RIPEC

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February 27, 2024

The Honorable Stephen Casey
Chairperson, House Committee on Municipal Government & Housing
House Lounge
Rhode Island State House
Providence, RI 02903

RE: Testimony on House Bill 5308 – An Act Relating to Taxation – Levy and Assessment of Local Taxes and House Bill 5030 – An Act Relating to Taxation – Levy and Assessment of Local Taxes

Dear Chairperson Casey,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in opposition to House Bill 5308 – An Act Relating to Taxation – Levy and Assessment of Local Taxes. This legislation would enable cities and towns to grant homestead exemptions to the owners of residential property who occupy their property as a primary residence in an amount up to 20 percent of the assessed value without first obtaining authorization from the General Assembly to do so. It would not limit cities and towns that currently have statutory authority to provide homestead exemptions at higher levels. I am also writing in opposition to House Bill 5030 – An Act Relating to Taxation – Levy and Assessment of Local Taxes, which would provide the Town of South Kingstown with the authority to enact a homestead exemption ordinance in an amount not to exceed 10 percent of assessed value.

Homestead exemptions are often sold as a means of providing tax relief to residents, but they do not limit the property tax levy overall. Instead, homestead exemptions merely shift the property tax burden away from resident homeowners and towards other taxpayers, primarily other residential property owners, and indirectly to renters, who cover the cost of property taxes through their rent. Renters represent over a third (37 percent) of occupied housing units in Rhode Island and typically have fewer economic resources to cover housing costs than homeowners; a reported

45 percent of renter households in Rhode Island are cost-burdened (spending more than 30 percent on housing costs), compared to 28 percent of homeowner households.[1]

Increased use of homestead exemptions only ensures that cost-burdened renters will shoulder even more of the tax burden. Already in Rhode Island, 11 cities and towns have either a homestead exemption or a separate rate for resident homeowners, and the resulting differences in tax bills can be very large; in the current fiscal year (FY 2025), a nonresident homeowner in Providence or Central Falls with a hypothetical property valued at $425,000 (the median single family sale price for the applicable 2023 assessment year) would receive a tax bill over $3,000 greater than resident homeowners in those communities.[2] In both municipalities, well over half of housing units are renter occupied.[3]

Homestead exemptions not only have a negative effect on individuals, but they are also bad for the housing market and therefore only exacerbate Rhode Island's current housing challenges. Studies have shown that, around the country, the property tax burden for renters has grown at higher rates than homeowners in the last several decades, and that this negatively affects the development of housing, and particularly higher-density housing, by increasing cost and thereby decreasing market incentives for the construction of new housing.[4] Rhode Island is currently struggling to meet residents' housing needs, with an estimated need statewide of 24,000 additional low income units.[5] Providence, which currently has the state's most generous homestead exemption, reportedly experienced this year the second largest year-over-year increase in rent compared to every other large U.S. city (13.4 percent increase).[6]

A positive feature of property tax is that it is a progressive tax—a tax based on the taxpayer's ability to pay, with individuals with lower valued property receiving lower tax bills. Unfortunately, Rhode Island has already enabled municipalities to enact policies that make property tax less equitable and moreover discourage the development of rental and higher-density housing. The proposed legislation would only exacerbate these issues, and in consequence, I respectfully urge the Committee to reject both House Bill 5308 and House Bill 5030.

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[1] U.S. Census Bureau, American Community Survey, 2023 Five-Year Estimates; RIPEC calculation; Rhode Island Foundation, Housing Supply and Homelessness in Rhode Island, April 2023.

[2] R.I. Division of Municipal Finance, Financial and Tax Data; R.I. Association of Realtors, Year End 2023 Single Family Home Sales; RIPEC calculations.

[3] In Providence, 59 percent of units are renter occupied and in Central Falls 71 percent of units are renter occupied. The cities rank third and first highest for proportion of renter occupied units statewide. U.S. Census Bureau, American Community Survey, 2023 Five-Year Estimates; RIPEC calculations.

[4] For example: Jack Goodman, Joint Center for Housing Studies, "Houses, Apartments, and Property Tax Incidence," Joint Center for Housing Studies at 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; Solomon Greene, et. al., "Housing and Land-Use Implications of Split-Roll Property Tax Reform in California," Urban Institute, October 2020; Patrick Atwater, et. al., "Does State Tax Policy Discourage Housing Production?," 2020.

[5] National Low Income Housing Coalition, The Gap: Rhode Island.

[6] Rent, January 2025 Average Rent Report.

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.