RIPEC

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Providence City Council Committee on Finance
City Council Chamber
City Hall, 3rd Floor
25 Dorrance Street
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May 6, 2025

RE: An Ordinance Providing for the Assessment and Collection of 2025 Taxes

Dear Finance Committee Members,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) regarding the proposed ordinance for the assessment and collection of 2025 taxes in the mayor's FY 2026 budget. Per $1,000 of assessed value, the proposed rates are $8.25 for owner-occupied residential property, $14.40 for non-owner-occupied residential property, $22.80 for commercial property, and $53.40 for tangible personal property. The proposal would also create two new property classifications with respect to property previously classified as commercial: residential real estate of 6-10 units (tax rate of $24.50 per $1,000) and residential real estate of 11 or more units (tax rate of $27.75 per $1,000).

The City of Providence is currently burdened with an unbalanced, inefficient, and regressive property tax structure that makes housing less affordable and economic development more difficult.[1] Historically, Providence city councils and mayors have responded to fears that increases in residential property values would result in large tax hikes by slashing tax rates for residential property owners, particularly for resident homeowners. As a result, the tax burden has increasingly been shifted towards the City's businesses, landlords, and renters.[2]

[1] A body of research has demonstrated the wider economic effects of taxpayer inequity: high property taxes negatively affect the affordability of rental markets, housing construction, and business formation and relocation decisions. For instance, see: Jack Goodman, "Houses, Apartments, and Property Tax Incidence," Joint Center for Housing Studies, Harvard University, February 2005; Jennifer Gravelle, "Who Pays Property Taxes? A Look at the Tax Effects of Property Taxes Across the States," 2007; World Economic Forum, "Making Affordable Housing a Reality in Cities," June 2019; Patrick Atwater, et. al., "Does State Tax Policy Discourage Housing Production?," 2020; Daphne A. Kenyon, Adam H. Langley, and Bethany P. Paquin, "Rethinking Property Tax Incentives for Business," Lincoln Institute of Land Policy, 2012.

[2] RIPEC has reported on this shift in several reports on property taxes in Rhode Island, including most recently, *Rhode Island's State and Local Tax Shift*, March 2025.

The cost of protecting resident homeowners from essentially any tax increase has been substantial to the City's other taxpayers. A 2023 analysis of the City's internal auditor found that while the assessed value of the average single-family home had increased by 75 percent since 2018, the average tax bill had fallen by $19 (0.4 percent). The average commercial building, on the other hand, grew in value by only 11 percent but experienced a tax increase of nearly $3,000 (6 percent). More extremely, the average apartment building grew in value by 63 percent and the average tax bill ballooned by over $18,000 (56 percent).[3]

Over time, the result of this tax shift is that the City of Providence now places a very steep tax burden on its businesses. In 2024, a relatively small business with $1 million in real estate and $200,000 in tangible personal property received a tax bill of $43,110. As a recent RIPEC analysis found, this is more than double the median rate for Rhode Island cities and towns ($19,255), and over $4,000 higher than the next highest community (West Warwick, $39,049).[4] Not only high on a statewide basis, Providence businesses shoulder a greater burden than businesses in most other cities nationwide; a recent study of property taxes in the largest city in each state found that, compared to Providence, only two other cities (Chicago and Detroit) levied higher commercial rates.[5]

These extremely high commercial rates present a serious obstacle to growing Providence's economy, discouraging businesses from locating or investing in the city, and reducing the financial viability of commercial development. In consequence, tax relief through tax stabilization agreements has now become essential to enable any significant development. However, TSAs do not solve the problem of excessively high taxes long-term, and they offer no help to existing businesses or to new and small enterprises that are unable to gain a special tax arrangement.

Providence's unbalanced tax structure also makes housing less affordable, particularly for renters. Landlords of residential property had a tax rate in 2024 that was 55% greater than the tax rate for resident homeowners, amounting to several thousands of dollars in additional annual cost on the average home. Faced with these much higher taxes, landlords pass along this burden to renters—who represent over half of the City and who are much more likely to be lower-income and housing-cost burdened than the City's homeowners.[6] Given that apartment buildings have historically been taxed at the even higher commercial rate applied to businesses (over three times higher than the residential rate in 2024), the City's tax structure also has discouraged the development of higher-density housing, contributing to Providence's acute housing shortage and escalating rents.[7]

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[3] City of Providence, Special Commission for Taxation and Revenue, Minutes, September 27, 2023.
[4] RIPEC, *Rhode Island's State and Local Tax Shift*, March 2025.
[5] Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, *50-State Property Tax Comparison Study for Taxes Paid in 2023*, July 2024.
[6] In 2023, an estimated 59% of the City's housing units were renter-occupied. U.S. Census Bureau, American Community Survey, 2023 Five-Year Estimates; RIPEC calculations
[7] Relative to the nation, the residential real estate market in Providence is particularly tight and rents have increased at especially high rates. For example, see: Christopher Gavin, "Among US cities, Providence has fewest homes linger on the real estate market in November, Redfin says," *Boston Globe*, January 3, 2025; Anna Helhoski, "Rent Prices Keep Rising Amid Inflation, Low Inventory," NerdWallet, April 17, 2025.

Considering these issues, RIPEC has recommended that the City take steps to rebalance its property tax structure and better support businesses and residents by:

1) Easing the very high tax burden on commercial taxpayers, and establishing a separate, lower rate for apartment buildings;
2) Reducing the City's overly generous homestead rate; and
3) Providing more targeted relief to homeowners who are on fixed incomes or otherwise struggling to afford a tax increase, including through means-tested tax credits, freezes, and deferrals.[8]

Given the challenging exercise of balancing costs, and that fixing the City's tax structure will require action over many years, the mayor's proposed tax rates for 2025 represent a step in the right direction.

After years of substantial tax bill increases, the average commercial building owner would experience a relatively small, two percent tax reduction under the mayor's plan.[9] This tax reduction is welcome relief given that the City has some of the highest commercial rates among larger cities in the U.S.

The mayor's proposal also represents a significant improvement in terms of how the City's tax structure treats renters. The establishment of two new classes of property currently classified as commercial property (residential property of six to ten units and residential property with more than ten units), and the lower rates proposed to be applied to those properties relative to commercial property, would result in the new class for smaller apartment buildings experiencing on average a tax bill reduction of five percent, and the new class for larger apartment buildings seeing a minimal average tax bill increase of one percent. This tax relief is also much needed—apartment buildings have experienced some of the steepest increases in property values in the last several years and have been particularly hard hit by the City's very high commercial tax rates. In consequence, the mayor's proposal is an essential step to take if the City is serious about moderating rent increases in the short-term and more broadly reducing housing costs in the long-term through increased housing supply.

While not narrowing the gap between owner-occupied and non-owner-occupied properties, the mayor's proposal would raise the taxes of these two groups in a similar proportion (four percent average increase for owner-occupied single-unit properties, five percent increase for non-owner-occupied single-unit properties). Both owner-occupied and non-owner-occupied properties of two-five units would see more substantial increases (an average of 16 percent) under the mayor's proposed tax plan, but these properties have historically not faced as steep increases as properties with six or more units under the commercial classification.

For these reasons, I encourage the Committee to support the mayor's proposed property tax rates for 2025.

[8] Michael DiBiase and Justine Oliva, "Can Providence more fairly balance property taxes among resident homeowners, businesses, landlords, and renters?," *Boston Globe*, April 8, 2025.
[9] The tax rate for tangible personal property, paid by businesses, is maintained at its 2024 level in the mayor's plan.

Sincerely,

Michael DiBiase
President & CEO
Rhode Island Public Expenditure Council

RIPEC is a nonpartisan and nonprofit public policy research organization dedicated to providing objective research and analysis that addresses the critical challenges surrounding public finance and economic opportunity in Rhode Island.