



RIPEC

An Introduction to Municipal Finance in Rhode Island

The First in a Series

Executive Summary

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Though often minimized or overlooked, municipalities occupy a fundamental place in Rhode Island government, particularly given the absence of county or regional government. The first in a series exploring various aspects of municipal finance in Rhode Island, this report establishes a foundational overview of the structures of municipal finance in Rhode Island to serve as a backdrop for a more in-depth investigation into subject areas affecting the fiscal health of municipalities.

This report gives a historical and legal overview and analyzes key demographic data from Rhode Island's 39 cities and towns, as well as local revenues and spending. It uses data from fiscal year 2019 and calendar year 2019, primarily obtained from the Rhode Island Division of Municipal Finance's Municipal Transparency Portal and the U.S. Census Bureau's American Community Survey.

Rooted in historical circumstance, Rhode Island's legal structures for municipal government enable cities and towns to raise revenues or borrow money only to the extent approved by the General Assembly. The General Assembly also has broad powers over elementary and secondary education. However, the Assembly has largely left local school committees with the authority to manage local schools, except that school committees must rely on their respective city or town councils to raise and approve school funding. The legal relationship between the state and municipalities has changed little over the decades, although the General Assembly has continuously increased state oversight over municipal finances.

Rhode Island's cities and towns vary greatly in demographic features such as population and population density, family income, and housing—the characteristics most relevant when considering municipal finance, as they dictate a community's ability to raise revenues as well as the level of expenditures required. For instance, the state's highest median family income of \$153,475 per annum in East Greenwich is over four times greater than the lowest median family income of \$34,623 in Central Falls, and nearly double the statewide median of \$86,258.

Property tax is the single largest local revenue source in Rhode Island (60.4 percent of all local revenues) and a staggering difference in property wealth among municipalities significantly impacts local tax rates. The gross assessed property value per capita of Central Falls (\$26,427) is less than one quarter of the statewide total (\$120,716), Woonsocket is well below half of the total

(\$55,058), and Pawtucket (\$61,390) is only slightly above half of the total. At the other extreme, seven communities with high proportions of non-resident homes have gross assessed value per capita of more than twice the statewide total: Westerly, Newport, Charlestown, Narragansett, Jamestown, Little Compton, and New Shoreham. Each of these seven communities consequently have property tax rates well below the state average, while municipalities with less property wealth tend to apply higher rates; Central Falls' average property tax rate (\$32.14) is the highest in the state and exceeds the state average (\$20.33) by 45.0 percent.

As property tax is essentially the only major revenue source that a municipality can control and high tax rates alone cannot feasibly make up for relatively low levels of property wealth, the extent to which Rhode Island cities and towns rely on intergovernmental aid (primarily in the form of state education aid) varies widely. For the three cities with the state's lowest assessed property value per capita—Central Falls, Pawtucket, and Woonsocket—state/federal/other education aid makes up a larger component of overall revenues than property taxes, the dominant revenue stream in Rhode Island's remaining 36 municipalities.

The issue of wealth and income disparity manifests itself most critically in elementary and secondary education—by far the largest source of municipal spending in Rhode Island (60.1 percent of all local expenditures). There is a large variance among municipalities in the proportion of total spending attributable to education, ranging from 40.3 percent in New Shoreham to 81.1 percent in Exeter. When measured on a per pupil basis, education expenditures also vary widely. Of particular concern, despite a school funding formula that heavily favors municipalities with lower levels of family income and property values, two communities that respectively have the third and fourth highest proportions of low-income students in the state—Pawtucket and Woonsocket—spend far less per pupil than the statewide total (\$18,079) and respectively rank third and first lowest in the state in terms of per pupil expenditures (Woonsocket spends \$15,372 per pupil and Pawtucket spends \$15,646). To guarantee equitable education funding, policymakers will need to further reform the funding formula to ensure that the communities obligated to educate large proportions of low-income students receive sufficient state funding and are required to dedicate appropriate local resources to education. Alternatively, for these communities, policymakers should consider having the state assume full financial responsibility for education, with appropriate enhanced state oversight.

In terms of spending, education is hardly the only noteworthy difference. There is also a wide difference in public safety spending, the second largest local spending category and nearly a fifth (19.2 percent) of all municipal expenditures. Another great difference among municipalities relates to debt, pension, and other post-employment benefit liabilities; a large majority of municipalities—22—have total liabilities that are less than five percent of their total net assessed property value, but three have total liabilities exceeding one quarter of their net property assessment: Pawtucket (25.6 percent), Providence (26.6 percent), and Woonsocket (26.6 percent).

Interactive demographic, revenue, and expenditure data that correspond with this report are available [here](#).