



State Fiscal Note for Bill Number: 2023-H-5800

Date of State Budget Office Approval: Wednesday, May 10, 2023

Date Requested: Monday, April 17, 2023

Date Due: Thursday, April 27, 2023

Impact on Expenditures		Impact on Revenues
FY 2023	\$0	FY 2023 N/A
FY 2024	Indeterminate	FY 2024 N/A
FY 2025	Indeterminate	FY 2025 N/A

Explanation by State Budget Office: This bill would phase in a statewide tangible property tax exemption and would establish a state program to fully reimburse municipalities and fire districts for the foregone tax revenue. The exemption threshold would be \$5,000 for the tax year ending on December 31, 2023, \$20,000 for the tax year ending on December 31, 2024, \$50,000 for the tax year ending on December 31, 2025, \$100,000 for the tax year ending on December 31, 2026, and \$250,000 for the tax year ending on December 31, 2027. Municipalities and fire districts would be reimbursed by the state for the amount of foregone tax revenues in FY 2024 through FY 2028. Beginning in FY 2029 municipalities and fire districts would be reimbursed at the FY 2028 amount.

Uniformly applied exemptions established by municipalities and fire districts as of the effective date of the law would be disregarded for the purpose of reimbursement, such that the reimbursement amount would include the revenue loss resulting from such pre-existing exemptions. Tangible personal property tax rates would be capped at the rate in effect in the tax year ending December 31, 2022. Municipalities and fire districts would be required to submit tangible property levy information to the Department of Revenue in FY 2024 through FY 2028.

Comments on Sources of Funds:

Reimbursements to municipalities and fire districts would be made from general revenues.

Summary of Facts and Assumptions:

A rough estimate of the impact based on Division of Municipal Finance (DMF) calculations would be \$5,271,672 in FY 2024, \$14,679,977 in FY 2025, \$25,511,157 in FY 2026, \$36,352,348 in FY 2027, and \$54,128,496 in FY 2028 and beyond. However, there are a number of caveats.

This estimate is based on a DMF analysis of municipal tax rolls and uses assessment data for the tax year ending on December 31, 2020. (Data for the tax year ending on December 31, 2023, will not be available until August 15, 2024.) DMF reduced the gross assessment for each individual account in every municipality by the exemption amount.

The estimate does not include fire districts because DMF does not have sufficient data. The total amount of tangible levy generated by the approximately 24 applicable fire districts is about \$1.7 million, based on assessments for the tax year ending December 31, 2020.

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The bill appears to inadvertently sunset the exemption because it sets the exemption at \$250,000 for the tax year ending on December 31, 2027, but makes no reference to subsequent tax years while also seemingly requiring the state to fund locals at the same level as was reimbursed by the state in FY2028 in perpetuity.

The bill's exemption tax years and reimbursement fiscal years are misaligned. The first date of exemption to be applied by the municipalities and fire districts is for the tax year ending December 31, 2023, while the first reimbursement occurs in the state's FY 2024. However, for most municipalities the 12-31-23 assessments will be applicable to their FY 2025 budgets. Furthermore, DMF will not receive assessment data from municipalities for the 12-31-23 assessments until August 15, 2024, and therefore would only be able to propose budget amounts for the state's FY 2026 unless the funding were applied to the current budget year, which would be FY 2025. This would require estimating the amount in the FY 2025 enacted budget and correcting it in the FY 2025 revised budget. It is not possible under any circumstance to reimburse municipalities and fire districts in FY 2024 for forgone tax revenue in the tax year ending December 31, 2023.

Although the intent of the bill seems to be that the value of tangible property would be exempt up to the threshold amounts and that tangible property valued at more than the threshold amounts would only be taxed on the value above the threshold amounts the bill does not clearly state that and could be subject to differing interpretations by municipalities and fire districts.

Furthermore, the intent of the bill appears to be that municipalities and fire districts be reimbursed for foregone tax revenue as a result of the exemption, but the bill does not specify any methodology to accomplish this.

The bill does not distinguish among tangible personal property that is not exempt from taxation, which would seem to include public service corporation tangible property subject to taxation pursuant to R.I.G.L. § 44-13-13, renewable energy resources and associated equipment subject to taxation pursuant to R.I.G.L. § 44-5-3(c), unregistered motor vehicles, and mobile homes taxed as tangible. The provision that exemptions must be applied as of the effective date of the law is somewhat ambiguous, as it does not address exemptions that are not in effect for the current tax year but that have been approved by municipal ordinance to take effect for the following tax year.

The bill does not specify an application process for taxpayers, whether taxpayers would be required to report as they currently do and upon application to a municipality or fire district the exemption would then be applied by the local or if a simple attestation by the taxpayer be acceptable. Application through attestation does create potential reimbursement issues.

Although the legislation places a cap on local tangible tax rates it does not address any potential issues arising from local property tax classification.

The bill does not establish a required reporting date or a distribution schedule for reimbursement to municipalities and fire districts. Although municipalities are

*Summary of Fiscal
Impact:*

already required to submit certification data by August 15 of each year, fire districts are required to submit this information not less than 30 business days prior to their annual meetings, the dates of which vary among fire districts.

A rough estimate of the impact would be \$5.3 million in FY 2024 and \$14.7 million in FY 2025, but the issues listed above make it impossible to determine the true impact.

Budget Office Signature:



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Fiscal Advisor Signature:



12/31/2020 Exemption Amount		\$ 5,000,000	\$ 10,000,000	\$ 20,000,000	\$ 50,000,000	\$ 100,000,000	\$ 175,000,000	\$ 250,000,000	\$ 1,000,000,000
Tangible Tax rate	Number of Taxpayers Exempted								
Barrington	\$ 19.15	537	279	36,664	432	80,954	480	123,909	500
^Bristol (\$10,000)	\$ 14.38	696	272	38,536	475	101,748	599	160,655	652
Burrillville	\$ 16.42	316	135	19,250	226	50,345	271	81,666	287
Central Falls	\$ 56.47	421	187	89,411	313	221,614	371	347,340	395
^Charlestown (\$5,000)	\$ 8.18	271	158	6,553	222	15,160	247	23,156	251
Coventry	\$ 19.40	870	363	63,358	588	170,232	725	287,830	785
^Cranston (\$5,000)	\$ 27.00	2,592	746	296,679	1,516	845,392	1,970	1,496,217	2,198
Cumberland	\$ 29.45	917	355	110,656	592	294,925	705	521,248	773
^East Greenwich (\$2,500)	\$ 30.23	618	212	73,342	375	212,817	477	379,417	516
^East Providence (\$5,000)	\$ 55.41	1,008	-	279,266	437	881,076	660	1,602,590	784
Easter	\$ 13.72	257	90	13,789	152	39,991	188	74,149	224
Foster	\$ 29.36	371	209	37,135	323	72,228	352	97,303	357
Glocester	\$ 36.88	526	208	72,837	407	169,155	472	241,379	487
Hopkinton	\$ 18.53	293	56,650	544	137,663	672	204,439	713	265,501
Jamestown	\$ 8.28	235	91	6,627	167	16,667	191	25,988	200
Johnston	\$ 64.34	1,526	621	370,610	1,080	963,368	1,273	1,606,186	1,361
Lincoln	\$ 32.01	1,133	450	137,528	740	377,739	889	668,199	969
Little Compton	\$ 12.08	290	119	4,652	180	28,450	208	61,939	216
Middletown (\$15,000)	\$ 17.23	430	35	34,717	87	133,567	224	269,350	289
Narragansett (\$35,000)	\$ 11.96	137	11	7,748	19	29,365	40	68,757	82
New Shoreham	\$ 6.70	203	113	4,263	166	9,749	178	15,730	191
Newport	\$ 13.99	1,815	1,012	84,919	1,440	198,878	1,611	309,335	1,684
North Kingstown	\$ 17.50	1,264	434	87,090	859	231,796	1,010	396,467	1,111
North Providence	\$ 64.78	383	927	231,195	641	599,032	794	970,173	849
North Smithfield	\$ 43.69	551	226	90,871	362	248,008	432	439,438	472
Pawtucket	\$ 52.09	1,594	664	316,659	1,163	787,910	1,360	1,265,360	1,452
Portsmouth	\$ 15.31	785	314	45,760	531	122,409	641	209,866	700
^Providence (\$10,000)	\$ 55.80	4,768	1,273	1,138,579	2,699	3,352,354	3,499	6,010,215	4,012
Richmond	\$ 20.62	401	145	32,448	277	86,744	348	132,020	365
Slatte	\$ 39.81	308	148	42,460	228	106,738	275	169,556	289
Smithfield	\$ 59.74	1,045	418	237,790	663	666,933	807	1,196,593	897
South Kingstown	\$ 14.45	1,305	475	75,788	896	203,191	1,095	325,769	1,176
^Tiverton	\$ 14.27	653	227	38,409	423	103,618	527	179,413	583
Warren	\$ 17.72	594	258	38,116	409	103,491	498	173,096	541
Watwick	\$ 37.46	3,480	967	53,960	1,909	1,667,663	2,513	3,075,395	4,479,284
^West Greenwich (\$3,000)	\$ 34.12	238	72	33,803	147	93,777	184	163,299	200
West Warwick	\$ 45.72	911	370	159,734	591	436,000	728	761,038	800
Westerly	\$ 11.52	2,163	669	10,157	1,302	281,987	1,841	463,654	517,972
Woonsocket	\$ 46.58	1,008	353	202,562	624	540,542	797	934,460	918
	\$ 37,911	13,355	5,271,672	24,205	14,679,977	30,152	25,511,157	33,072	36,332,348

All impacts calculated based on 12/31/20 assessment data and assumes exemption applied uniformly across all accounts regardless of total tangible assessment for a specific company or type of tangible property assessment.

The data used was derived from municipal tax rolls. The tax rolls, because they are not uniformly formatted amongst all 39 municipalities, were manipulated and reorganized into a single dataset. Additionally, no verification was performed with individual municipalities as to the content and/or the nuances of the tax roll data. As a result, any calculations presented should be understood to be representative of the best available information that the division of municipal finance is privy to, while also understanding that the results could be flawed.

The calculations above are based on reducing the gross assessment for each and every individual account for every municipality. As a result, any municipal impact calculated for any municipality where a tangible exemption already exists, could be duplicative. However, this would only be true if the municipal exemption is applied across all accounts regardless of total tangible assessment for said account and the gross assessment is reflective of the assessment prior to any exemption being applied. The division has not independently verified the methods of application by the municipalities with a tangible exemption.

The division of municipal finance can reasonably assure the accuracy of the data as the division was able to run the data against other documentation (tax certifications) derived from the municipalities with little to no variance between the two datasets. 39 of the 39 municipalities had less than 5% variance (with majority having 0% variance and only 10 having 2% to 5% variance).

[^]As of 12-31-20 these municipalities have been identified by the division as already having a tangible exemption. The method for application of these exemptions vary by municipality. The most recent survey of municipal exemptions (including tangible) can be found at this link from the division's website, <https://municipalfinance.ri.gov/media/3969/download?language=en>. The linked survey does not reflect Cranston as having an exemption, but the City's tax roll data suggests that the City does.

^{aa} The above calculation does not contemplate the impact on any fire districts that have a tangible tax (estimated to be around 1.8M in total tangible tax for all fire districts in the state) and is not specific to any legislative proposal. It is meant to help guide the decision making process on any potentially mandated tangible personal property exemptions.