Rhode Island Policy Reporter

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Getting the diagnosis right

A DISAPPOINTING FEATURE of the way public policy is developed here is the readiness of many policymakers to pass the buck. Legislative proposals that set broad goals often imply that the geniuses who hatched them have no earthly clue about what to do, but are sure that someone else will. For example, neither the President nor Congress seem to know how to improve education in our nation's urban schools. As evidence, consider the "No Child Left Behind" act. The act is heavy on requirements: schools must pass this test, children must pass that one. The penalties are severe for a school failing to improve. But does it say anywhere *how* these goals are to be met? Not really. That's someone else's problem.

Then look at the debate over health care (and see page 4). There are dozens of things our governments (federal and state) could do to control health care costs: global budgeting, hospital investment controls, price negotiations of commodities like drugs, and more. But the current proposals to "reform" health care skip all of that and settle for tighter regulation of health insurers, instead. (This is true of Massachusetts's new proposal, too.) Legislators are saying, to the public and the insurers, "we can't agree on what to do, so it's now your problem."

But wait, here comes the state of Rhode Island, ready and willing to do the tough work of reducing the state's over-reliance on property taxes. The Governor has weighed in, the Senate leadership has given its opinion, and the RI Public Expenditure Council has made its suggestions. And what do you know? They all suggest simply reducing the cap on property tax levy increases from 5.5% per year to 4.0% per year. In other words, they won't address *why* property taxes are as high as they are, or how towns can act to change that, nor do they seem to care. They only insist that the towns should deal with the problem. Somehow.

These laws essentially admit that these are difficult problems, and that the politicians involved are aware of that, but rather than do the work to understand the problems and seek a solution, it's really best just to force someone else to solve them. What's more, by their actions they show they really don't care what kind of solution is found. But avoiding difficult problems is human nature. The astonishing thing is that we put up with that kind of treatment from our "leaders." ■

Just who pays the property tax?

Analyzing the taxes paid by Rhode Islanders is a game played largely in the dark. The state Division of Taxation has for years pooh-poohed the importance of collecting reliable data about what is paid by whom, and the wholly predictable result is that we really have very little clue about some very important matters. (Few of our towns do any better.) For example, how much do corporate tax loopholes cost us every year? How much does the sales tax exemption for clothing cost or the tuition savings program deduction? For all of these questions, the state simply does not collect the data.

One of the important questions left unanswered is about the property tax: who pays it, and how much do they pay? The available analyses lack detail needed to be a useful guide to action. To make a stab at answering this question, I used data from the Department of Planning. Every year, their Office of Municipal Affairs tracks real estate sales in each town in the state, and notes the official assessment of each property on the list. They provided 18,277 such records to me, all the sales from 2004. I took the 15,966 residential sales, and used the town tax rates to estimate property tax bills for each of those properties. If you assume that the properties sold in 2004 are a random sample of the town, the list of bills is then a representative sample of all the property tax bills issued in that town.

The planning department also tabulates Census data for each town in the state, which I used to come up with income estimates for 2004, and the number of senior citizens in each town. (All Rhode Island towns provide some kind of property tax relief to seniors, so it was important to come up with some way of estimating the cost of these exemptions.) In the model constructed, seniors were randomly assigned to the houses sold during the year. The Census numbers also provide housing data, like the numbers of apartments and houses and these make it possible to split the multi-family building bills up into households, correct for the number of apartments, and so incorporate the property taxes renters pay.

Table 1 (page 2) contains average values for each quintile of residences. That is, the values in the first column are the average of the least expensive 20% of tax bills, and the values in the far right column are averages of the most expensive 20% of tax bills.

Table 1: Average annual property tax bills, for each quintile (from 2004 sales survey, Office of Municipal Affairs).

Town\Quintile	**1st**	**2d**	**3d**	**4th**	**5th**
Barrington	2,161	3,512	4,633	6,533	11,205
Bristol	1,011	1,731	2,484	3,155	5,083
Burrillville	909	1,242	2,045	2,581	3,768
Central Falls	588	787	930	1,102	1,444
Charlestown	1,149	1,639	1,981	2,535	4,764
Coventry	1,323	2,131	2,640	3,507	5,339
Cranston	1,126	1,417	2,431	3,326	5,779
Cumberland	1,580	2,401	2,928	4,093	5,343
East Greenwich	1,674	3,799	6,009	7,553	12,870
East Providence	968	1,214	1,536	2,083	3,152
Exeter	1,996	2,610	3,040	3,977	5,227
Foster	2,077	2,973	3,442	4,393	5,536
Glocester	1,645	2,610	3,146	3,797	5,436
Hopkinton	1,189	2,503	3,021	3,476	4,739
Jamestown	1,768	2,810	4,582	6,280	12,800
Johnston	1,203	1,929	2,556	3,042	4,282
Lincoln	1,281	2,216	3,152	3,767	5,719
Little Compton	970	1,392	1,624	2,113	4,149
Middletown	1,326	2,704	3,262	3,786	5,426
Narragansett	1,326	1,932	2,405	3,088	5,469
Newport	1,030	1,408	1,913	2,541	6,331
New Shoreham	1,180	1,878	2,646	3,420	4,553
North Kingstown	1,916	3,087	4,063	5,610	8,167
North Providence	1,113	1,656	2,362	2,919	4,249
North Smithfield	994	1,418	2,638	3,640	5,535
Pawtucket	850	1,019	1,146	1,497	2,857
Portsmouth	2,003	2,738	3,671	4,801	7,825
Providence	1,012	1,258	1,475	1,875	4,169
Richmond	1,344	2,315	2,772	3,249	4,181
Scituate	974	1,799	2,436	3,237	4,702
Smithfield	1,588	2,540	3,059	3,726	5,560
South Kingstown	1,289	2,097	2,899	3,879	7,007
Tiverton	1,465	2,245	2,984	5,579	9,446
Warren	1,008	1,320	1,976	3,108	6,768
Warwick	1,268	2,058	2,449	2,876	4,730
Westerly	717	1,187	1,702	2,384	5,247
West Greenwich	1,288	1,835	2,440	3,078	3,991
West Warwick	1,121	1,546	2,300	2,906	4,025
Woonsocket	818	1,008	1,146	1,436	2,143

Table 2 contains the same data as Table 1, divided by the average income of each quintile. So for Barrington, the $2,161 average property tax bill of the lowest quintile is divided by $22,000, which is approximately the average income of the lowest quintile,[1] while in Central Falls, the $588 average property tax bill is divided by $7,700, roughly the mean income of the poorest fifth of households in that city.[2]

There are a couple of cautions to bear in mind with this analysis. Besides the assumptions mentioned above, the analysis doesn't include the fire districts, and then there is the problem of renters. It is widely agreed that renters pay property tax through their rent—property owners don't pay it *for* their tenants. But the relationship between rents and taxes probably isn't simple, though it's assumed to be that way here.

Another potential problem is that there is no guarantee that any given houshold in a given fifth of income pay the tax bills in the same quintile. For people who have lived in the same house for a long time, it is often true that they pay bills in quintiles well above their income. Conversely, many recent purchasers (and people living in unfashionable parts of their towns) will see bills lower than these estimates might imply. Notwithstanding these objections, it seems reasonable to expect that the middle quintile of households would—on average—pay the middle quintile of tax bills. For a researcher who often objects to aggregate statistics, this is risky territory (and it's why there are no statewide numbers shown) but it's valuable to see where the property tax falls.

So what do we learn? For one thing, we learn how regressive the property tax is. In every town, the tax rate as

Table 2: Property tax bills as a percentage of average annual household income (income data from 2000 census, provided by the Office of Statewide Planning.

Town\Quintile	**1st**	**2d**	**3d**	**4th**	**5th**
Barrington	9.9	6.8	5.6	5.0	3.1
Bristol	8.1	5.3	4.7	3.9	2.8
Burrillville	4.9	3.1	3.2	2.9	2.2
Central Falls	7.7	4.9	3.5	2.5	1.8
Charlestown	5.9	3.7	3.4	3.1	2.4
Coventry	8.4	5.5	4.1	3.9	3.1
Cranston	8.6	4.4	4.5	4.1	3.1
Cumberland	9.8	6.2	4.6	4.5	2.8
East Greenwich	9.3	7.8	7.3	5.8	3.5
East Providence	7.6	4.1	3.3	3.2	2.4
Exeter	9.1	5.1	3.6	3.3	2.1
Foster	10.0	6.8	5.1	4.9	4.1
Glocester	7.8	5.7	4.8	4.2	3.1
Hopkinton	8.0	6.1	4.6	3.8	2.7
Jamestown	7.9	5.6	5.6	5.2	4.6
Johnston	9.8	6.6	5.0	3.7	2.5
Lincoln	8.4	6.3	5.2	4.2	2.9
Little Compton	5.2	3.1	2.5	2.1	1.3
Middletown	6.6	6.6	5.7	4.7	2.9
Narragansett	8.3	5.5	3.9	3.4	2.6
Newport	7.6	4.4	3.6	3.1	2.8
New Shoreham	9.6	6.3	5.2	4.2	2.2
North Kingstown	11.0	7.1	6.1	5.5	3.3
North Providence	8.6	5.5	5.2	4.5	3.1
North Smithfield	6.2	3.5	3.9	4.0	3.0
Pawtucket	8.5	4.8	3.1	2.4	2.1
Portsmouth	10.7	5.6	5.1	4.7	3.0
Providence	13.1	6.8	4.2	3.5	3.1
Richmond	5.4	4.5	3.9	3.6	2.6
Scituate	4.7	3.7	3.4	3.2	1.5
Smithfield	9.8	6.5	4.8	4.1	3.3
South Kingstown	6.9	4.8	4.4	4.3	3.6
Tiverton	9.7	5.8	4.7	6.2	5.4
Warren	8.0	4.5	4.0	3.9	3.7
Warwick	8.1	5.9	4.6	3.6	2.6
Westerly	3.3	2.3	2.1	2.0	2.8
West Greenwich	10.3	6.1	5.3	4.8	3.2
West Warwick	7.1	4.4	4.3	3.6	1.9
Woonsocket	8.3	4.7	3.2	2.7	2.1

[1] You can find the table of income quintiles online at *whatcheer.net/index.cgi/y6/my/incomes.html*.

[2] This ignores the state property tax relief program, providing $250 in relief to the poor elderly and the poor households who apply for it first.

Putting tax relief where it's needed

It's difficult to figure out how to give property tax relief, and it's difficult to figure out how to make towns give tax relief instead of shoring up their towns' finances. (Not that there's anything wrong with non-bankrupt towns.) Because these are such knotty problems, the Governor and the legislature have, over the past decade, simply declined even to try to solve them.

Instead they have resorted to cutting other taxes, like the income tax, in order to "lower taxes." But the problem with not solving the real problem is that the distribution of these two taxes is very different. Giving income tax relief when the property tax is the problem is like saying the taxes are too high on Frank, so we're going to cut taxes for Henry.

The point of comparing progressive and regressive taxes isn't just academic, the point of comparing the distribution is to make sure that the people who deserve relief are the ones who actually get it. That's not so obscure a point, is it?

a percentage of income on the poorest residents is two to five times the rate on the richest. For those residents, the income tax burden pales before these numbers. The effective state income tax rates in Rhode Island range from zero for the poorest taxpayers, up to about 3.5% for incomes in the $100,000 range, and up to as high as 7-8% beyond there. In other words, in most towns, you have to be well up into the top quintile before your state income tax exceeds your property tax.[3]

We also learn from this analysis that there are poor people in the rich towns, though they may not be so poor by urban standards, and that the property tax weighs pretty heavily on them. These towns tend not to have the commercial tax base of the more urban areas and also tend to get the very minimums of state education aid. To simply say that a town is "rich" is to miss important details. ■

[3]This analysis relies on households and on self-reported Census income data. Other distribution analyses, such as those by the Institute on Taxation and Economic Policy (ITEP), rely on IRS data about taxpayers and Adjusted Gross Income. Both are considered reliable, but relating the two is challenging, and depends on information that isn't available, like how many taxpayers are in what kind of household, and how honest people are when they fill out their Census forms.

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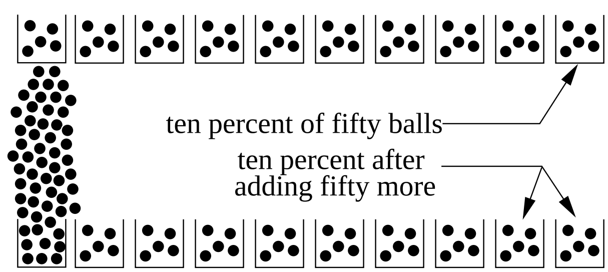
Taking apart another statistic

Another statistic appearing in the tax debate this year is the claim that over the period from 1995 to 2002, the average income of the top 1% of taxpayers in Rhode Island appears to have declined, while the average income of that top o' the top in Massachusetts seems to have increased. This statistic comes to us courtesy the RI Economic Development Corporation (EDC), who deduced it from two reports published by the Institute for Taxation and Economic Policy (ITEP) in Washington. Unfortunately, the 1995 ITEP report was an analysis of all non-elderly married couples and the 2002 ITEP report was for *all* non-elderly taxpayers, so they don't quite match.

EDC told **RIPR**, in defense of this statistic, that there are so few taxpayers at the very top of the income distribution who are not married couples that the incompatiblity is negligible. This, of course, is absurd. The definition of where any percentile begins and ends depends not only on the members of that percentile, but also on all the other members of the set under analysis. If I have five balls in each of ten ordered bins, then the top ten percent is one bin's worth of five balls, and on average, they're in bin ten. But if I dump 50 more balls in the bottom bin, the top ten percent is now ten balls: two bins' worth, average nine and a half. The average value of the top ten percent has dropped, despite no change at all in those top bins.



After presenting the top 1% decline statistic in a hearing before the House Finance committee, EDC was cautioned by an ITEP economist not to compare those two reports directly, but they have continued to promote it in press releases and editorials. In fact, IRS data show that, between 1995 and 2001, the income of the top 1% of taxpayers in Rhode Island rose by about 51%. Further analysis by ITEP itself shows that the average income of the top 1% rose 78% between 1995 and 2005. (Their number for the 1995-2001 span was 54%.) Andy Cutler, EDC's spokesman, assures me that EDC stands by their analysis, but couldn't say why to prefer it over the contradictory IRS data.

This point of elementary statistics is important not just as a way of scolding EDC for carelessness and intellectual perfidy, but also as a valuable rule to remember when comparing percentiles: the movement of a percentile's average income depends not only on the members of that percentile, but also on everyone else. Looking at

IRS data between 1995 and 2001, Massachusetts experienced higher growth among the very rich than Rhode Island did. But Rhode Island experienced substantially higher growth among people earning between $100,000 and $200,000 (well above the national average, too) as well as in many lower brackets. We simply added more taxpayers over that time than Massachusetts (up 6.9% vs 5.0%) and more than most states. This is exactly the same as adding balls to the bottom bin to lower the average of the top. IRS data says that our wealthiest taxpayers got richer as fast or faster than their counterparts in Massachusetts, but statistics that look at the top 1% won't catch that because the effect will be overwhelmed by the taxpayers Rhode Island added in the lower brackets.

Obviously, contradicting EDC's data analysis isn't the same as claiming that our roads are paved with gold and our sidewalks strewn with rose petals. Serious problems beset our state, and our tax system is among them (see page 1). But **RIPR** continues to believe that our problems will only be solved through intellectually honest analysis, and that ignoring the available evidence is irresponsible and serves no one well. ■

Thoughts on the Rhode Island Cure

NICK TSIONGAS

Like the annual return of the swallows to Capistrano, every four years health care reformers like me come out from under our conglomerate rocks and lie in the sunny and blissful glow of Hope that there will finally be a Democrat elected Governor of Rhode Island and that he or she will actually know something about how the health care system needs changing.

Neither of the last two governors were either—Democrats or very knowledgeable.

One of them, though, Lincoln Almond, was smart enough to make Christie Ferguson the head of his Department of Human Services then got out of her way. The RIte Care program for insuring low income children and families was the result, a program of national repute and an important building block for more significant state-based health care reform.

The next governor, Don Carcieri, appeared to know even less about health care reform but—perhaps more due to distraction than intent—he appointed Chris Koller as his health insurance commissioner. Koller, former CEO of Neighborhood Health Plan, knows all the answers to the health care reform test. Indeed, he's so good and his ideas are at first blush so at odds with Carcieri's apparent world view that it's arguable Koller will not survive long enough in this administration to train his boss. I stand to be surprised. Meanwhile, Carcieri has squandered any credibility on the issue, trying to balance his state budget by cutting thousands of children from RIte Care. Although he has since backtracked (typically leaving it up to the legislature to take the heat for finding all the extra money), the initial cuts betray a cluelessness about how important a strong RIte Care is to the future of structural reform.

Nick Tsiongas MD MPH is a practicing physician in Rhode Island and a former state legislator.

It's a sign of defeat when governors balance state budgets by cutting health coverage for children rather than passing laws to control the cost of health care—it's also a sign of long term fiscal irresponsibility. That's right, you can't blame the bleeding heart liberals who resist such program cuts for the increasing costs of RIte Care and other health care services—it's the right wingers who don't have the guts or interest to place controls on the health care market who are costing us both taxpayer and private dollars! These right wing doyens of the market are willing to see increased burdens on our businesses and taxpayers because they cannot stomach a planned health care system.

Too many progressives for too long have enshrined universal health insurance coverage as the grand goal of reform. And surely, any system that purports to care for the public health of its people needs to provide access to care for all. But insuring the uninsured as a sufficient goal in and of itself is, in my opinion, both naïve and dangerous. The large number of uninsured is *not* the problem that needs solving. This is only a symptom of the real problem.

Here's why. Left alone, the number of the uninsured gets bigger. It gets bigger during economic hard times, when employers or individuals have a harder time paying the insurance premiums. But it also gets bigger during economic good times, because the annual increases in premiums outstrip increases in wages or employers' ability to keep up. During the Clinton boom years the number of uninsured people actually *increased*. That is virtually a definition for a dysfunctional health care delivery and financing system. Left to its own devices, the system actually creates more uninsured. This is a function of the cost inflation inherent in how we deliver care.

The large number of uninsured is not *the problem that needs solving.*

Ours is among the best health care systems of any country—not the best, but among them. But it is by far the most costly. We get good results, but we have to pay a ton more than any other place to get the same results. Any health care reform that identifies the new money to cover the uninsured fully but which does not address the cost generation of the system as it's organized—will continue to fuel cost increases—and cause new uninsured people!

Let me say it again. If all we do is magically find the money to insure everyone and do nothing else to change the system, costs will rise faster and insurance premiums will again be unaffordable. Merely insuring the uninsured and not restructuring the system that helped create them is like giving aspirin for pneumonia. In the short run, the fever goes down—but it's the pneumonia that's the problem, not the fever. Cure the pneumonia and the fevers stop.

Merely insuring the uninsured and not restructuring the system that created them is like giving aspirin for pneumonia.

It should not come as a surprise then that I am a cost control hawk. I believe that unless we restructure the system to control how it generates costs, there's no point in insuring the uninsured. But I'm a macro-hawk, not a micro-hawk. Micro-hawks pinch every penny, want doctors to get authorization before ordering tests, salivate over any new software that can detect any pattern of miscoding of a diagnosis for better payment, etc. A macro-hawk believes in health care planning, establishing a global budget for health care that we can stick to, controlling what and how much technology gets introduced in the market, and making sure doctors are using that technology responsibly.

Massachusetts has just passed a major health care reform law which seeks to insure all or almost all its residents. This has renewed talk nationally of the ability of individual states to try to solve this problem in the face of federal neglect and paralysis. The Massachusetts plan has brought a wide array of often competing interests together to agree on a number of unique changes including developing new "more affordable" insurance plans, freezing any new legislatively mandated health benefits, requiring both insurance coverage of individuals who can afford it and payments into a fund by employers who don't currently insure their employees. Massachusetts has advanced the debate for all of us who agree that real reform will happen in a state first, before it can sweep the nation.

What should cause great concern, however, is that while the Massachusetts plan is heavy on finding new money to insure everyone and has tried to make insurance possibly more affordable, there is little in the compromise that significantly controls the costs of health care. One can almost make the argument that what Massachusetts has done is buy off the competing interests by finding them more money to work with—but leaving much of the system untouched. What's really scary is that Boston is one of the costliest places for health care already. It looks like it's about to become more so.

What happens in five years when a Massachusetts legislature finds that their new plan is running out of money? Do they finally reform the delivery system or do they deep-six the plan? We'll see.

Allow me then to make four (only mildly provocative) recommendations for health care reform in Rhode Island.

1. Let Blue Cross be the only insurer in the state. Some may shudder, especially after the quite public management problems of last year. But Blue Cross already has maybe 60+% of the insurance market, they are non-profit, they have the most technical expertise in the state, some of their board is already publicly-appointed, and, despite last year's troubles, they are seen with some affection by the public.

What would the benefits be? It would save the money now going to administration and corporate salaries of the other (for-profit) insurer and save both time and money spent by providers complying with the rules of an array of public and private payers. Limiting the market to Blue Cross would also go a long way toward aggregating much of the state's public and private money paid for health care services into one entity. It would thus have tremendous power to restructure the system—from hospital expansion to physician reimbursement to introduction of costly technologies. It would be so powerful it would have to be not only publicly well-regulated but also run democratically. That means the rest of its board should be publicly appointed. It also means that the insurance commissioner's office must be strengthened to regulate Blue Cross's premiums like a utility and that Blue Cross's plans for the health care market must comport with the public health plans proposed by the Department of Health (which itself also would need to be strengthened). Importantly, physicians, who for many years have been essentially been offered "take-it-or-leave-it" contracts by Blue Cross, would now need to be able to negotiate directly with the insurer and—with a way around federal anti-trust provisions—negotiate as a class.

The new Massachusetts plan covers everyone, but it won't control costs, so is headed for trouble.

Another problem posed by this suggestion is the removal of the for-profit insurer, United Health Care, from the market. United is already unpopular with physicians, its fiscal responsibilities are first to its stockholders, it is based out-of-state, and the salaries it pays to its national corporate heads are nothing short of obscene. These are dollars taken out of the health care system that can be better spent. The Rhode Island Supreme Court already ruled in the late 1980's that it is within the police power of the state to prohibit for-profit hospitals in Rhode Island when it can be shown that they do not provide the same level of care or services that non-profit hospitals do. It is possible therefore that it is already constitutional for the state to merely rule that the health of Rhode Islanders will be better served by the establishment of one—non-profit—insurer.

This one reform would do much to solve the inequalities, divisions, and perverse incentives of the present system.

2. Rebuild state government's ability to plan the system. Now that we have put most of the money in one pot (see above), we need to plan how it's spent. Notice already the differences from the current system where the money comes from a whole number of places with no one entity having a say over it and no one entity planning on how it's spent for the public good. To make sure that the single insurer serves a public function, the state government as the representative of the people of Rhode Island, has the ultimate responsibility of oversight. The office of the insurance commissioner must have sufficient power to determine premium charges are appropriate. The Department of Health (DOH) must have the ability to set annual and five-year plans for what services need to be available, how and where institutions grow, and which and how much new technology enters the state. This will require that the DOH reestablish its health planning function and strengthen its Certificate of Need (CON) program to better control the introduction of new technology and new facilities. The Department of Human Services which already administers Rite Care needs to be able to expand its MaxiCap process where the insurer and hospitals and providers sit and negiotate a Global Budget for Health Care annually based on the DOH planning guidelines. And these functions need to be coordinated.

Now we have all the money aggregated into one entity, we have controls on the introduction of technology (a major cost generator), we have a planning function that sets priorities for the public health, and we have an explicit annual health care budget. Out of the chaos of the old order is something that, if it's not beautiful, is at least rational.

3. Add money *and* cost controls. The competing interests in the health care system are not going to accept such tough love voluntarily. Massachusetts has shown that finding the public and private money to insure the uninsured is an effective motivator. And although the current Rhode Island state budget situation precludes it, the state may be in better shape in the next few years to allow some new public subsidy in addition to new private funding requirements. The power in adding new money *along with cost controls* is that it can now be spent more responsibly through the health care market that is now managed. Businesses and individuals who for the last decade have seen 10% or 15% or more annual premium increases outstrip their ability to pay will now have a publicly-mediated way of knowing what the health care budget will look like year to year to in 5-year terms. For the first time, not only will the entire body politic be insured, but premium increases will be controllable and predictable. And that, ladies and gentlemen, will be a bigger economic development jolt to the Rhode Island marketplace, generating more jobs than the most targeted tax cut or most exquisite special deal.

4. Elect women and men of courage to state office. Without this, none of the rest is possible. ■

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