RIPEC

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The Honorable Stephen Casey
Chair, House Committee on Municipal Government & Housing
Room 101
Rhode Island State House
Providence, RI 02903

June 10, 2025

RE: House Bill 6394 — Relating to Taxation — Levy and Assessment of Local Taxes

Dear Chair Casey,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in opposition to House Bill 6394 — Relating to Taxation — Levy and Assessment of Local Taxes, which would exacerbate the serious problems Providence faces in terms of its property tax structure.

House Bill 6394 would revise the property tax classification code for the City of Providence in several ways, including through the establishment of two different classes of commercial property, remaking the current Class 2 commercial real estate into Class 2A and Class 2B, which would be "defined by the Providence tax assessor on an annual basis." This legislation would also enable Class 2B property to be taxed at up to 1.5 times the rate applied to Class 2A property, which itself may be taxed at up to 3.5 times the effective rate of Class 1A property (single-unit residential property). Consequently, it would authorize Providence to tax Class 2B property at a rate up to more than five times the rate of Class 1A property.

The City of Providence is already 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

[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.

would result in large tax hikes by slashing tax rates for residential property owners. As a result, the tax burden has increasingly been shifted towards the City's businesses as well as its landlords and renters.[2]

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).[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. In comparison, neighboring Boston levied the 27th highest rate.[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.

By creating a new commercial property class and allowing for an even larger tax differential than currently enabled in Providence, which is already the largest in the state, this legislation would make Providence even more of an outlier and render it much more difficult to retain or attract businesses, even given availability of the City's TSA program.

In addition, it is problematic that House Bill 6394 fails to clearly define what constitutes Class 2A and Class 2B property. Leaving this determination to the assessor implies that no workable definitions have been established for the commercial properties which the legislation seeks to tax at an even higher rate than the already burdensome commercial rate. Additionally, granting the assessor the authority to redefine these classifications annually introduces the risk of instability, as properties could shift between categories from year to year. Furthermore, this lack of a clear definition for a class of property is unprecedented in Rhode Island property tax law and could set a troubling precedent. If enacted, the legislation may

[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.
[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.

encourage municipalities to request broader authority from the General Assembly to redefine property classes locally, undermining consistency and fairness in the state's property tax system and leading to greater volatility over time.

For these reasons, I respectfully urge the committee to reject House Bill 6394.

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.