.8%	5
Johnston*	2,886,837,858	50,503,367	1.7%	6
Woonsocket	2,110,242,513	36,028,797	1.7%	7
Coventry	2,837,470,381	48,191,589	1.7%	8
Warwick*	9,852,989,945	161,867,391	1.6%	9
Central Falls*	578,087,608	9,457,677	1.6%	10
Barrington	2,604,250,586	40,853,698	1.6%	11
East Providence*	4,354,199,250	67,265,041	1.5%	12
North Smithfield*	1,213,190,128	18,389,047	1.5%	13
East Greenwich	2,184,746,194	32,745,057	1.5%	14
Lincoln*	2,730,997,624	40,460,657	1.5%	15
Smithfield*	2,435,033,030	35,369,460	1.5%	16
Hopkinton	896,844,646	12,998,099	1.4%	17
Glocester	1,056,778,779	14,949,359	1.4%	18
West Greenwich	801,135,433	11,184,674	1.4%	19
Warren*	1,155,099,980	16,063,594	1.4%	20
North Kingstown*	3,747,088,118	51,656,182	1.4%	21
Richmond	814,417,727	10,309,392	1.3%	22
Burrillville*	1,443,637,327	18,174,466	1.3%	23
Middletown	2,591,729,074	32,315,763	1.2%	24
South Kingstown*	4,192,549,039	51,148,277	1.2%	25
Cumberland	3,531,823,971	42,764,307	1.2%	26
Foster	607,513,542	7,352,142	1.2%	27
Exeter	773,909,298	9,325,439	1.2%	28
Tiverton	1,882,894,410	22,067,372	1.2%	29
Bristol	2,442,162,431	28,077,337	1.1%	30
Jamestown*	1,662,005,987	18,695,485	1.1%	31
Scituate*	1,732,189,233	18,703,213	1.1%	32
Portsmouth	3,060,539,721	31,774,391	1.0%	33
Westerly*	4,891,154,323	46,449,356	0.9%	34
Newport	5,600,696,645	50,799,038	0.9%	35
Charlestown	1,918,701,406	16,063,648	0.8%	36
Narragansett	4,540,668,800	37,614,586	0.8%	37
Little Compton*	1,699,913,589	7,548,572	0.4%	38
New Shoreham*	1,875,795,274	5,519,972	0.3%	39
<b>State</b>	<b>\$113,198,227,164</b>	<b>\$1,658,875,956</b>	<b>1.5%</b>	<b>-</b>

(1) Full value is based on most recent Tax Equalization study and RIPEC forecast.

(2) FY 2005 Levy as Reported by Municipalities to the Office of Municipal Affairs

\*Indicates community implemented a revaluation of property or statistical update

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

Taxpayer Profiles: In order to provide another method to measure relative property tax burden, RIPEC developed the following analysis that looks at the relative tax burdens for a \$300,000 home, the burden on a home priced at the 2004 median selling price in each community reported by Rhode Island Living, and a hypothetical commercial property with \$1.0 million in real estate value and \$200,000 in tangible property value. The analysis reports both the projected property tax bill under each scenario as well as the projected effective tax burden by community. The effective property tax burden is the tax bill divided by the market value of the property in each Rhode Island community.

The value of the house is adjusted in each community by the ratio of assessment, which estimates what a single family home would actually be assessed at as a percentage of its actual market value (in this case \$300,000 or the median selling price). The ratio will differ among communities principally due to the timing of the most recent revaluation of property. For example, recent experience has shown that communities that have conducted statistical updates of their property values have revised assessed values reflecting approximately 96.7 percent of market values. Similarly, experience has shown that the implementation of a revaluation of property will result in assessed values reflecting, on average, 98.2 percent of actual market values in the year the revaluation is implemented. In other words, while statistical updates and revaluations are designed to account for market change, communities are always faced with a fluid real estate market, and these updates of values become stale very quickly given market trends.

The estimated tax on the home is calculated based on existing homestead provisions and FY 2005 residential property tax rates. For those communities that have local property taxes assessed by fire districts, the analysis uses the highest fire tax rate within the community. As the tables show, the relative burden does change when fire districts are taken into account.

*Taxpayer Profile One - \$300,000 Home:* RIPEC estimates that the average FY 2005 property tax bill on a \$300,000 home in the State would be approximately \$3,922. As Table 7 shows, this would represent an effective tax rate of 1.31 percent. The estimated property tax bill would range from a high of \$6,474 in Coventry to a low of \$1,314 in Little Compton. Coventry's estimated property tax bill on a home valued at \$300,000 is 65.0 percent higher than the state average.

*Taxpayer Profile Two - 2004 Median Selling Price of Single Family Home:* RIPEC also calculated the estimated property tax bill and the effective tax rates if one used each community's 2004 median selling price of a single family home as reported by Rhode Island Living. RIPEC included this portion of the analysis because it is often the case that taxpayers would question whether there is an equivalent home worth \$300,000 in each community. As shown on Table 8, while the net tax burdens are now different among the communities, the effective tax rates remain unchanged (accept for Central Falls due to the type of homestead employed in the City).

RIPEC estimates that the average FY 2005 property tax bill on the median price home in each community would be approximately \$4,048. This would represent an effective tax rate of 1.53 percent. The estimated property tax bill would range from a high of \$9,378 in East Greenwich (median price home of \$550,000) to a low of \$2,086 in Woonsocket (median price of \$195,000). When one uses the measure of effective property tax burden, which measures the net property tax burden as a percentage of the market value of a home, the overall rankings do not change. Coventry's estimated effective property tax burden remains the highest at 2.16 percent and Little Compton would have an effective rate of 0.44 percent.

*Commercial Property:* How communities treat commercial real and tangible property differs. Communities often employ different rates or homestead exemptions to ensure that the property tax burden on commercial property is higher than on residential property. In this analysis shown on Table 9, RIPEC assumed a \$1.0 million real property venture with \$200,000 in tangible goods was located in each of the 39 Rhode Island municipalities. Communities tax both real and tangible property, albeit at different rates.

RIPEC estimates that the average FY 2005 property tax bill on this commercial property would be approximately \$20,454. This would represent an effective tax rate of 2.05 percent. The estimated property tax bill would range from a high of \$45,679 in Providence to a low of \$5,287 in Little Compton. The effective tax rates on this commercial property would range from a high of 3.81 in Providence to a low of 0.44 percent in Little Compton. Providence's estimated property tax bill on a commercial venture would be 2.2 times the State average.

In January, 2005, RIPEC published a report summarizing property tax burdens among the fifty states. The Report – *50 State Property Tax Comparison Study* - surveyed 55 cities across the Nation and also compared a typical rural community among the fifty states. The study used the City of Providence and the Town of Hopkinton to represent the Ocean State.

The report found that the City of Providence's FY 2004 estimated commercial tax burden on a \$1.2 million commercial parcel was nearly 70.0 percent higher than the average among the 55 surveyed cities and ranked 5<sup>th</sup> highest in the Nation. Providence ranked the highest among New England cities and was 72.2 percent above the New England city average.

**Table 7**  
**FY 2005 Rhode Island Estimated Property Tax Burdens - \$300,000 Single Family Home**

Community	\$300,000 Single Family	Ratio of Assessment	Assessed Value	Homestead Exemption	Net Taxable Value	Residential Rate	Estimated Tax Burden	Rank	Estimated Fire Tax Rate	Estimated Fire Tax	Estimated Total Burden	Estimated Effective Rate	Rank
Coventry	\$300,000	75.11%	\$225,344	\$0	\$225,344	\$25.63	\$5,776	2	3.10	\$699	\$6,474	2.16%	1
Cranston	300,000	85.80%	257,390	0	257,390	23.23	5,979	1	0.00	0	5,979	1.99%	2
North Providence	300,000	75.34%	226,017	45,203	180,813	28.71	5,191	3	0.00	0	5,191	1.73%	3
East Greenwich	300,000	87.04%	261,126	0	261,126	17.91	4,677	7	1.68	439	5,115	1.71%	4
West Warwick	300,000	98.20%	294,600	0	294,600	17.31	5,100	4	0.00	0	5,100	1.70%	5
Glocester	300,000	73.44%	220,323	0	220,323	20.91	4,607	8	1.35	297	4,904	1.63%	6
Johnston	300,000	98.20%	294,600	0	294,600	16.40	4,831	5	0.00	0	4,831	1.61%	7
Hopkinton	300,000	84.91%	254,718	0	254,718	17.71	4,511	9	0.85	217	4,728	1.58%	8
Barrington	300,000	82.39%	247,181	0	247,181	18.99	4,694	6	0.00	0	4,694	1.56%	9
Pawtucket	300,000	85.17%	255,520	0	255,520	17.25	4,408	10	0.00	0	4,408	1.47%	10
West Greenwich	300,000	78.97%	236,904	0	236,904	18.50	4,383	11	0.00	0	4,383	1.46%	11
Burrillville	300,000	98.20%	294,600	0	294,600	12.55	3,677	23	2.13	627	4,325	1.44%	12
Cumberland	300,000	75.65%	226,957	0	226,957	16.73	3,797	20	2.23	506	4,303	1.43%	13
Providence	300,000	96.70%	290,100	145,050	145,050	29.65	4,301	12	0.00	0	4,301	1.43%	14
Warren	300,000	96.70%	290,100	0	290,100	14.82	4,299	13	0.00	0	4,299	1.43%	15
Warwick	300,000	96.70%	290,100	0	290,100	14.81	4,296	14	0.00	0	4,296	1.43%	16
North Kingstown	300,000	98.20%	294,600	0	294,600	14.38	4,236	15	0.00	0	4,236	1.41%	17
Richmond	300,000	70.93%	212,780	0	212,780	18.83	4,007	18	0.98	209	4,215	1.41%	18
North Smithfield	300,000	98.20%	294,600	0	294,600	14.26	4,201	16	0.00	0	4,201	1.40%	19
Smithfield	300,000	98.20%	294,600	0	294,600	13.95	4,110	17	0.00	0	4,110	1.37%	20
South Kingstown	300,000	98.20%	294,600	0	294,600	12.58	3,706	22	1.00	295	4,001	1.33%	21
Lincoln	300,000	98.20%	294,600	103,110	191,490	18.64	3,569	28	1.80	345	3,914	1.30%	22
Tiverton	300,000	85.47%	256,400	0	256,400	14.36	3,682	24	0.90	231	3,913	1.30%	23
Middletown	300,000	81.02%	243,073	0	243,073	15.85	3,853	19	0.00	0	3,853	1.28%	24
East Providence	300,000	96.70%	290,100	43,515	246,585	15.20	3,748	21	0.00	0	3,748	1.25%	25
Bristol	300,000	72.58%	217,730	0	217,730	16.85	3,669	25	0.00	0	3,669	1.22%	26
Foster	300,000	85.52%	256,568	0	256,568	14.11	3,620	26	0.00	0	3,620	1.21%	27
Exeter	300,000	81.24%	243,733	0	243,733	14.70	3,583	27	0.00	0	3,583	1.19%	28
Central Falls	300,000	98.20%	294,600	25,000	269,600	13.04	3,516	29	0.00	0	3,516	1.17%	29
Jamestown	300,000	98.20%	294,600	0	294,600	11.58	3,411	30	0.00	0	3,411	1.14%	30
Portsmouth	300,000	68.08%	204,243	0	204,243	16.20	3,309	31	0.28	57	3,366	1.12%	31
Woonsocket	300,000	81.56%	244,689	110,110	134,579	23.85	3,210	32	0.00	0	3,210	1.07%	32
Scituate	300,000	48.35%	145,050	0	145,050	22.08	3,203	33	0.00	0	3,203	1.07%	33
Charlestown	300,000	68.55%	205,657	0	205,657	12.59	2,589	36	2.92	601	3,190	1.06%	34
Westerly	300,000	96.70%	290,100	0	290,100	9.64	2,797	34	0.60	174	2,971	0.99%	35
Newport	300,000	63.49%	190,468	0	190,468	13.72	2,613	35	0.00	0	2,613	0.87%	36
Narragansett	300,000	76.54%	229,614	0	229,614	10.57	2,427	37	0.65	149	2,576	0.86%	37
Little Compton	300,000	96.70%	290,100	0	290,100	4.53	1,314	38	0.00	0	1,314	0.44%	38
New Shoreham	300,000	78.56%	235,680	0	235,680	3.77	889	39	0.00	0	889	0.30%	39
<b>Estimated Average</b>	<b>\$300,000</b>	<b>85.33%</b>	<b>\$255,994</b>	<b>\$12,102</b>	<b>\$243,892</b>	<b>\$15.75</b>	<b>\$3,841</b>	<b>-</b>	<b>\$0.52</b>	<b>\$128</b>	<b>\$3,969</b>	<b>1.32%</b>	<b>-</b>

(1) Assessed value of house is based RIPEC estimate of ratios of assessment (12/31/03)

(2) Estimated Fire District Tax represents the highest tax rate in the community in FY 2005.

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

**Table 8**  
**FY 2005 Rhode Island Estimated Property Tax Burdens - Median Selling Price of Single Family Home**

Community	Median Price Single Family	Ratio of Assessment	Assessed Value	Homestead Exemption	Net Taxable Value	Residential Rate	Estimated Tax Burden	Rank	Estimated Fire Tax Rate	Estimated Fire Tax	Estimated Total Burden	Estimated Effective Rate	Rank
Coventry	\$253,000	75.11%	\$190,040	\$0	\$190,040	\$25.63	\$4,871	6	\$3.10	\$589	\$5,460	2.16%	1
Cranston	240,000	85.80%	205,912	0	205,912	23.23	4,783	7	0.00	0	4,783	1.99%	2
North Providence	245,000	75.34%	184,580	36,916	147,664	28.71	4,239	12	0.00	0	4,239	1.73%	3
East Greenwich	550,000	87.04%	478,732	0	478,732	17.91	8,574	1	1.68	804	9,378	1.71%	4
West Warwick	225,000	98.20%	220,950	0	220,950	17.31	3,825	20	0.00	0	3,825	1.70%	5
Glocester	279,000	73.44%	204,900	0	204,900	20.91	4,284	10	1.35	277	4,561	1.63%	6
Johnston	254,900	98.20%	250,312	0	250,312	16.40	4,105	16	0.00	0	4,105	1.61%	7
Hopkinton	257,450	84.91%	218,591	0	218,591	17.71	3,871	19	0.85	186	4,057	1.58%	8
Barrington	390,000	82.39%	321,335	0	321,335	18.99	6,102	2	0.00	0	6,102	1.56%	9
Pawtucket	218,000	85.17%	185,678	0	185,678	17.25	3,203	29	0.00	0	3,203	1.47%	10
West Greenwich	375,000	78.97%	296,130	0	296,130	18.50	5,478	3	0.00	0	5,478	1.46%	11
Burrillville	247,000	98.20%	242,554	0	242,554	12.55	3,044	31	2.13	517	3,561	1.44%	12
Cumberland	297,000	75.65%	224,688	0	224,688	16.73	3,759	23	2.23	501	4,260	1.43%	13
Providence	185,000	96.70%	178,895	89,448	89,448	29.65	2,652	35	0.00	0	2,652	1.43%	14
Warren	296,000	96.70%	286,232	0	286,232	14.82	4,242	11	0.00	0	4,242	1.43%	15
Warwick	225,000	96.70%	217,575	0	217,575	14.81	3,222	28	0.00	0	3,222	1.43%	16
North Kingstown	375,000	98.20%	368,250	0	368,250	14.38	5,295	5	0.00	0	5,295	1.41%	17
Richmond	284,000	70.93%	201,432	0	201,432	18.83	3,793	22	0.98	197	3,990	1.41%	18
North Smithfield	300,000	98.20%	294,600	0	294,600	14.26	4,201	14	0.00	0	4,201	1.40%	19
Smithfield	309,000	98.20%	303,438	0	303,438	13.95	4,233	13	0.00	0	4,233	1.37%	20
South Kingstown	354,950	98.20%	348,561	0	348,561	12.58	4,385	8	1.00	349	4,733	1.33%	21
Lincoln	329,950	98.20%	324,011	113,404	210,607	18.64	3,926	18	1.80	379	4,305	1.30%	22
Tiverton	296,000	85.47%	252,981	0	252,981	14.36	3,633	25	0.90	228	3,860	1.30%	23
Middletown	341,000	81.02%	276,293	0	276,293	15.85	4,379	9	0.00	0	4,379	1.28%	24
East Providence	236,500	96.70%	228,696	34,304	194,391	15.20	2,955	33	0.00	0	2,955	1.25%	25
Bristol	336,750	72.58%	244,402	0	244,402	16.85	4,118	15	0.00	0	4,118	1.22%	26
Foster	327,450	85.52%	280,044	0	280,044	14.11	3,951	17	0.00	0	3,951	1.21%	27
Exeter	314,000	81.24%	255,107	0	255,107	14.70	3,750	24	0.00	0	3,750	1.19%	28
Jamestown	474,500	98.20%	465,959	0	465,959	11.58	5,396	4	0.00	0	5,396	1.14%	29
Central Falls	214,900	98.20%	211,032	25,000	186,032	13.04	2,426	36	0.00	0	2,426	1.13%	30
Portsmouth	345,000	68.08%	234,880	0	234,880	16.20	3,805	21	0.28	66	3,871	1.12%	31
Woonsocket	195,000	81.56%	159,048	71,572	87,476	23.85	2,086	39	0.00	0	2,086	1.07%	32
Scituate	322,000	48.35%	155,687	0	155,687	22.08	3,438	27	0.00	0	3,438	1.07%	33
Charlestown	344,500	68.55%	236,163	0	236,163	12.59	2,973	32	2.92	690	3,663	1.06%	34
Westerly	311,250	96.70%	300,979	0	300,979	9.64	2,901	34	0.60	181	3,082	0.99%	35
Newport	400,000	63.49%	253,958	0	253,958	13.72	3,484	26	0.00	0	3,484	0.87%	36
Narragansett	390,000	76.54%	298,498	0	298,498	10.57	3,155	30	0.65	194	3,349	0.86%	37
Little Compton	500,000	96.70%	483,500	0	483,500	4.53	2,190	38	0.00	0	2,190	0.44%	38
New Shoreham	800,000	78.56%	628,480	0	628,480	3.77	2,369	37	0.00	0	2,369	0.30%	39
<b>Estimated Average</b>	<b>\$264,700</b>	<b>103.78%</b>	<b>\$274,695</b>	<b>\$9,504</b>	<b>\$265,191</b>	<b>\$14.80</b>	<b>\$3,926</b>	<b>-</b>	<b>\$0.52</b>	<b>\$139</b>	<b>\$4,065</b>	<b>1.54%</b>	<b>-</b>

- (1) Assessed value of house is based RIPEC estimate of ratios of assessment (12/31/03)
- (2) Estimated Fire District Tax represents the highest tax rate in the community in FY 2005.
- (3) Represents 2004 Median Price of single family home as reported by Rhode Island Living

Source: RIPEC calculations based on Rhode Island Office of Municipal Affairs data.

**Table 9**  
**FY 2005 Rhode Island Estimated Property Tax Burdens - \$1.2 Million in Commercial Property**

Community	\$1,000,000 Real Estate	Ratio of Assessment	Net Taxable Value	Commercial Rate	Estimated Tax Burden	Rank	Estimated Fire Tax Rate	Estimated Fire Tax	\$200,000 Tangible	Tangible Rate	Estimated Tangible	Rank	Estimated Total Burden	Estimated Effective Rate	Overall Rank
Providence	\$1,000,000	96.70%	\$967,000	\$37.00	\$35,779	1	\$0.00	0	\$200,000	\$49.50	\$9,900	4	\$45,679	3.81%	1
Central Falls	1,000,000	98.20%	982,000	34.85	34,223	2	0.00	0	200,000	51.33	10,266	3	44,489	3.71%	2
Woonsocket	1,000,000	81.56%	815,631	38.25	31,198	3	0.00	0	200,000	46.58	9,316	5	40,514	3.38%	3
North Providence	1,000,000	75.34%	753,389	31.02	23,370	6	0.00	0	200,000	57.50	11,500	1	34,870	2.91%	4
Cranston	1,000,000	85.80%	857,967	30.80	26,425	4	0.00	0	200,000	34.84	6,968	10	33,393	2.78%	5
Pawtucket	1,000,000	85.17%	851,733	25.88	22,043	8	0.00	0	200,000	52.09	10,418	2	32,461	2.71%	6
Lincoln (4)	1,000,000	98.20%	982,000	22.74	22,331	7	1.80	1,768	200,000	30.34	6,068	12	30,166	2.51%	7
West Warwick	1,000,000	98.20%	982,000	24.80	24,354	5	0.00	\$0	200,000	28.17	5,634	15	29,988	2.50%	8
East Providence	1,000,000	96.70%	967,000	19.35	18,711	11	0.00	0	200,000	44.59	8,918	6	27,629	2.30%	9
Coventry	1,000,000	75.11%	751,148	25.63	19,252	10	4.30	3,230	200,000	25.63	5,126	16	27,608	2.30%	10
Warwick	1,000,000	96.70%	967,000	22.22	21,487	9	0.00	0	200,000	29.62	5,924	13	27,411	2.28%	11
Johnston	1,000,000	98.20%	982,000	16.40	16,105	12	0.00	0	200,000	44.11	8,822	7	24,927	2.08%	12
Glocester	1,000,000	73.44%	734,409	20.91	15,356	15	1.35	991	200,000	28.46	5,692	14	22,040	1.84%	13
Smithfield	1,000,000	98.20%	982,000	13.95	13,699	22	0.00	0	200,000	41.00	8,200	8	21,899	1.82%	14
North Smithfield	1,000,000	98.20%	982,000	14.26	14,003	21	0.00	0	200,000	37.24	7,448	9	21,451	1.79%	15
East Greenwich	1,000,000	87.04%	870,421	17.91	15,589	14	1.68	1,462	200,000	17.91	3,582	21	20,634	1.72%	16
Scituate	1,000,000	48.35%	483,500	27.75	13,417	23	0.00	0	200,000	33.05	6,610	11	20,027	1.67%	17
Cumberland	1,000,000	75.65%	756,524	16.73	12,657	25	3.59	2,716	200,000	22.71	4,542	17	19,915	1.66%	18
Barrington	1,000,000	82.39%	823,936	18.99	15,647	13	0.00	0	200,000	18.99	3,798	18	19,445	1.62%	19
Hopkinton	1,000,000	84.91%	849,060	17.71	15,037	16	0.85	722	200,000	17.71	3,542	23	19,301	1.61%	20
West Greenwich	1,000,000	78.97%	789,679	18.50	14,609	17	0.00	0	200,000	18.50	3,700	20	18,309	1.53%	21
Middletown	1,000,000	81.02%	810,245	17.90	14,503	18	0.00	0	200,000	17.90	3,580	22	18,083	1.51%	22
Richmond	1,000,000	70.93%	709,267	18.83	13,355	24	0.98	695	200,000	18.83	3,766	19	17,817	1.48%	23
Warren	1,000,000	96.70%	967,000	14.82	14,331	19	0.00	0	200,000	14.82	2,964	28	17,295	1.44%	24
North Kingstown	1,000,000	98.20%	982,000	14.38	14,121	20	0.00	0	200,000	14.38	2,876	30	16,997	1.42%	25
Burrillville	1,000,000	98.20%	982,000	12.55	12,324	27	2.13	2,092	200,000	12.55	2,510	35	16,926	1.41%	26
Tiverton	1,000,000	85.47%	854,666	14.36	12,273	28	0.90	769	200,000	14.36	2,872	31	15,914	1.33%	27
South Kingstown	1,000,000	98.20%	982,000	12.58	12,354	26	1.00	982	200,000	12.58	2,516	34	15,852	1.32%	28
Narragansett	1,000,000	76.54%	765,379	15.86	12,139	30	0.65	497	200,000	15.86	3,172	27	15,808	1.32%	29
Bristol	1,000,000	72.58%	725,768	16.85	12,229	29	0.00	0	200,000	16.85	3,370	24	15,599	1.30%	30
Foster	1,000,000	85.52%	855,228	14.11	12,067	31	0.00	0	200,000	14.11	2,822	32	14,889	1.24%	31
Exeter	1,000,000	81.24%	812,442	14.70	11,943	32	0.00	0	200,000	14.70	2,940	29	14,883	1.24%	32
Portsmouth	1,000,000	68.08%	680,810	16.20	11,029	34	0.28	191	200,000	16.20	3,240	26	14,460	1.20%	33
Jamestown	1,000,000	98.20%	982,000	11.58	11,372	33	0.00	0	200,000	11.58	2,316	36	13,688	1.14%	34
Newport	1,000,000	63.49%	634,895	16.30	10,349	35	0.00	0	200,000	16.30	3,260	25	13,609	1.13%	35
Charlestown	1,000,000	68.55%	685,525	12.59	8,631	37	2.92	2,002	200,000	12.59	2,518	33	13,150	1.10%	36
Westerly	1,000,000	96.70%	967,000	9.64	9,322	36	0.60	580	200,000	9.64	1,928	37	11,830	0.99%	37
Little Compton	1,000,000	96.70%	967,000	4.53	4,381	38	0.00	0	200,000	4.53	906	38	5,287	0.44%	38
New Shoreham	1,000,000	78.56%	785,600	3.77	2,962	39	0.00	0	200,000	3.77	754	39	3,716	0.31%	39
<b>Estimated Average</b>	<b>\$1,000,000</b>	<b>85.33%</b>	<b>\$853,313</b>	<b>\$18.78</b>	<b>\$16,025</b>	<b>-</b>	<b>\$0.59</b>	<b>\$504</b>	<b>200,000</b>	<b>\$24.91</b>	<b>\$4,982</b>		<b>\$21,007</b>	<b>1.75%</b>	<b>-</b>

(1) Assessed value is based RIPEC estimate of ratios of assessment (12/31/03)  
(2) Estimated Fire District Tax represents the highest tax rate in the community in FY 2005.  
(3) Lincoln fire districts levy on tangible commercial property included in tangible tax calculation

### **III. RIPEC Comments**

While the property tax burden among the State's 39 cities and towns vary, it is clear that Rhode Island as a whole relies more on the property tax than the majority of other states. With an estimated property tax burden that continues to rank 6<sup>th</sup> highest in the Nation, Rhode Island must continue to find ways to address the State's tax structure to bring greater balance to the State-local tax system.

While Rhode Island relies heavily on the property tax, it has taken a number of key steps to begin addressing the issue. This includes administrative reforms such as more frequent revaluations of property to a number of property tax relief programs. There are a number of additional steps that can be taken to improve upon these programs that will serve to ensure effective property tax administration and permanent property tax relief to most Rhode Islanders. The following highlights RIPEC's recommendations to continue addressing the Ocean State's over-reliance on the property tax and modernizing the State's administration of the largest single tax source.

The following RIPEC Comments focuses on the following policy areas:

- Providing direct property tax relief to Rhode Islanders;
- Revisiting the existing property tax cap to limit growth in property taxes;
- Controlling school spending and implementing a school funding formula; and
- Holding the line on the State's property tax classification structure.

#### ***Property Tax Relief in Rhode Island***

Rhode Island's property tax burden is placing the State at a competitive disadvantage and making it increasingly difficult for some Rhode Islanders to afford to live in their homes. Therefore, there is a pressing need to provide meaningful property tax relief throughout the State.

There are essentially two approaches to property tax relief – either direct or indirect property tax relief. Direct property tax relief is where the program reduces the tax bill for property owners. These programs include homestead exemptions, circuit breakers, credits and classification. Another method of providing direct property tax relief is to strengthen constraints on property tax rates, property tax assessment increases, property tax revenues, and local government spending. Depending on how property tax limitation measures are designed, they too can result in direct property tax relief. Rhode Island's property tax cap is discussed below.

Indirect property tax relief programs provide property tax relief by providing municipalities with alternative revenue sources, and thereby having property tax levies lower than they otherwise would be given no changes in the level of local services.

Indirect property tax relief programs generally take the form of alternative revenue sources, principally either local authority to raise other non-property tax revenues or through state aid programs. In Rhode Island, there are several state aid programs, such as

General Revenue Sharing, School Aid, Distressed Community Relief Aid and the Payment-in-lieu-of-taxes (PILOT) program. These programs are generally outside the property tax structure and are designed to provide resources that would otherwise have to be raised through property taxes.

The various property tax relief options differ from one another and can have differing consequences. For example, some property tax relief mechanisms can be costly to the state, some result in lower property tax burdens for most homeowners and businesses, and still others simply redistribute the property tax burden among classes of property

There are certainly advantages and disadvantages to each method of providing property tax relief. As state and local officials consider property tax relief measures, there are several key issues that need to be considered. The most important is to design a property tax relief measure that guarantees that the relief does not translate into more capacity at the local level to raise property taxes elsewhere, thereby limiting the real relief to taxpayers. In other words, how can the State ensure that the relief that does reach the targeted taxpayer remains permanent and does not erode away?

The phase-out of the excise tax is an example of some important lessons learned in attempting property tax relief. First, the program has reduced property taxes by over \$100.0 million. However, the General Assembly and the Governor helped balance the State budget by freezing the phase-out, leaving the exemption at the first \$4,500 in auto value. Therefore, the original legislative objective to completely eliminate the motor vehicle excise tax has not been met. The relief is considered vulnerable because the Governor and the General Assembly have to focus on annually appropriating the funds for the existing property tax relief.

Therefore, policymakers may want to consider designing a property tax relief program that provides direct property tax relief to Rhode Islanders. This could take the form of a tax expenditure, such as a credit or homestead exemption for property taxes paid. The advantage of such a strategy is that the State would reduce expected revenues by the amount of the expected benefit to taxpayers. In addition, the property tax relief would not have to flow through the municipality, where there is the potential for some of it being redirected through other property tax rate increases.

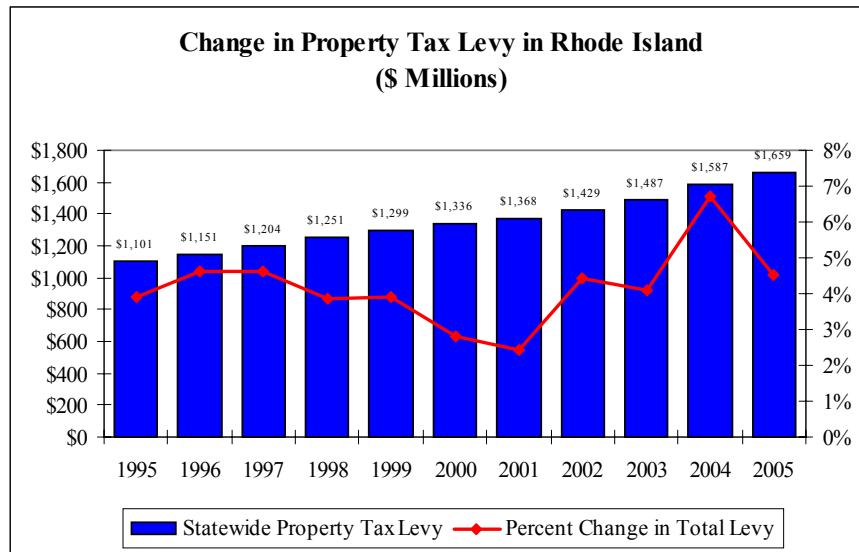
Regardless of the strategy employed, it will be incumbent on the State and local officials to also consider mechanisms to control spending in order to ensure that the relief is permanent and real. This may include both State limitations on spending as well as revisiting the State's current cap on property tax growth. At the local level, this will require a serious look at what needs to be spent to support schools and to meet mandated performance standards.

### ***Revisit the Property Tax Cap in Rhode Island***

Rhode Island's 1985 Property Tax Relief and Replacement Act 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 percent cap on property tax levy growth in each city or town. The cap may be applied to either the actual levy or the growth in tax rates.

The State has experienced significant increases in total property tax levies over the past ten-year period. Unadjusted for inflation, the property tax levy statewide increased from \$1.1 billion in FY 1995 to \$1.7 billion in FY 2005. From 1995 to 2005 this represents a 50.7 percent increase. Over the ten-year period, the average annual rate of growth has been approximately 4.2 percent. This has been fairly constant regardless of the growth in overall property wealth, with the total levy increasing at an average annual rate of 4.0 percent from 1995 – 2000 and by 4.4 percent since 2000.

However, one should note that the property tax levy statewide increased by 6.7 percent in FY 2004 over FY 2003 - the largest single year increase in the property tax levy in the past 10 years. This is a good example of why the current property tax cap is considered weak in terms of controlling growth in property taxes. Communities are able to comply with the cap by either having their local levy (actual dollars raised) or their actual tax rate grow by no more than 5.5 percent. Even if a community's tax rate grows by less than 5.5 percent, it is possible that that tax rate could generate a total tax levy that exceeds 5.5 percent. Therefore, while complying with the law, there is significant room for communities to meet the revenue demands of their budgets.



RIPEC recommends that policymakers consider tightening the State's current property tax cap (5.5 percent growth on tax levies or rates) as a means of controlling growth in property taxes. Tighter property tax caps may also serve to dampen expenditure growth to a level that is more consistent with inflation. An option to consider is to apply the current cap of 5.5 percent to total levy only and not apply the cap to tax rates. To accomplish such a task, it will be essential to begin controlling school spending if one is expecting communities to live within a tighter cap on property taxes.

### ***Implement a New Education Funding System***

A critical component of the State-local fiscal structure is how Rhode Island funds schools. While the State invests over \$700 million in education aid, localities continue to foot nearly 60.0 percent of the \$1.9 billion education bill using local property taxes. School Finance reform is not a question of more money for the school system. Rhode Island invests considerable resources per pupil (\$10,258 per pupil in FY 2004), ranking 7<sup>th</sup> highest in the Nation. This level of spending was nearly 26.0 percent higher than the national average. Rhode Island needs to get a better understanding of its investment in public schools and determine how to direct these limited resources towards meeting the educational standards set out by the State and the Federal No Child Left Behind Act.

The current state of affairs in public education in Rhode Island is an environment where there are few effective controls on spending levels. As reported in RIPEC's December 2004 *Results Report – Education in Rhode Island*, the average annual rate of growth in school spending from 2000 to 2005 was 6.1 percent – representing the major driver of local spending during this period.

In addition, since FY 1995, Rhode Island has lacked a predictable school financing system that can support the fiscal demands of local communities while meeting the education needs of all students. Therefore, there is a need to develop a specific method of financing public schools in Rhode Island that addresses student need, municipal tax capacity and affordability.

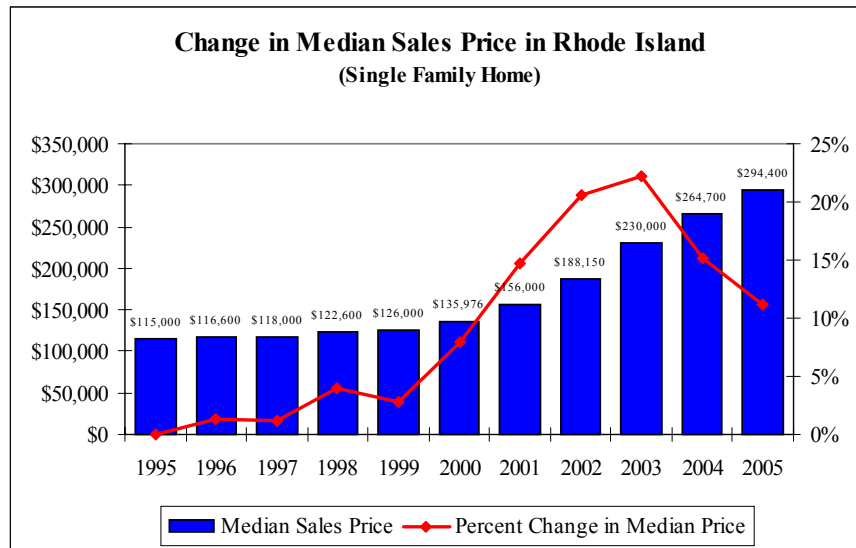
The first steps are to analyze the underlying costs associated with meeting educational standards. This will require conducting a costing-out analysis of existing expenditures and understanding what elements are fundamental to achieving educational standards. This will include identifying specific resources and least cost options to provide every child the opportunity to necessary educational opportunities to meet education performance standards, and systematically calculating the amount of per pupil funding necessary to support an effective and efficient educational system.

This process should consider the needs of special populations, comprehensive education programs, and non-educational support activities. The work should consider, among other factors, pupil-teacher ratios, compensation, collective bargaining practices, technology investments, educational supplies, teacher training and professional development, student performance assessments, curriculum offerings and support services and all other costs and needs associated with the delivery of educational services.

RIPEC and municipal officials were instrumental in establishing a new Joint Legislative Committee on Education Finance Reform to develop a new education funding system for the State. To date, the Committee has not been appointed and therefore this critical work has yet to begin. It should be noted that the Committee has been charged with developing recommendations to the Legislature by October 2005.

### ***Address Property Tax Classification***

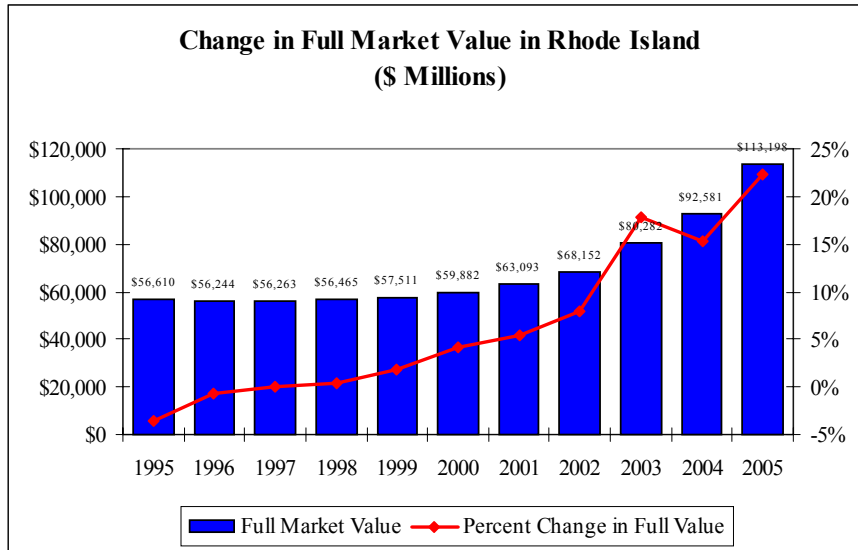
In the past few years, real estate market conditions have translated into an environment where residential property has appreciated at a greater rate than commercial and industrial property. The median sales price in Rhode Island has increased from \$115,000 in 1995 to \$264,700 in 2004, with RIPEC projecting the price to be \$294,400 in 2005. From 1995 to 2005 this represents a 156.0 percent increase. Over this period, the average annual rate of growth has been 10.1 percent. However, the majority of this growth has occurred in the past five years. From 1995 – 2000, the median sales price increased at an average annual rate of 3.4 percent, while since 2000, the average annual rate has nearly reached 17.0 percent. This has translated into an increasing share of the overall wealth shifting to residential property.



Similarly, the State has experienced significant increases in full market value of its entire property tax base. While this may be in part due to better revaluation and statistical update procedures, it does reflect what has happened in recent years. The estimated full market value statewide increased from \$56.6 billion in FY 1995 to \$113.2 billion in FY 2005. From 1995 to 2005 this represents a 100.0 percent increase over the 10-year period. Over the ten-year period, the average annual rate of growth has been approximately 7.5 percent. Again, however, as the graph below indicates, the majority of this growth has occurred in the past five years. From 1995 – 2000, full value of property in the State increased at an average annual rate of 1.1 percent, while since 2000, the average annual rate has nearly reached 14.0 percent.

In many communities, these market conditions have caused a significant increase in the share of local property tax burden that is borne by residential property taxpayers. On average, communities have approximately 74.0 percent of the total tax base represented by residential property wealth – this is up from 68.0 percent in FY 1995. As communities experience continued growth in residential property, the share of total wealth relative to commercial and industrial property will increase. However, many communities have implemented strategies to ensure that the relative tax burden does not

follow the direction of the changes in wealth. In other words, classification structures have been put in place to shift the burden from residential properties to business-owned properties.



Many communities have looked to establishing some form of property tax classification to stave off this shift when a revaluation and/or a statistical update of property are implemented. Communities have looked to establish different tax burdens for different classes of real property, effectuating this through either different tax rates or through the use of homestead provisions, or in some cases, a combination of both.

At the end of the day, the justification for property tax classification is to minimize tax burden shifts to residential property taxpayers. Higher property taxes on commercial and industrial property can begin to impact location decisions of firms either already here or considering the region as a site. It may also impact location decisions of residents in the long term. Even with the current three-year cycle of updating values, Rhode Island has experienced significant growth in residential values, thereby shifting burdens away from slower growth components of the property tax base, namely commercial and industrial property.

Rhode Island currently has general parameters in law to provide guidance in developing a classified property tax structure. The legislation defines the different classes of property and the permissible variance in effective tax burdens between classes. Annually, there are a number of municipal proposals to create exceptions to existing law regarding property tax classification. The communities seeking relief are typically those that are implementing either a full revaluation of property or a statistical update. Two types of changes seem to emerge - an expansion of the number and makeup of classes of property within a specific community and an exemption from the maximum deviation of tax rates between classes.

Rhode Island General Laws 44-5-11.8 limits the number of classes of property to four:

1. Class 1: Residential real estate consisting of no more than five (5) dwelling units, land classified as open space, and dwellings on leased land including mobile homes
2. Class 2: Commercial and industrial real estate, residential properties containing partial commercial or business uses and residential real estate of more than five (5) dwelling units.
3. Class 3: All ratable tangible personal property.
4. Class 4: Motor vehicles and trailers subject to the excise tax created by chapter 34 of this title.

The law further outlines relative burdens among classes of property in that the effective tax rate applicable to any class shall not exceed by fifty percent (50%) the rate applicable to any other class. However, in the year following a revaluation or statistical update, the city or town council of any municipality may, by ordinance, adopt tax rates for the property class for all ratable tangible personal property no greater than twice the rate applicable to any other class provided that the municipality documents to, and receives written approval from the office of municipal affairs that the rate difference is necessary to ensure that the estimated tax levy on the property class for all ratable tangible personal property is not reduced from the prior year as a result of the revaluation or statistical revaluation. In addition, any tax rate changes from one year to the next must be applied such that the same percentage rate change is applicable to all classes.

The legislation has been amended to provide more latitude for a number of communities, including East Providence, Providence, and West Warwick. Both East Providence and West Warwick were able to have the definition of the classes of real property (Classes 1 and 2) changed to accommodate their classification structure. The City of Providence was able to expand the use of a homestead provision, change the definition of classes, widen the permissible effective tax rate between classes to permit tangible tax burdens (Class 3) up to 200 percent of residential tax burdens (Class 1) and allow for changing tax rates in each class at different percentages rather than uniformly.

Again, the principal catalyst for each proposal has been the significant growth in residential property as compared to commercial and industrial real estate growth. This has put pressure on local communities to further bifurcate the residential property class as well as grapple with relatively high tangible tax rates. Because of the significant growth in real estate values, the gap in rates between real estate and personal tangible property has grown, making it increasingly difficult for communities to maintain tax revenue product generated from tangible taxes.

Over the next two years, 21 communities will conduct and implement a revaluation or a statistical update of property values. Therefore, given the environment and the increasing pursuit of changes to current property tax administration laws, it is imperative that policymakers clearly define the property tax issues facing local communities and how they impact the State's ability to attract and retain investment in our communities.

Therefore, RIPEC recommends that State and local policymakers hold the line on the State's property tax classification structure. The existing parameters for property tax classification – both the definition of classes and the maximum variance in effective property tax burdens between classes of real property - are sufficient and should be adhered to on a go-forward basis. Further balkanization of classification structures in Rhode Island can affect location decisions of both business and residents.