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A SPECIAL PUBLICATION OF THE RHODE ISLAND PUBLIC EXPENDITURE COUNCIL

50-State Property Tax Comparison Study

The following report summarizes the findings of a property tax burden comparison among the fifty states developed in partnership with the National Taxpayers Conference – a national, nonprofit corporation whose members are devoted to the pursuit of objective analysis of public finance issues. The study surveys 53 urban and 50 rural cities across the United States, which included the City of Providence and the Town of Hopkinton. This report focuses on the findings related to Providence and the other 52 urban cities across the nation.

Summary of Findings

Residential Property

- Providence property tax burdens on a \$300,000 home ranked 24th among surveyed cities.
- On a \$300,000 home, the residential property tax burden was \$4,301, or 2.9 percent below the average of New England cities.
- The effective residential property tax rate was 1.43 (property tax as a percentage of full market value) compares to the average effective tax rate of 1.49 percent.

Commercial Property

- Providence ranked 3rd highest in the nation for commercial property taxes, and highest among surveyed New England cities.
- The commercial tax burden in Providence on a \$1.2 million commercial facility was \$45,679 with an effective tax rate of 3.81 percent; over 50.0 percent higher than the average among surveyed cities and 37.7 percent higher than the New England average.
- Providence commercial property taxes were 26.7 percent higher than in Boston - the Providence effective property tax rate was 3.81 percent compared to 2.97 percent in Boston.

Industrial Property

- Providence property tax burdens on industrial property ranked between 13 and 15th highest depending on the distribution of real and personal property value
- When personal property equaled 50.0 percent of the total assessment value of an industrial facility, Providence property tax burden (effective tax rate of 2.04 percent) was 28.0 percent higher than the national average, and the highest in New England.
- When personal property equaled 60.0 percent, Providence's industrial property tax burden (effective tax rate of 1.73 percent) was nearly 20.0 percent higher than the national average.

Methodology

The National Taxpayers Conference (NTC)/RIPEC study calculated and analyzed the relative property tax burden in the largest urban area and a typical rural area in each of the 50 states and the District of Columbia. The four classes of property examined in the study were: (1) residential, (2) commercial, (3) industrial, and (4) apartments. The analysis assumes that the “true market value” of each property is the same in all 53 urban locations studied. Because the “assessed value” of property varies from state to state due to differing policies on the frequency of assessment, the tax calculations account for the effects of local assessment practices and statutory tax provisions. Assumptions for the 2005 report are nearly identical to those in 2004, however, a few minor changes were made to the cities that were included. First, Miami-Dade, FL, Lexington-Fayette, KY, and Richmond, VA were dropped from the analysis; second, Buffalo, NY was added; and third, Anchorage, AK has replaced Juneau, AK.

Table 1 shows the property values for real and personal property by class that were used to develop the analyses. The study assumes six levels of property value for homestead property – \$70,000, \$150,000, \$300,000, \$500,000, \$750,000 and \$1.0 million. Apartment property was analyzed for one value – \$600,000 in real property and \$30,000 in fixtures. Analyzed values for commercial and industrial property were \$100,000, \$1.0 million, and \$25.0 million in real property values. As in the 2004 study, industrial property is analyzed two ways: (1) assuming personal property to account for 50 percent of the total value of the parcel, and (2) increasing the value of personal property to 60 percent of the total value.

Class	Real	Mach/Equip	Inventories	Fixtures	Total Value
Homestead	\$70,000	-	-	-	\$70,000
	\$150,000	-	-	-	\$150,000
	\$300,000	-	-	-	\$300,000
	\$500,000	-	-	-	\$500,000
	\$750,000	-	-	-	\$750,000
	\$1,000,000	-	-	-	\$1,000,000
Apartments	\$600,000	-	-	\$30,000	\$630,000
Commercial	\$100,000	-	-	\$20,000	\$120,000
	\$1,000,000	-	-	\$200,000	\$1,200,000
	\$25,000,000	-	-	\$5,000,000	\$30,000,000
Industrial (50% Personal)	\$100,000	\$50,000	\$40,000	\$10,000	\$200,000
	\$1,000,000	\$500,000	\$400,000	\$100,000	\$2,000,000
	\$25,000,000	\$12,500,000	\$10,000,000	\$2,500,000	\$50,000,000
Industrial (60% Personal)	\$100,000	\$75,000	\$60,000	\$15,000	\$250,000
	\$1,000,000	\$750,000	\$600,000	\$150,000	\$2,500,000
	\$25,000,000	\$18,750,000	\$15,000,000	\$3,750,000	\$62,500,000

Source: National Taxpayers Conference: 50-State Property Tax Comparison Study – Payable Year 2005

Personal property assumptions were included for all classes of property (except residential) as outlined in Table 1. The treatment of personal property is a significant part of the property tax burden in each state. Therefore, assumptions about the amount of personal property are needed in order to get an appropriate ranking of the property taxes on all classes of property. Definitions of property used in this study include:

- *Real Property* – Property consisting of land and buildings not classified as personal property for tax purposes.
- *Personal Property – Machinery and Equipment*: Large equipment, generally not portable, and often mounted on special foundations, i.e. printing presses and assembly robots.
- *Personal Property – Inventories*: Includes raw materials, unfinished products, supplies, etc.
- *Personal Property – Fixtures*: Includes items such as home or office furnishings, display racks, tools, and similar items. Motor vehicles are excluded. In the case of apartments, items such as stoves, refrigerators, garbage disposals, air conditioners, drapes and lawn care equipment are included.

The mix of real and personal property obviously varies by industry and location. Since some states exempt most personal property and other states exempt all personal property, the tax rankings, especially for industrial property, are sensitive to the mix of values. It should be noted that intangibles, such as bank balances, are not included in the calculations.

Table 2 Calculation of ETR \$300,000 Home Providence, RI	
Median Home Price	\$300,000
Ratio of Assessment	96.7%
Assessed Value	\$290,100
Homestead Exemption	50.0%
Taxable Value	\$145,050
Applied Tax Rate	29.65
Estimated Tax Burden	\$4,301.00
Effective Tax Rate	\$14.34

This study expresses relative burdens using *effective tax rates* v. *statutory tax rates* in order to express the relationship between net property taxes and the true market value of the property. The effective tax rate reflects property tax as a percentage of full value. As effective tax rates include intervening effects such as assessment practices and homestead provisions, in addition to the statutory tax rate, more meaningful cross-state and cross-property comparisons can be made.

Table 2 demonstrates how the effective tax rate is calculated using a \$300,000 single family home in the City of Providence. The assessed value of \$290,100 is found by applying the ratio of assessment to the price of the home. The ratio of assessment is what a property would actually be assessed at as a percentage of its actual market value (in this example, \$300,000).

Given that Providence conducted a statistical update, the ratio is fairly close to market value. If the home is owner-occupied, the City of Providence applies a 50.0 percent homestead exemption, decreasing the taxable value further to \$145,050. The tax rate of \$29.65 per \$1,000 is then applied to the taxable value to determine the estimated tax burden of \$4,301. The effective rate of 1.43 percent is then obtained by dividing the estimated tax burden for the home by the original home price.

Findings

Residential – Providence’s property tax remains higher than the average of surveyed communities by 4.5 percent, however, the residential property tax burden has declined from 2004. The 2005 residential property tax burden on a \$300,000 house in Providence was \$4,301 with an effective tax rate of 1.43 percent, compared to 2004 when the effective tax rate was 2.08 percent. It should be noted that declines in property tax rates are often offset by the strong growth in property values in the Capitol City.

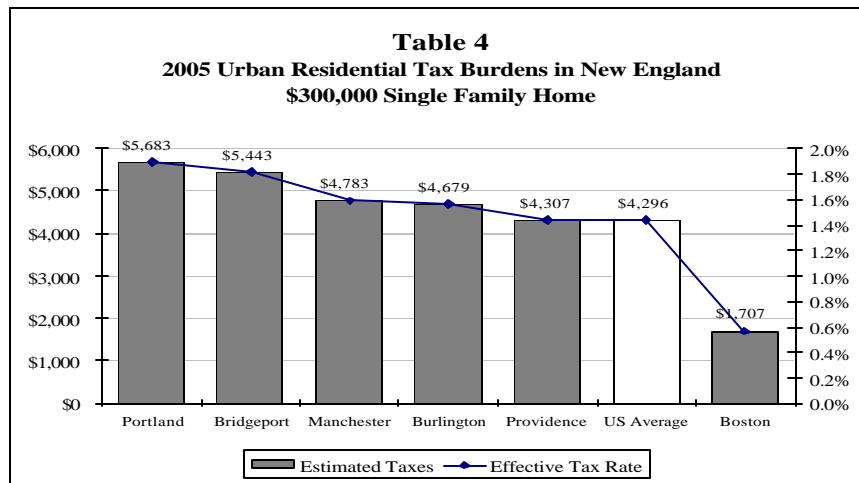
Value	Estimated Tax	ETR	Rank
\$70,000	\$1,004	1.43%	19
\$150,000	\$2,150	1.43%	21
Median (\$291,600)	\$4,180	1.43%	21
\$300,000	\$4,301	1.43%	24
\$500,000	\$7,168	1.43%	26
\$750,000	\$10,752	1.43%	28
\$1,000,000	\$14,336	1.43%	28

Source: 50-State Property Tax Comparison Study – NTC, February, 2006

These decreases in property tax rates are reflected in the survey rankings. In 2004, when the effective tax rate was 2.08 percent, Providence ranked 12th highest in the nation for a \$300,000 home; in 2005, when the effective tax rate fell to 1.43 percent, Providence ranked 24th. This is in large part due to the City’s implementation of a statistical update in 2005, where the City shifted tax burden to commercial real estate. Within New England, Providence’s ranking for residential property tax dropped from 3rd highest to 2nd lowest; only Boston has a lower tax rate.

Nationwide, the average tax burden on a \$300,000 home among the 53 surveyed cities was \$4,286 and the average effective tax rate was 1.43 percent. In New England, the average effective tax rate for a \$300,000 home decreased from 1.80 percent in 2004 to 1.47 percent in 2005, decreasing the average tax bill from \$5,571 to \$4,432.

While the average residential tax burdens for urban areas in New England are higher than the national average, the gap has decreased, bringing New England more in-line with the rest of the country. The average New England tax burden on residential property was approximately 2.70 percent above the national average, in contrast to 2004 when the average residential tax burden was 24.0 percent higher. This is in large part due to decreases in the effective tax rate for all New England cities with the exception of Boston where the effective tax rate increased slightly.



Commercial – In 2005, the effective commercial property tax rate in Providence was 3.81 percent, regardless of the value of the property. For all values of property, commercial property taxes in Providence increased by 7.87 percent from 2004 when the effective tax rate was 3.51 percent. Estimated property taxes on a \$1.2 million commercial facility in Providence were \$45,679 and for a \$30.0 million facility the estimated tax levy rose to \$1,141,975. For all commercial properties, Providence rose in the rankings from 5th highest in the nation in 2004 to 3rd highest in the nation in 2005.

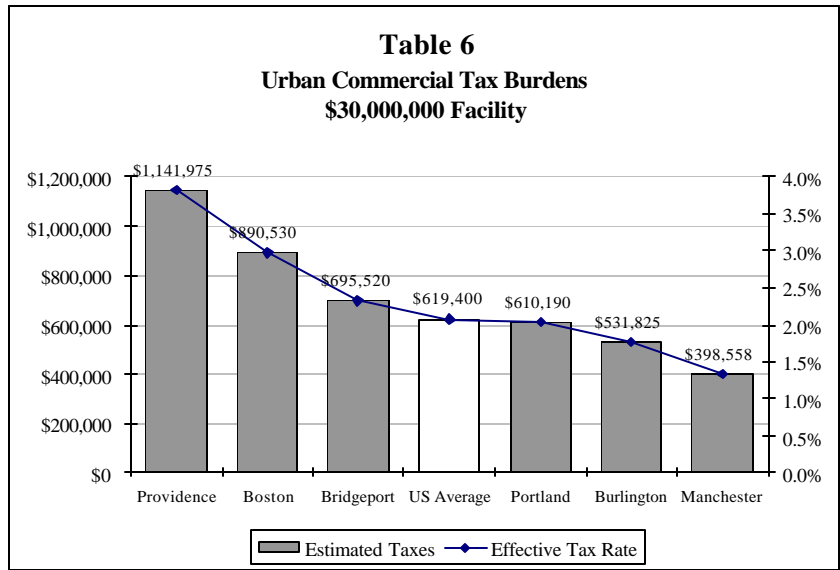
Table 5
Providence Commercial Property Taxes by Value

Value	Estimated Tax	ETR	Rank
\$120,000	\$4,568	3.81%	3
\$1,200,000	\$45,679	3.81%	3
\$30,000,000	\$1,141,975	3.81%	3

Source: 50-State Property Tax Comparison Study – NTC, February, 2006

Providence was the only city in New England to see its commercial property tax burden (as measured by the effective tax rate) increase in 2005 and was only one of two New England cities in the top ten nationwide. Tax burdens in Boston, the other New England city in the top ten nationally, were 22.0 percent below Providence’s tax burden. Further, Providence’s commercial property taxes were nearly three times higher than commercial property taxes in Manchester (ranked 42nd in the national survey). Commercial property taxes in Providence were 37.7 percent higher than the New England average and were over 50.0 percent higher than the national average effective tax rate of surveyed cities.

Among the 53 surveyed cities, the average tax burden on a \$1.2 million commercial facility totaled \$24,669 with an effective tax rate of 2.06. For a \$30.0 million facility, the 53-city average was \$619,400, and the average effective tax rate was 2.07. In New England, the average commercial tax burden on a \$1.2 million facility was \$28,457, with an effective tax rate of 2.37 percent. For a \$30 million commercial facility, average 2005 property taxes in New England were \$711,433, also with an effective tax rate of 2.37 percent. There was a wide range in New England effective tax rates, from 3.81 in Providence to 1.33 in Manchester, New Hampshire.



New England average commercial property tax burdens continue to be higher than the rest of the country, however, the gap between New England and the rest of the country with regard to commercial property tax burdens decreased from 24.0 percent to approximately 1.30 percent for both \$1.2 million and \$30.0 million facilities. Half of surveyed cities in New England – Providence, Boston, and Bridgeport – were above the national average, but only Providence and Boston remained in the top ten for highest tax burdens.

Industrial – As noted in the methodology section of this report, the tax burden analysis on industrial property includes assumptions on values for the real estate; machinery and equipment; and inventories and fixtures. This report examines two types of asset combinations: one that assumes 50.0 percent real property value and 50.0 percent personal property value and one that assumes 40.0 percent real property value and 60.0 percent personal property value. Industrial property was assumed to be engaged in manufacturing, for which inventories in Providence are exempted. It should be noted however, that inventories are not exempt for non-manufacturing industrial property, and are subject to a \$30.70 per \$1,000 tax, which does impact the results of the study.

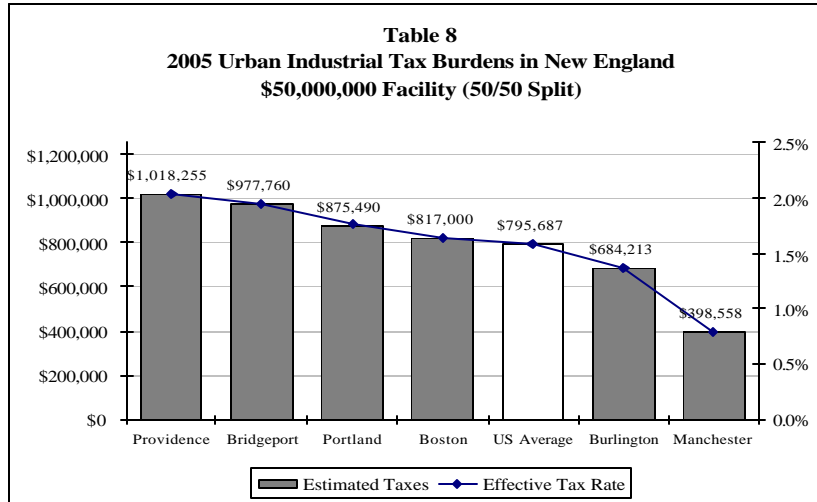
Industrial Facilities and Personal Property in Providence – For an industrial property when personal property is assumed to be 50.0 percent of total value, the tax burden in Providence was 28.0 percent higher than the national average, regardless of value. Providence ranked in the top 15 highest cities for each value of real estate (\$200,000, \$2.0 million, and \$50.0 million). When personal property was assumed to be 60.0 percent, tax burdens in Providence were approximately 19.2 percent higher than the national average, and Providence ranked in the top 16 highest for each value of property (\$250,000, \$2.5 million, and \$62.5 million). Industrial property tax burdens were also higher in Providence compared to the New England average, with Providence ranking highest in the region when personal property was assumed to be 50.0 percent and 2nd highest in the region when the share of personal property was increased.

Table 7 Providence Industrial Taxes by Value			
Property Value	Estimated Tax	Effective Tax Rate	2005 Rank
<i>Real 50% and Personal 50%</i>			
\$200,000	\$4,073	2.04%	13
\$2,000,000	\$40,729	2.04%	14
\$50,000,000	\$1,018,225	2.04%	15
<i>Real 40% and Personal 60%</i>			
\$250,000	\$4,320	1.73%	15
\$2,500,000	\$43,204	1.73%	16
\$62,500,000	\$1,097,506	1.73%	16
Source: 50-State Property Tax Comparison Study – NTC, February 2006			

The effective tax rate for an industrial facility in Providence where real property was valued at \$25.0 million, when both real and personal property were assumed to comprise 50.0 percent of the property's value, was 2.04 percent, with a tax burden of \$1,018,225. When the share of personal property was increased to 60.0 percent of the total value, the 2005 effective tax rate was 1.73 percent and the tax burden was \$1,097,506.

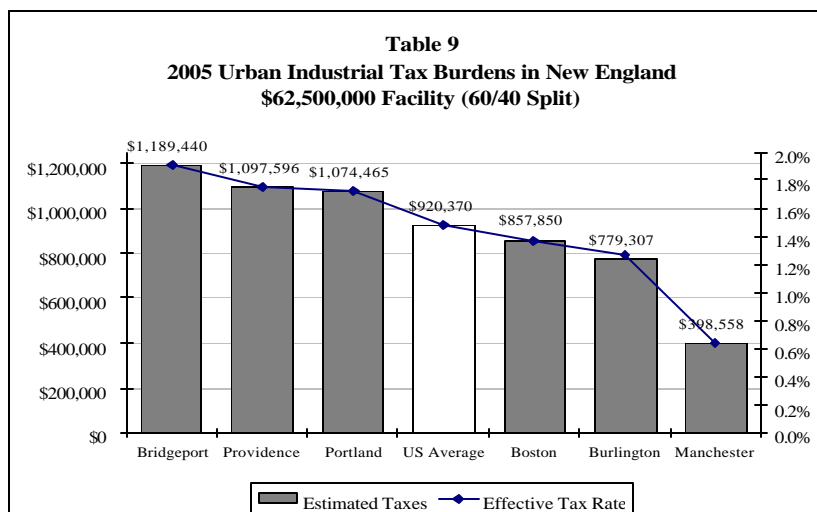
Providence's property tax burden on industrial property is still considerably higher than the national average, regardless of the value of the property. Further, Providence does not appear to be competitive within New England with regard to industrial property taxation either. For personal property valued at 50.0 percent, Providence was 28.0 percent higher than the New England average, regardless of the total value of the parcel. When personal property was increased to 60.0 percent, property tax levies in Providence were approximately 18.7 percent higher, regardless of value, than the average burden in New England.

Industrial Facilities and Personal Property New England and Nationwide – Among the 53 urban cities surveyed, the average tax burden on an industrial facility valued at \$2.0 million (\$1.0 million in real and \$1.0 million in personal property) was \$31,719, and the average effective tax rate was 1.59 percent. With regard to facilities valued at \$50.0 million (\$25.0 million in real and \$25.0 million in personal property), the average tax burden across the 53 cities was \$795,687, and the average effective tax rate was 1.59 percent.



Among the New England cities, the average tax burden was \$31,808, and the average effective tax rate was 1.59 percent for a \$2.0 million facility. For a \$50.0 million facility, the average New England tax burden was \$795,208, again, with an average effective tax rate of 1.59 percent.

Increasing the share of personal property to 60.0 percent for a \$2.5 million facility, increased the average tax burden of the 53 surveyed cities to \$36,677 with an overall effective tax rate of 1.46 percent. For a \$62.5 million facility, the average tax was \$920,370 and the overall effective rate was 1.47 percent. When personal property was increased to 60.0 percent of the total value of an industrial parcel, the average tax burden among the six New England cities surveyed was \$35,864, and the average effective tax rate was 1.43 percent for a \$2.0 million facility.



RIPEC Comments

This report is designed to provide insight into the City of Providence’s relative tax burden on certain classes of property as compared to other large cities, both nationwide and in New England. It is clear that reducing the relative property tax burden on homeowners came at the expense of commercial property. The findings in this report raise the question as to whether high commercial property tax burdens in Providence will minimize any cost advantage Providence may have in the Boston regional market.

Table 10						
Relative Rankings of 2005 Effective Property Tax Burdens by Class and Value						
Class	Value	Bridgeport	Boston	Burlington	Manchester	Providence
Residential	\$150,000	13	53	16	15	21
Residential	\$300,000	13	51	18	17	24
Residential	\$500,000	15	48	18	17	26
Commercial	\$1,200,000	21	8	31	42	3
Commercial	\$30,000,000	21	8	31	42	3
Industrial (a)	\$2,000,000	17	24	32	47	15
Industrial (a)	\$50,000,000	17	24	32	47	15
Industrial (b)	\$2,500,000	13	27	33	49	16
Industrial (b)	\$62,500,000	14	27	33	49	16

(a) Industrial property is composed of 50% real and 50% personal property.
 (b) Industrial property is composed of 40% real and 60% personal property.

Source: 50-State Property Tax Comparison Study – NTC, February 2005.

Although the decrease in relative residential effective tax rates in 2005 has helped ease the burden on homeowners, this has been offset by robust growth in residential values. In addition, there has been a subsequent increase in commercial property tax burdens to offset some of the burden that have otherwise been incurred by homeowners. Between 2004 and 2005, the commercial property tax levy increased 7.9 percent and moved the Capitol City to 3rd highest in the nation, up from 5th highest in 2004. These increases may impact Providence’s ability to compete with other New England cities or nationwide and may prove to be a considerable obstacle for Providence in terms of attracting or maintaining business investment.

The City of Providence has somewhat mitigated the burden on homeowners, and its relative residential property tax burden is now virtually indistinguishable from both the New England and nationwide averages. The City’s effective tax burden ranking dropped from 12th highest to 24th on a property valued at \$300,000. However, Providence continues to experience strong growth in its residential housing market, as reflected in the statistical update performed by the City in 2005. Increases in housing prices have thus masked the impact from the reduction in effective tax rates in Providence.

Table 11				
City of Providence				
2005 Rankings by Class and Value				
Property Class	Property Value	Estimated Tax	Effective Tax Rate	2005 Rank
Residential	\$150,000	\$2,150	1.43%	21
Residential	\$300,000	\$4,301	1.43%	24
Residential	\$500,000	\$7,168	1.43%	26
Commercial	\$1,200,000	\$45,679	3.81%	3
Commercial	\$30,000,000	\$1,141,975	3.81%	3
Industrial (a)	\$2,000,000	\$40,729	2.04%	14
Industrial (a)	\$50,000,000	\$1,018,225	2.04%	15
Industrial (b)	\$2,500,000	\$43,204	1.73%	16
Industrial (b)	\$62,500,000	\$1,097,506	1.73%	16
(a) Industrial property is comprised of 50% real and 50% personal				
(b) Industrial property is comprised of 40% real and 60% personal				
Source: 50-State Property Tax Comparison Study – NTC, February 2006				

As in recent years, the residential property market has appreciated at a greater rate than commercial or industrial property. In 2005 the median price of a single-family home in the Providence area increased 10.0 percent from \$262,000 to \$291,600. While the rate of growth has slowed from previous years, the state continues to see overall wealth shifting to residential property. In response to the resultant increase in tax burdens for residential property taxpayers, Providence revised its classification structure in 2005 to shift the burden away from residential, to business-owned properties. In Providence, this effort included: establishing a 50 percent homestead exemption for owner-occupied residential properties, developing a revised classification system that maintained the total commercial levy despite a declining share of the City's tax base, and permitting the City to increase taxes on each class at different rates of growth.

Commercial property taxes in Providence are over 50.0 percent higher than the average of surveyed cities and 37.7 percent higher than the New England average. Of particular concern is the 22.0 percent gap that exists between Providence and Boston, the next highest New England city and the 65.0 percent gap between Providence and Manchester, the lowest ranked New England city. Because of the increasing disparity of relative commercial property tax burdens between Providence and other cities in the region, factors relating to attracting and maintaining business in the City, such as cost advantages, may be diminished.

While the property tax classification system adopted by Providence has helped mitigate the tax burden on homeowners in the face of rapid and large growth in the residential housing market, this policy has affected the City's relative business tax climate. High property tax rates for business-owned property puts Providence at a disadvantage compared to other New England cities and may adversely affect businesses location decisions in the region. These conditions also impact location or expansion within the City when lower tax rates are available in neighboring Rhode Island communities. There is no question that similarly situated businesses

will face significantly different burdens depending on their location in the region, and while there are numerous factors that go into business location, the high property tax burdens provide a disincentive to locate in the Capitol City.

Table 12 2005 City of Providence Property Tax Rates (Per \$1,000 by Class)	
Property Class	Rate
Residential	\$29.65
- Owner Occupied	14.83
- Absentee Owner	19.87
Commercial/Industrial	37.00
Tangible Personal Property	49.50
Motor Vehicle Excise	76.78
Inventory	30.70
Source: City of Providence	

RIPEC will be releasing its annual report on property tax burdens among the state's 39 communities on April 19, 2006. The report outlines the growth in property taxes and the relative burdens Rhode Islanders are paying to support local services.