Shifting Burdens:
An Updated Analysis of Rhode Island's Property Tax System

RIPEC

Executive Summary
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This report analyzes property taxation in Rhode Island, and highlights disparities among cities and towns and across groups of taxpayers. Building on RIPEC's 2022 analysis of Rhode Island's property tax system, this report finds that the extreme uptick in residential property values over the past few years has accelerated disparities in the system and exacerbated obstacles to growing the economy and making housing more affordable. Based on its findings, RIPEC offers recommendations for consideration by state and local policymakers.

Property taxes constitute the largest single source of local revenue in the Ocean State, representing 87.9 percent of all locally-generated revenues in fiscal year (FY) 2022. Even when considering substantial state and federal aid, property taxes remain by far the dominant source of revenue for cities and towns (55.7 percent). As the largest single means through which municipal services are funded in Rhode Island, property tax collection levels can significantly affect the delivery of those services, particularly K-12 education. Property taxes are also of great importance to taxpayers, contributing significantly to housing costs for residents and operational costs for businesses. As a result, property taxes also affect the affordability of existing housing and the construction of new housing, as well as economic development—all pressing challenges for Rhode Island.

In Rhode Island and in many places in the United States, property tax systems over time have fallen victim to considerable distortion. In its purest form—in which the amount of a tax bill is derived solely from the fair market value of the property owned—the property tax is perhaps the fairest form of taxation. However, researchers have shown that some policies that purport to reduce the property tax burden have simply shifted it from some taxpayers to others, creating inequities in the system. For one, while the tangible personal property of households was made exempt from taxation in the early modern era, businesses have largely continued to pay a tax on their tangible property. Of arguably greater impact, since the 1970s, policies like classification differences, which enable the application of different tax rates to different classes of property, and homestead exemptions, which lessen tax bills for resident homeowners, have been used expansively across the U.S. to shift the property tax burden away from resident homeowners, and towards businesses, nonresident homeowners, and renters, posing obstacles to economic development and affordable housing.

The consequences of such policy choices are greater in Rhode Island than in most of the United States because Rhode Island depends more on property tax revenues. At \$2.70 billion, Rhode Island's property tax collections in FY 2021 ranked 14th highest among states for proportion of state and local revenues attributable to property tax and even higher when measured on a per capita basis (ninth), or as a percentage of personal income (seventh). The implications of Rhode Island's reliance on property tax revenues are especially great for its K-12 system, given that 50.1 percent of all K-12 education funding is derived from local governments—compared to a U.S. average of 44.1 percent.

Rhode Island's cities and towns hardly resemble each other in respect to their relative property wealth—presenting a significant challenge to the equitable funding of K-12 schools. The statewide total of gross assessed property value per capita was $163,862 in FY 2022, but nine municipalities had a value of more than $250,000 per capita, while Providence, Pawtucket, and Woonsocket each had per capita values less than $100,000 and Central Falls' value was less than $50,000. The state funding formula for education accounts for the relative property wealth of communities, and has delivered greater state aid to municipalities with low property wealth. Since its establishment in 2012, the funding formula has altered Rhode Island's K-12 revenue mix, reducing local reliance to 50.1 percent of total revenue and increasing state reliance to 40.4 percent of total revenue—a change of about five percentage points. Despite this, school districts in low property wealth municipalities overall still have less to spend per pupil than districts in high property wealth municipalities.

Rhode Island cities and towns are also highly variable in terms of the structure of their property tax systems. This is in part due to the marked difference in property wealth across the state, but is also a consequence of Rhode Island's General Assembly—from which the local authority to levy property tax is derived—having granted a significant degree of leeway to local governments. For instance, there is a state classification plan which places limits on classification differences, but twelve cities and towns applied the same rate across all classes in FY 2024, and 26 have statutory authority to follow an alternative plan. In some cases, such authority enables a municipality to tax one class at an effective rate that is far greater than the threshold in the state plan. In other instances, municipalities are enabled to apply customized definitions to classes of property. One area of relative uniformity in Rhode Island's property tax system is the state's 4.0 percent cap on year-over-year levy growth, which shields taxpayers from sharp property tax bill increases. However, some municipalities have exceeded the cap in recent years without consequences, while others do not include all revenues derived from property in calculating their levy increase for purposes of the cap.

Taxpayers across cities and towns are subject to wide variations in tax burdens in consequence of starkly different levels of property wealth, service needs, and local property tax structures. In FY 2024, differences in the municipal tax burden for Rhode Island resident homeowners with $425,000 in assessed property value (the median price of a single-family home sold in Rhode Island in 2023) ranged by over $7,000—from under $3,000 in four communities to as high as $9,635 in Foster. The disparities were even greater for businesses; differences in the tax burden in FY 2024 for a business with $1.0 million in real estate value and $200,000 in tangible property ranged by nearly $40,000—from under $10,000 in four communities to as high as $45,780 in Providence.

While taxpayers across communities face stark disparities in tax burdens, so too do many taxpayers within the same community. Particularly though not exclusively in urban municipalities with low levels of property wealth, resident homeowners often have a relatively low tax burden while nonresident homeowners and, even more so, businesses, have a relatively high tax burden. Nowhere is this difference more dramatic than in Providence, which has wide classification differences and the state's most generous homestead exemption. In FY 2024, Providence had Rhode Island's highest tax burden for commercial taxpayers, the sixth highest tax burden for nonresident homeowners, and the 33rd highest (or seventh lowest) tax burden for resident homeowners. Such differences can have steep fiscal implications for taxpayers; a five-unit residential dwelling in

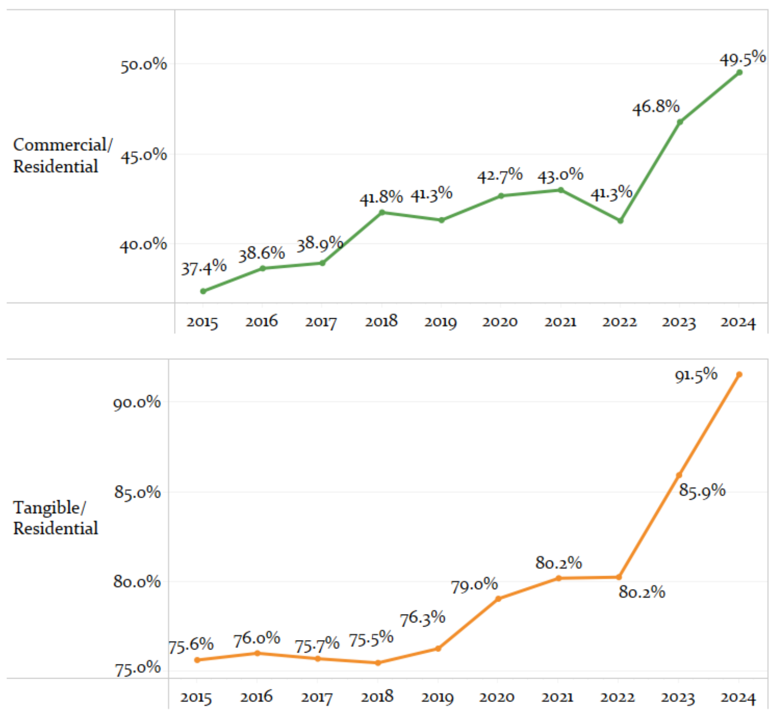
Providence valued at $1.0 million would face a tax bill of $10,280 in FY 2024 if owned by a resident and $18,350 if owned by a non-resident, while a six-unit dwelling also valued at $1.0 million, would be classified as commercial property and would have a tax bill of $35,100—nearly $25,000 greater than the residential homeowner amount. While not entirely atypical of Rhode Island cities, Providence is a national outlier in terms of both its tax burden on businesses and its unequal treatment of taxpayers; a study of the largest city in each state found that, in FY 2023, Providence had the third highest effective tax rate on commercial property and the 42nd highest rate on homestead residential property.

The disparity among the rates applied to different taxpayers has grown substantially in Rhode Island in recent years, and particularly in the last two years—a trend tied to the rapid growth in the value of residential real estate, which increased statewide by $24.76 billion (23.3 percent) between FY 2022 and FY 2024 alone. The statewide effective tax rate for commercial property in FY 2024 was $23.79 per $1,000, 49.5 percent higher than the rate applied to residential property of $14.77 per $1,000—a gap that was 8.2 percentage points greater than in FY 2022. The gap between the effective tangible rate ($37.03) and the residential rate was even greater in FY 2024 (91.5 percent), and had increased by even more since FY 2022 (11.3 percentage points).

R.I. Municipal Effective Property Tax Rate by Class of Property (Per $1K Assessed Value) FY 2024

Source: R.I. Division of Municipal Finance, Assessed Valued and Levies; RIPEC calculations.

Percent Difference in R.I. Municipal Effective Tax Rate Commercial/Residential and Tangible/Residential FY 2015 vs. FY 2024



The reduction to the residential property tax rate relative to commercial or tangible property was greater than the statewide total in 14 cities and towns, and in some cases, it was far greater. For instance, while the effective statewide rates for residential, commercial, and tangible property respectively decreased by 13.9 percent, 6.1 percent, and 1.2 percent between FY 2022 and FY 2024, in the same time frame, Johnston decreased its residential rate by a striking 34.2 percent, while only reducing its commercial rate by 3.2 percent and applying a slight, 0.5 percent increase to its tangible rate. In contrast, 13 cities and towns applied changes evenly across all property classes during this period, and five communities bucked the statewide trend by providing either greater reductions or lesser increases to their commercial and/or tangible property tax rates relative to their residential rates.

A few significant property tax policy developments in the last few years have countered the more prevalent policy trends that have worsened disparities in the system. The 2023 General Assembly alleviated somewhat the disproportionate property tax burden facing businesses by enacting an exemption on the first $50,000 of assessed value and by capping tangible property tax rates at their FY 2024 levels. The state's motor vehicle excise tax was fully phased out as of FY 2024. An expansion of the state circuit breaker program in FY 2023 provided additional property tax relief in the form of a targeted support to low-income seniors and disabled Rhode Islanders; a policy which provides for residential taxpayer relief but, unlike broad-based policies aimed at all homeowners, limits the distortion of Rhode Island's property tax system.

Given its findings, RIPEC makes the following recommendations to state and local policymakers:

- State policymakers should consider reforms to Rhode Island's education funding formula that better respond to large disparities in property wealth among cities and towns.

- The state should maintain and strengthen the 4.0 percent levy cap by ensuring that it applies to all property tax revenues and that state agencies have access to all appropriate measures of enforcement.

- The use of classification differences and homestead exemptions by cities and towns should be minimized.

- State policymakers should consider increasing the tangible personal property exemption, and cities and towns should work to streamline reporting to reduce the administrative burden of the tangible tax.

- Policymakers should consider adopting separate tax rates on apartment buildings to allow for reduced tax rates on these properties.

- Policymakers should consider expanding or adopting more means-tested tax relief programs, especially for the elderly and disabled individuals.

- The state should hold fire districts to the same reporting requirements as cities and towns, and should ensure that state agencies have appropriate measures to enforce requirements.

This report includes several figures which present property taxation trends across municipalities and taxpayer groups. These figures are presented in a data dashboard that allows for users to customize the data and visualizations based on their needs and interests, [here].