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Property Taxation Across Rhode Island and the Impact of Tax Exempt Properties

MARCH 14, 2022



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Tax Exempt Properties and PILOT Programs



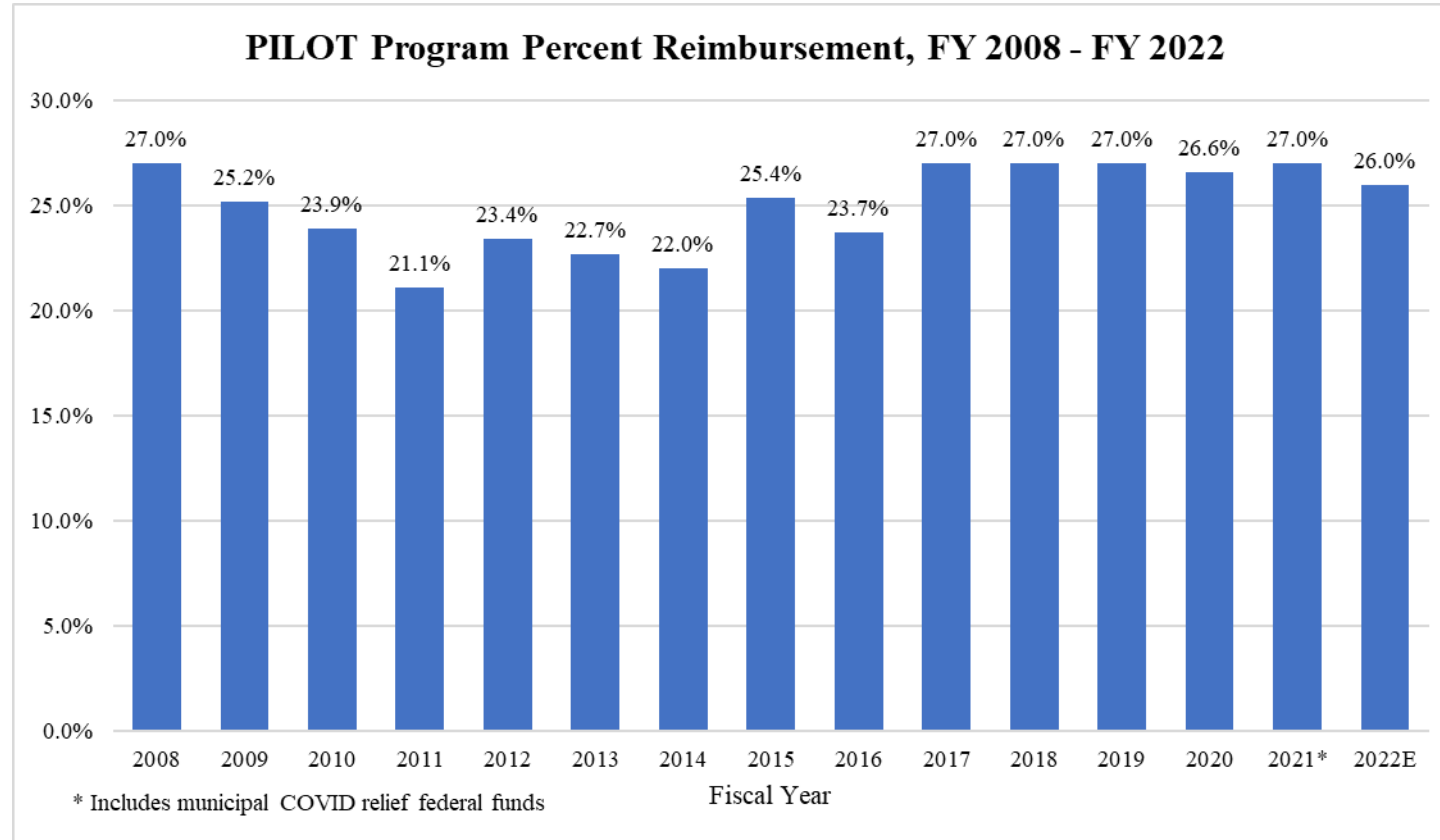
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Timeline of Rhode Island Payment in Lieu of Taxes (PILOT) Program

- **1986:** Program established by General Assembly to distribute state aid to cities and towns with property owned by nonprofit education institutions and private hospitals
- **1987:** Eligible institutions expanded to include state-owned hospitals, correctional facilities, veterans' residential facilities
- **1997:** Reimbursement rate increased from 25% to 27% (effective FY98)
- **2002:** Enabled ratable reduction in payments
- **2019:** Governor Raimondo proposed in FY20 budget to 1) provide cities and towns with option to levy tax on non-mission property of non-profit hospitals and universities, and 2) decrease state PILOT payment; proposal not adopted by General Assembly



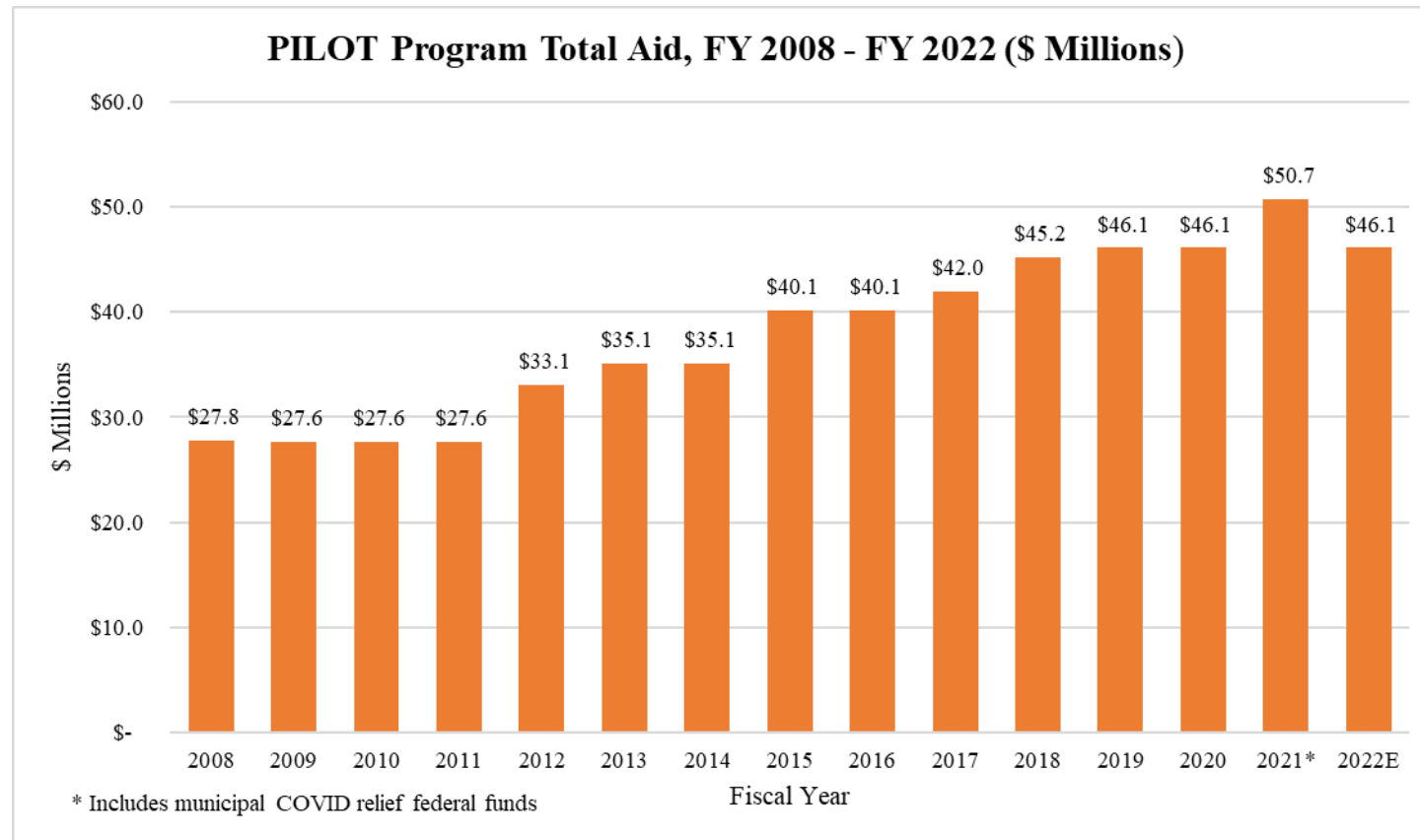
R.I. PILOT Program Reimbursement Trend





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R.I. PILOT Program Total Aid





R.I. PILOT Program in FY 2022

- In FY22, \$46.1M distributed to 15 cities and towns
 - Significant portion of state aid to local governments
 - 23% of total state aid exclusive of education aid
- Providence is the primary beneficiary
 - Received \$34.0M (73.8% of total)
 - Cranston received \$4.8M (10.4%)
 - All other cities and towns received 3.5% or less

	Payment	% of Total
Providence	\$ 34,027,865	73.8%
Cranston	4,778,876	10.4%
Newport	1,601,050	3.5%
Warwick	1,528,261	3.3%
Bristol	1,327,172	2.9%
Smithfield	860,981	1.9%
East Greenwich	729,131	1.6%
Woonsocket	461,334	1.0%
East Providence	260,127	0.6%
South Kingstown	209,069	0.5%
Westerly	185,126	0.4%
Burrillville	98,835	0.2%
Barrington	17,094	0.0%
Partucket	3,501	0.0%
North Kingstown	1,080	0.0%
Total	\$ 46,089,504	



Voluntary PILOT Agreements

- Municipalities may also reach independent PILOT agreements with nonprofits and quasi-public agencies
 - Voluntary agreements do not impact state PILOT aid
- Providence has voluntary agreements with nonprofit higher education institutions and hospitals
 - **2003**: Brown, PC, JWU, and RISD agreed to voluntary payments of collective \$48M over 20 years
 - **2011**: Higher ed. institutions agreed to additional amounts and Lifespan, CharterCARE, and Care New England agreed to annual payments
- Providence received \$7.6M from voluntary agreements in FY22
 - Combined with state PILOT payment of \$34.0M, covers a little under 1/3rd of revenue that could be collected at commercial rate if nonprofits were taxable (\$131.0M)
 - Combined with state PILOT aid, about 8% of Providence FY22 budget



PILOT Programs in Other States

- As of 2010, Connecticut was the only state besides Rhode Island with a PILOT program that reimbursed municipalities for land owned by private colleges and hospitals
 - CT also reimburses for state-owned property, Indian reservation land, and municipally-owned airports
 - When fully funded, CT reimburses for 45% of potential tax revenues from state-owned property, reservation land, and airports, and 77% for colleges and hospitals
 - \$201.7M in FY21
- Many states make PILOT payments to cities and towns for real property tax losses on state-owned land
 - Massachusetts distributed \$35M in FY22 as enacted to municipalities for state-owned real property



Voluntary PILOT Agreements in Other States

- In 2012, 200+ local communities in 28 states had private PILOT agreements in place
 - Over 75% of PILOT activity in Northeast
 - Over 2/3rd PILOT revenue from higher ed., about 1/4th from hospitals
- R.I. is not alone reassessing of PILOT agreements in 2021-2022
 - Yale agreed to increase voluntary payments to New Haven – \$52M over 6 years
 - Boston launched task force to review voluntary payments

5 U.S. Cities That Receive the Most in Private PILOT Agreements, 2015-2016

City	Year	PILOT Revenue	
		Total (\$ Millions)	% of General Revenue
Boston, MA	2015	\$ 27.9	0.84%
New Haven, CT	2015	\$ 10.9	1.49%
Providence, RI	2016	\$ 8.2	0.94%
Cambridge, MA	2015	\$ 6.9	0.64%
Princeton, NJ	2015	\$ 3.6	5.93%



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Property Taxation Across Rhode Island



Property Tax Reliance

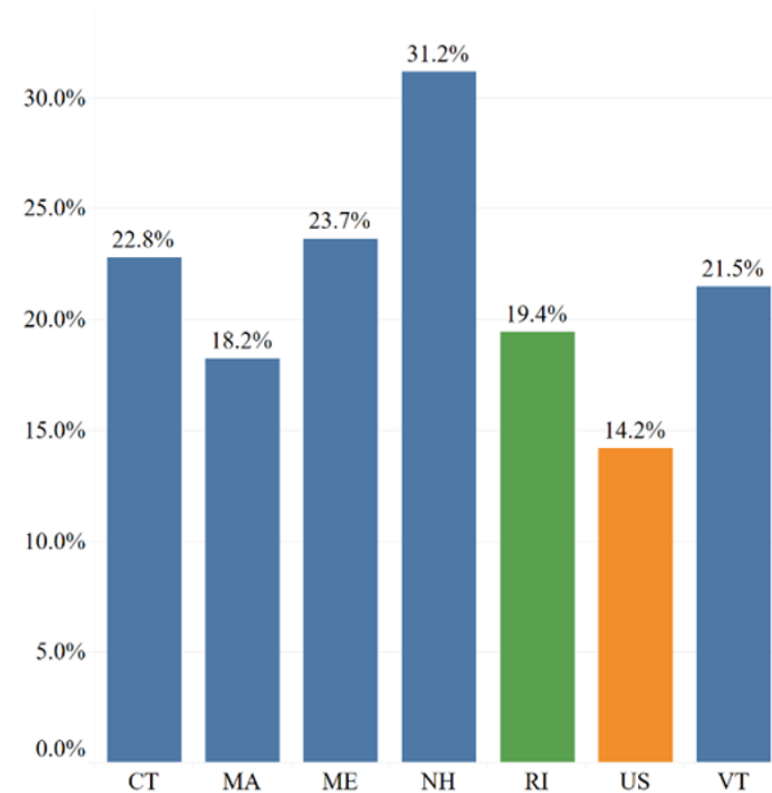
- Property taxation was primary source of U.S. revenue into 20th century
 - Federal and state governments began relying more heavily on income and sales tax
- Property tax remains single largest source of local revenues in U.S.
 - 27% of all local revenue in U.S. in FY19
- There are key positive elements to local reliance on property tax
 - Greater revenue stability and more transparent and efficient than income or sales tax
- But wide variance in property wealth between communities can create inequity in K-12 systems



RI Property Tax Reliance

- Hard to compare across states because administered locally
- But R.I. generally has greater reliance than states overall but typical/somewhat low reliance for New England

Property Tax as a Percentage of State & Local Revenues, FY 2019

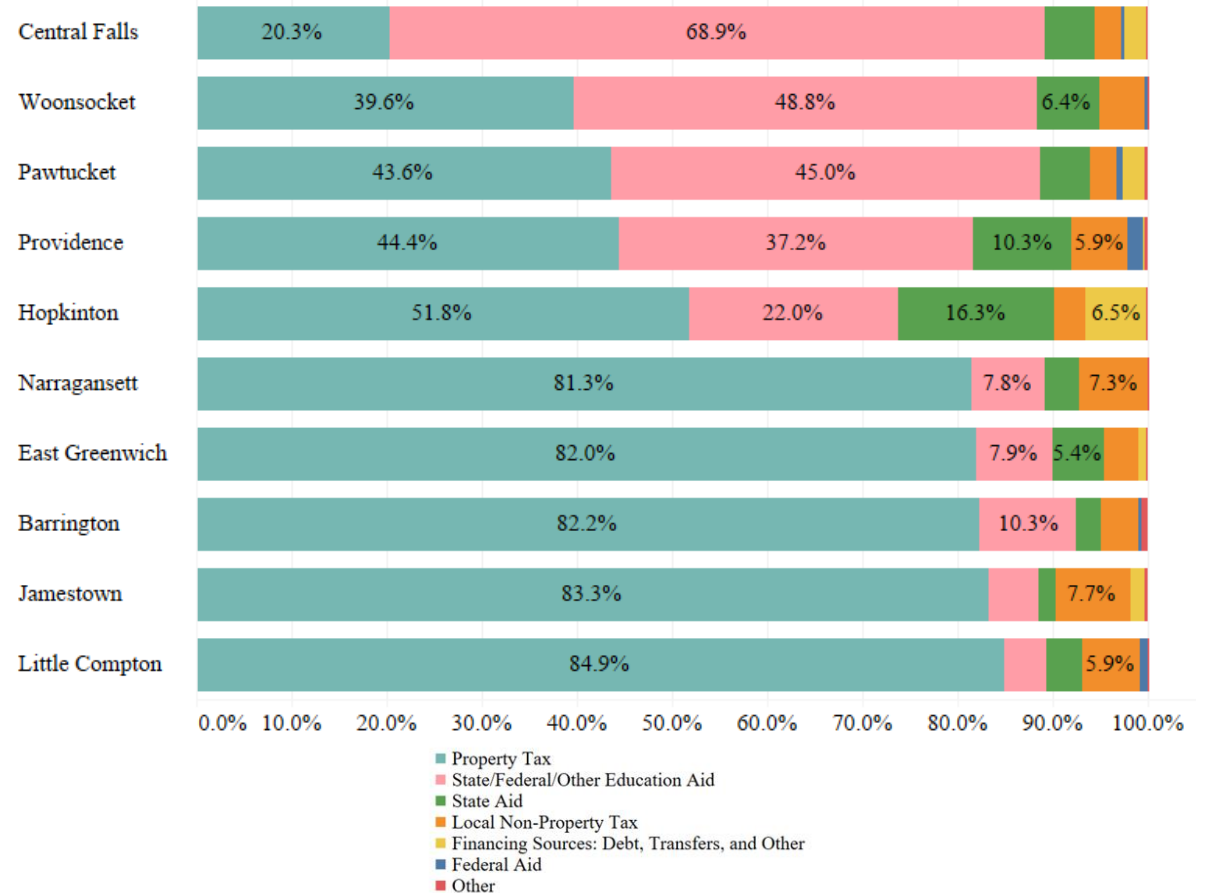




Municipal Property Tax Reliance

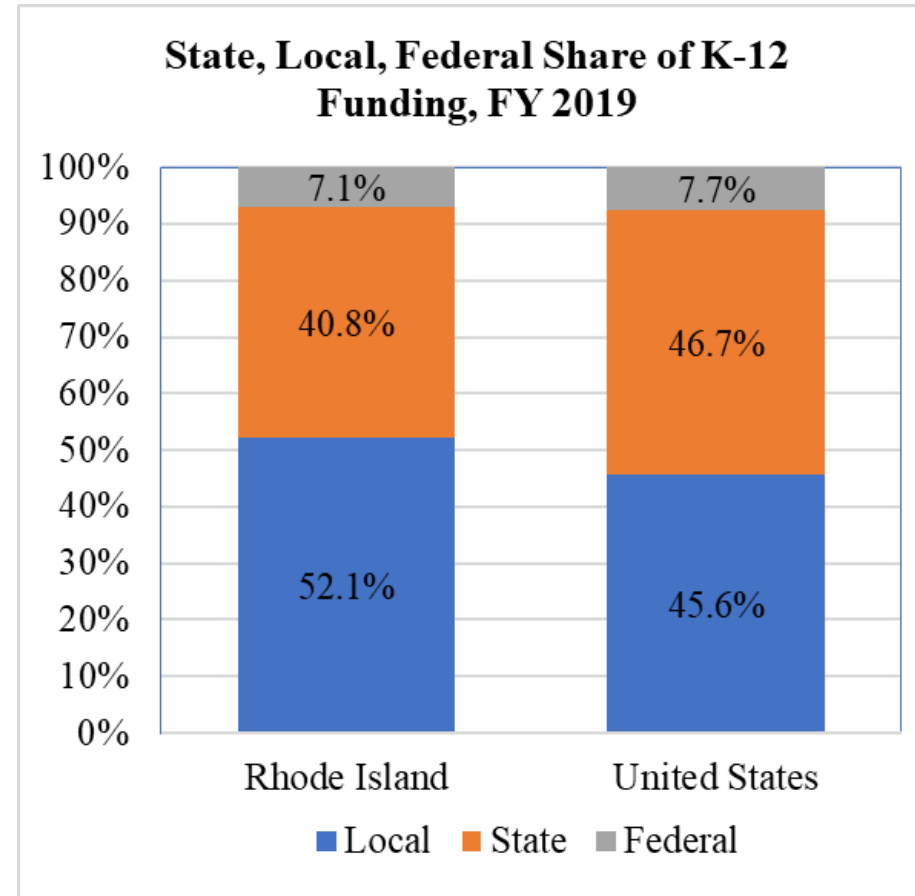
- In R.I., property tax is by far the largest source of local revenue
 - 60.4% of all local revenues
 - 2nd largest revenue source is state/federal/other education aid
- Property tax revenues are over 75% of revenues in 9 cities and towns
- Under 50% in Central Falls, Woonsocket, Pawtucket, Providence

Cities and Towns with Five Highest and Lowest Reliance on Property Tax, FY 2019



Property Tax Reliance and K-12 Funding

- Property tax revenue important to K-12 education funding in R.I.
- Diversity in spending across cities and towns but most expenditures go towards K-12
- R.I. has a relatively high reliance on local share of K-12 funding

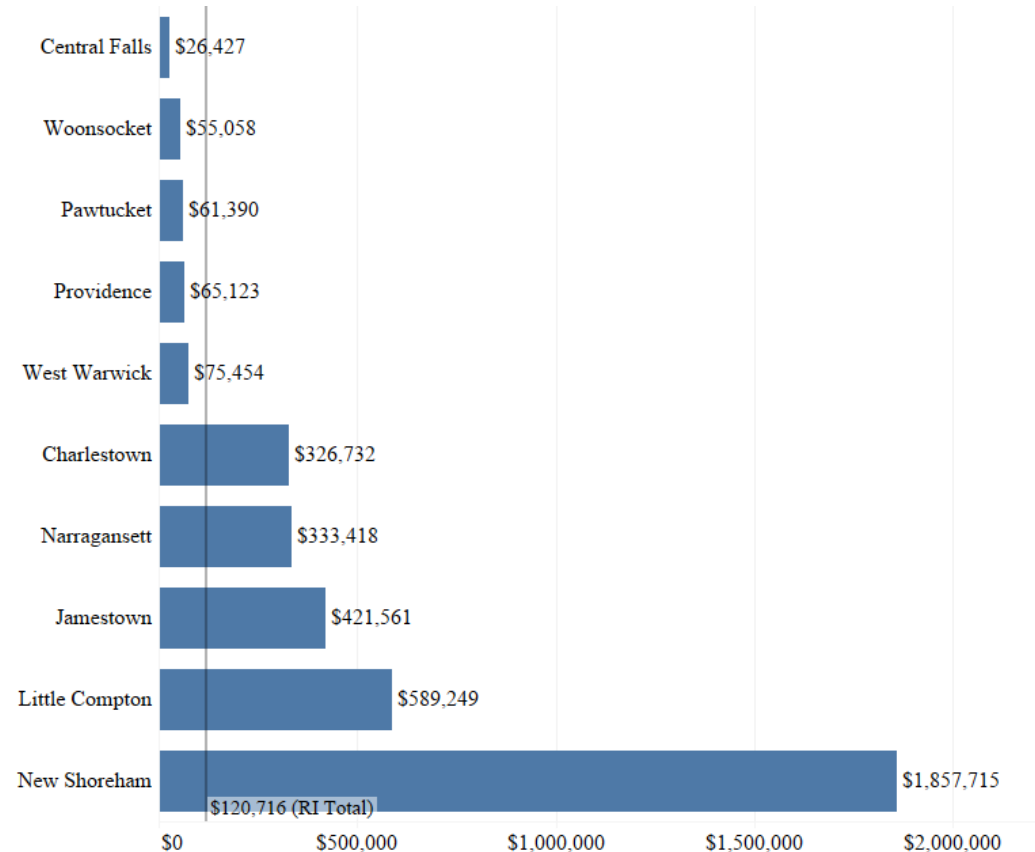




Gross Assessed Value Per Capita

- R.I. per capita gross assessed value was about \$120K in FY19 but wide variance across the state
- 7 exceeded \$250K
- 4 with least property wealth same 4 with under 50% of revenue from property tax

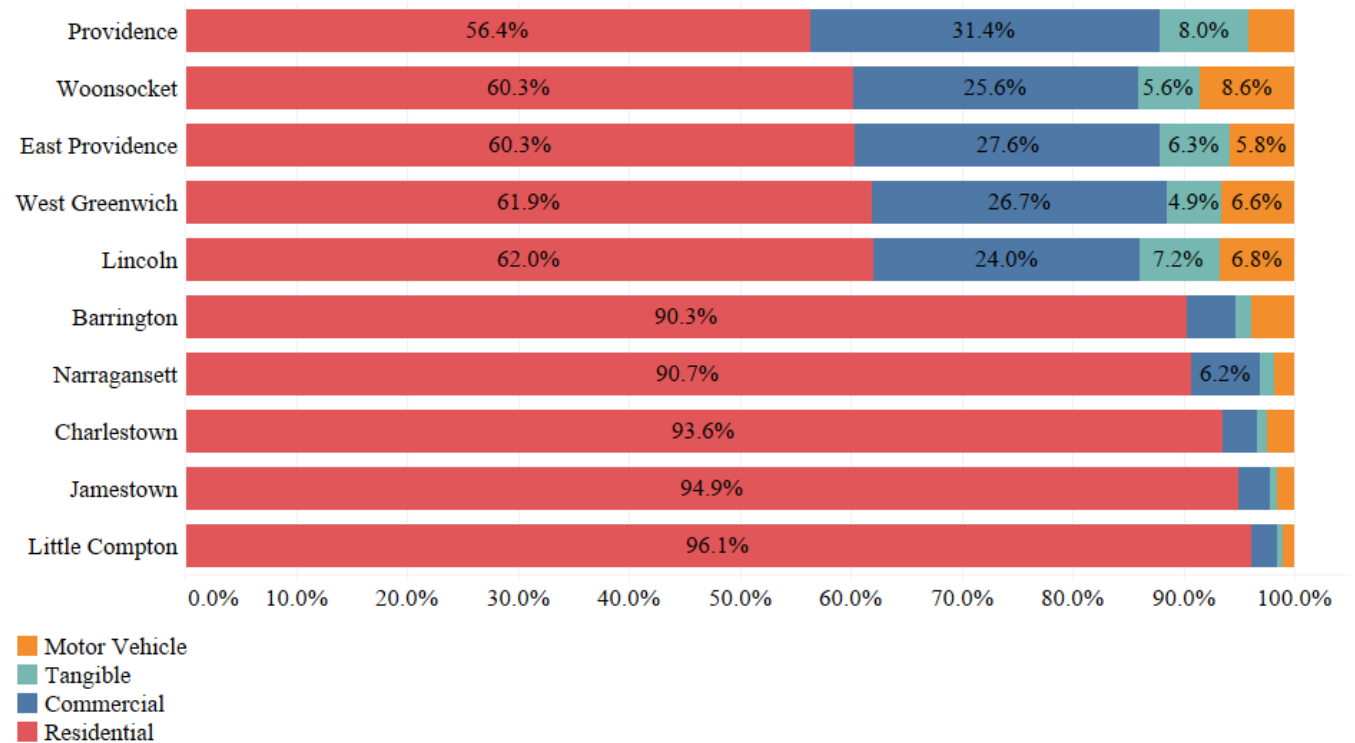
Cities and Towns with Five Highest and Lowest Gross Property Tax Assessment, FY 2019



Net Assessed Value by Class of Property

- Residential real estate comprises most of the tax base in every city and town
- Providence least reliant on residential property in R.I. (56.4%)
- Low housing prices are consequently the best indicator of low assessed value per capita

Cities and Towns with Five Highest and Lowest Residential Property as % of Total Assessed Value, FY 2022





Historical Context: A Shifting Property Tax Base

- As the post-WWII economy in both U.S. and R.I. shifted from a manufacturing to a service-based economy, for-profit businesses had less need for large amounts of commercial real estate and tangible personal property
- An increasing portion of the property tax base shifted to residential property
- In attempt to shift the tax burden back to businesses, more governments began enacting policies like classification ratios from the 1970s onward



Property Tax Rates 1/2

- Commercial taxed at higher rate than residential in 19 cities and towns
- Tangible higher than residential in 23 municipalities and higher than commercial in 19
- Often much higher

Property Tax Rates for Barrington – Narragansett, FY 2022

	Residential	Commercial	Tangible
Barrington	\$19.15	\$19.15	\$19.15
Bristol	\$14.38	\$14.38	\$14.38
Burrillville	\$16.42	\$16.42	\$16.42
Central Falls	\$23.76	\$42.33	\$56.47
Charlestown	\$8.18	\$8.18	\$8.18
Coventry	\$19.40	\$23.39	\$19.40
Cranston	\$18.00	\$27.00	\$27.00
Cumberland	\$14.74	\$14.74	\$29.45
East Greenwich	\$21.01	\$23.25	\$30.23
East Providence	\$21.50	\$26.45	\$55.41
Exeter	\$13.72	\$13.72	\$13.72
Foster	\$21.34	\$21.34	\$29.36
Glocester	\$18.44	\$22.13	\$36.88
Hopkinton	\$18.53	\$18.53	\$18.53
Jamestown	\$8.28	\$8.28	\$8.28
Johnston	\$23.24	\$28.34	\$64.34
Lincoln	\$20.29	\$25.21	\$32.01
Little Compton	\$6.04	\$6.04	\$12.08
Middletown	\$12.02	\$17.23	\$17.23
Narragansett	\$8.86	\$11.96	\$11.96



Property Tax Rates 2/2

- 15 tax at the same rate across each class
- Tend to have higher property tax wealth
- Low rates correlates to high property wealth and high rates to low property wealth

Property Tax Rates for New Shoreham - Woonsocket, FY 2022

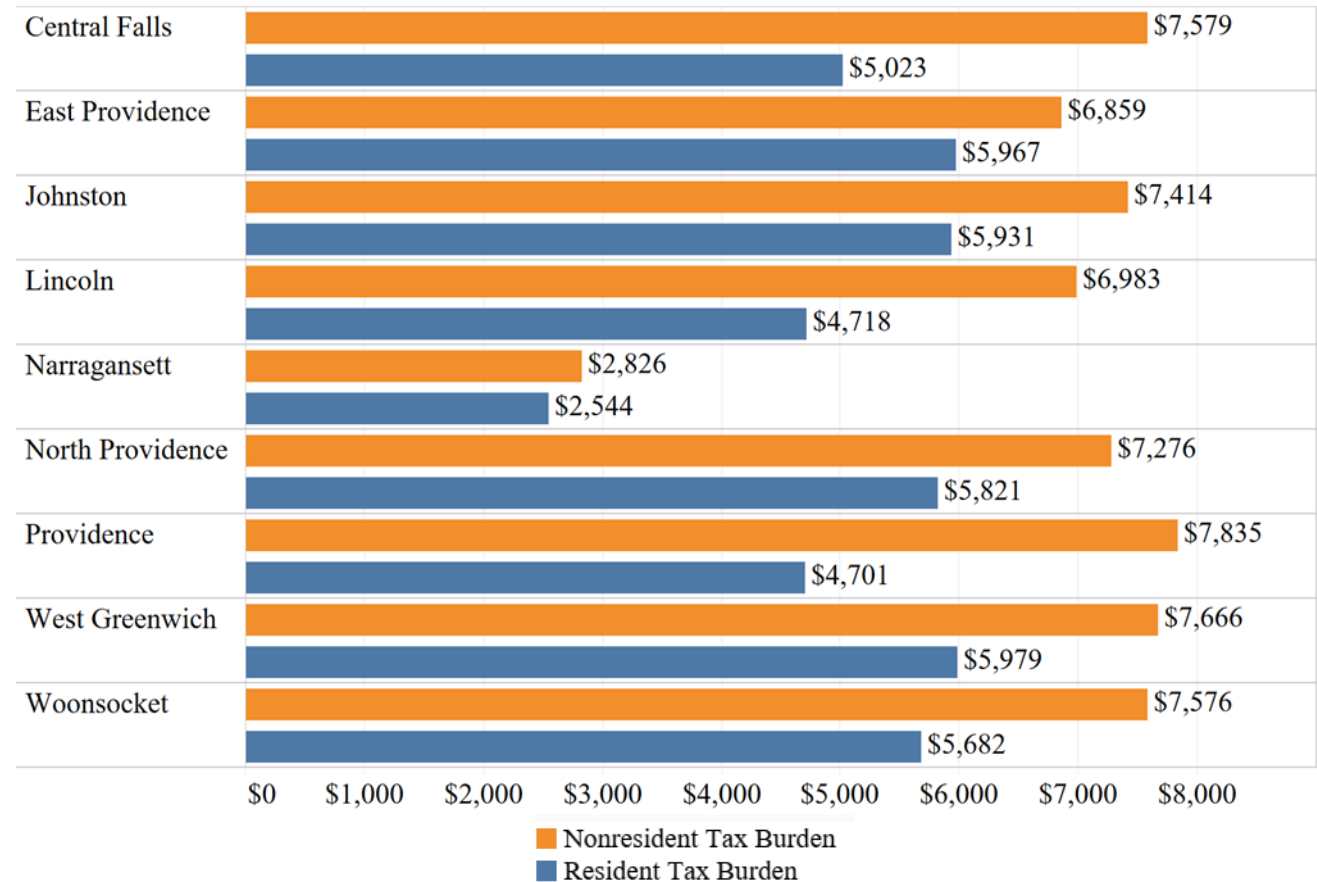
	Residential	Commercial	Tangible
New Shoreham	\$6.70	\$6.70	\$6.70
Newport	\$9.33	\$13.99	\$13.99
North Kingstown	\$17.50	\$17.50	\$17.50
North Providence	\$22.81	\$29.55	\$64.78
North Smithfield	\$16.35	\$19.44	\$43.69
Pawtucket	\$16.58	\$29.02	\$52.09
Portsmouth	\$15.31	\$15.31	\$15.31
Providence	\$24.56	\$36.70	\$55.80
Richmond	\$20.62	\$20.62	\$20.62
Scituate	\$18.69	\$23.19	\$39.81
Smithfield	\$17.13	\$18.70	\$59.74
South Kingstown	\$14.45	\$14.45	\$14.45
Tiverton	\$14.27	\$14.27	\$14.27
Warren	\$17.72	\$17.72	\$17.72
Warwick	\$18.73	\$28.10	\$37.46
West Greenwich	\$24.03	\$24.03	\$34.12
West Warwick	\$23.00	\$32.43	\$45.72
Westerly	\$11.52	\$11.52	\$11.52
Woonsocket	\$23.75	\$34.75	\$46.58



Homestead Exemptions

- 9 R.I. cities and towns have homestead exemptions
- 2 more coming into effect next year
- Providence has R.I.'s most generous homestead exemption
 - Nonresident tax burden highest in state, resident tax burden 30th
- Even bigger difference for apartment buildings (>5 units) when commercial taxed at a higher rate

Resident vs. Nonresident Homeowner Tax Burden for a Home Valued at 319K, FY 2022



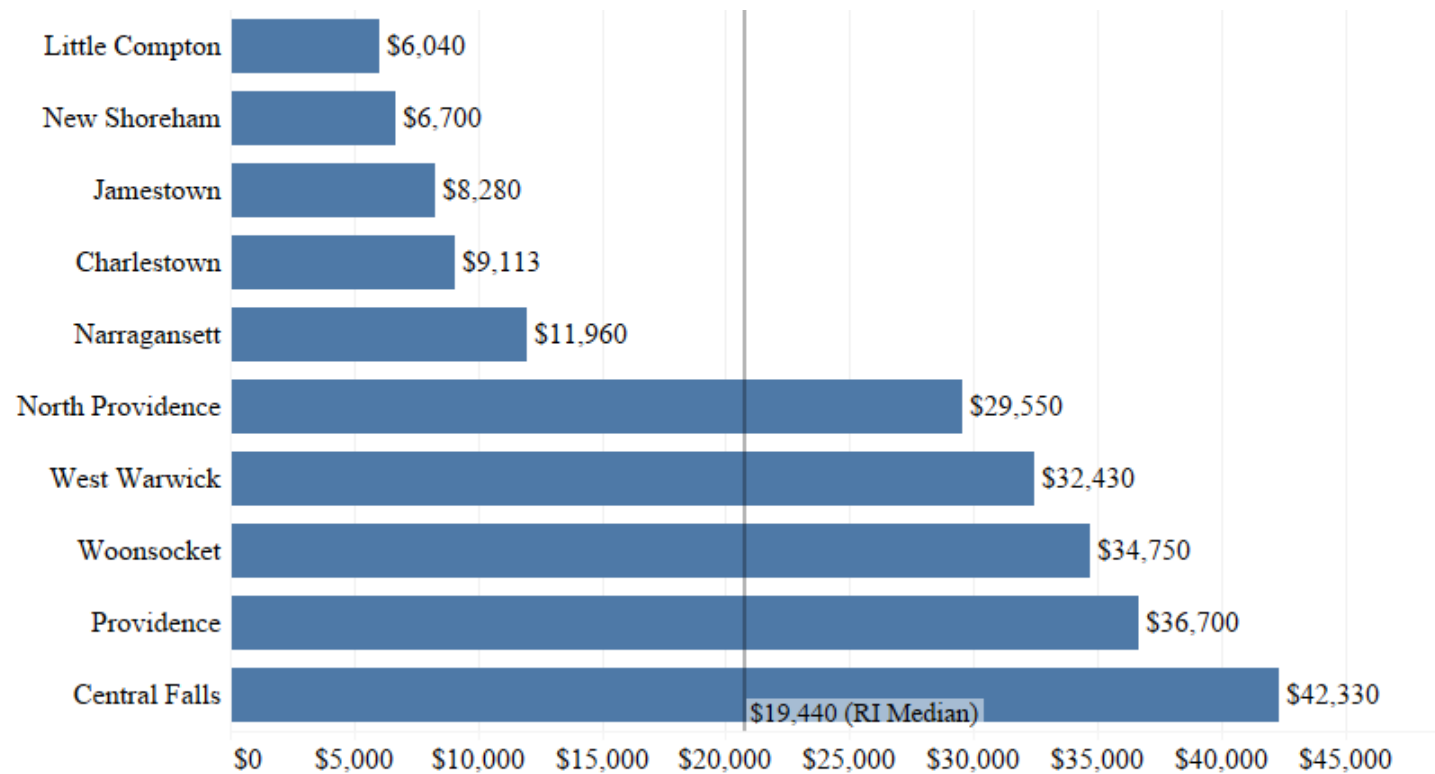


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Business Tax Burden, FY 2022 ($\$1\text{M}$ Real Value, $\$200\text{K}$ Tangible)

- R.I. median $\$19,440$ but wide variance across the state
- Providence's business tax burden of $\$36,700$ is 2nd highest in RI and nearly 2x RI median

Cities and Towns with Five Highest and Lowest Business Tax Burden, FY 2022





Business Property Tax Incentives

- Product of high burden and need to attract businesses and develop property
- TSAs are R.I.'s most common business property tax incentive
- Municipalities may exempt all or a portion of commercial property value up to 20 years if shown to promote economic development
- Has a significant impact on Providence tax roll
- # of Providence TSAs have grown from 36 in 2012 to 134 in 2021
 - Exempt property value nearly doubled

Providence TSA Exemptions, FY 2021 (\$ Millions)

# of TSAs	134
Assessed Value on TSA Property	\$821.2
Exempt Value on TSA Property	\$467.0
% TSA Assessed Value Exempt	56.9%
Levy on TSA Property if Full Value Taxed	\$30.1
Actual Levy on TSA Property	\$13.0
\$ Levy Exempt (at \$36.70/\$1,000)	\$17.1



Limits on Local Governments

- R.I. General Assembly grants cities and towns substantial flexibility in determining the structure of property tax systems, but there are limits
- Annual levy increases capped at 4%
 - With some exceptions tied to revenue loss or expenditure need and requiring certification from the state and a vote in favor from 4/5ths city or town's governing body
- Assessment occurs at municipal level but must happen at fair market value and on a fixed schedule
 - Full revaluation every 9 years, statistical revaluations every 3rd and 6th year after full revaluation



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RIPEC Comments



Comments 1/2

- Both state PILOT program and voluntary PILOT payments are an important component of Providence's budget
- Providence has significant deficit of taxable property wealth as compared to R.I. overall
- Providence's resident homeowner tax burden is relatively low compared to other R.I. communities
- To accomplish low resident homeowner tax burden with relatively low property values, Providence shifts more burden onto businesses and renters
 - Raises equity issues and hinders affordable housing and economic development
 - The city relies on TSAs to attract business and develop property, which increases the tax base over time but is unfair to small businesses and removes value from present-day tax roll



Comments 2/2

- The problem of low property wealth is not exclusive to Providence
- Cities without any significant nonprofit presence also have low property wealth, high tax rates, and inequitable tax systems
 - The primary issue is low residential property values combined high reliance on property tax to fund K-12
- PILOT is important to Providence but does not get at wider issues facing state's urban core
- R.I. should consider ways of improving property tax system across the state
 - Particularly by addressing inequitable K-12 funding through reform of funding formula