

Testimony on H-5588: *An act relating to taxation — Levy and Assessment of Local Taxes*

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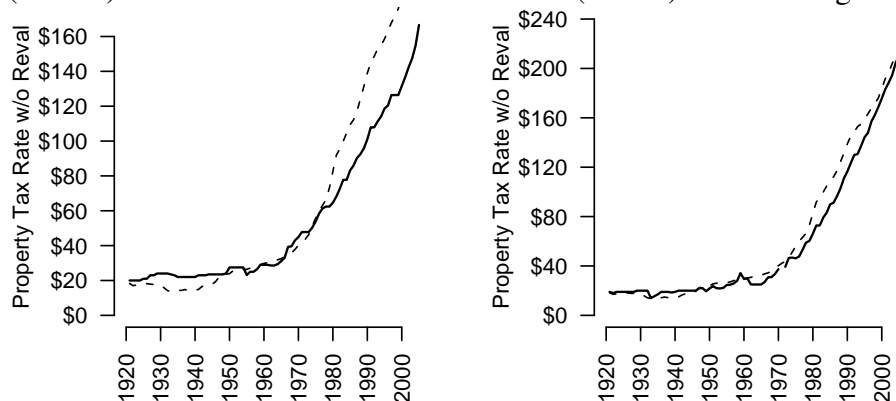
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Honorable Committee Members:

Last year, the Assembly passed legislation that originated in the Senate to further control the growth of municipal property taxes. The increases in property taxes were already limited to 5.5%, and the bill lowered the limit in successive years to 4%.

The motivation behind the bill is good, but the bill itself creates too tight a constraint on municipalities, especially in a climate of limited state budgets.

It is an article of faith in Rhode Island that municipal budgets are out of control. For an upcoming article in the **Rhode Island Policy Reporter**, I was able to assemble long time series of property tax rates in two towns, North Kingstown and Warwick. (The article will contain more, but the research is not yet complete.) I adjusted the rates as if there had been no re-assessments, and they are shown below, with a second (dashed) line that indicates the inflation rate (CPI-U) for New England.



Warwick is on the left and North Kingstown on the right. Neither town's taxes have outstripped the inflation rate, in the short or the long term.

Despite the fact that over the 20th century, the tax rate has grown no faster than the price of milk, both these towns have well-organized anti-tax political factions. There are real reasons why these groups have developed, but the average size of the tax burden—essentially what is shown by these graphs—isn't it. The real problems have to do with the

regressive and arbitrary nature of the property tax, but these are not addressed under current law.

Instead of looking to the overall size of a town's total tax levy, it's crucial to look at its distribution among the citizens of the town. That's where the unfairnesses lie that get people exercised at budget time. The property tax circuit breaker is a way to address some of the inequity of the property tax, and for that reason it should be expanded.

Since the circuit breaker funds collected by a town's residents offset property tax payments in the taxpayer's personal accounting, they should be allowed to offset them in the overall accounting. That is, these funds should be exempted from the part of the tax levy used to calculate the levy limits in the following tax year. Exempting these funds from the limit will be a way to encourage the use of the circuit breaker and also to give cities and towns a modest easing of the limits adopted by the legislature. In the current climate, even a modest easing may be a substantial help to towns trying to skimp to fit their school budgets under the new levy limits.