

SAM ZURIER

November 14, 2011

Dear Fellow East Siders:

This Summer, the City Council organized a Revenue Study Commission to review our property tax structure. The Commission has determined that some components of our tax system (such as the rates on apartments and commercial property) are too high when compared to the rest of the State, and this is harming the City's economic development. The Commission also has determined that it would not be feasible to address these needs exclusively through a re-balancing of property tax rates, as this would impose an unacceptable increase on home owners. While the City Council remains committed to finding more expenditure savings in the next budget, the approval of four major collective bargaining agreements (each of which contained financial savings) this past year will limit the City's ability to find significant additional budgetary savings in the coming year. As a result, the Commission is reviewing alternative sources of City revenue to fund property tax reform.

The Commission organized a subcommittee to study the possibility of increasing City revenue from nonprofits (i.e. colleges and hospitals) that are currently exempt from paying property tax, and I am serving as subcommittee chair. In that role, I will be reviewing a draft report with the subcommittee this Wednesday, November 16 at 11:30 a.m. at City Hall. While the details of the draft are subject to discussion and revision, I can share at this time the background facts that likely will be presented in the final report in one form or another.

In Providence four colleges and universities have agreements with the City to make voluntary payments in lieu of taxes (or "PILOTs"). PILOTs exist in a number of other New England cities, including Boston, Cambridge and New Haven. There is a wide range of participation, but the current Boston initiative calls for nonprofits to contribute at a level that will compensate the host city for the financial burden of City services to the nonprofit (fire, police, planning, zoning, overhead, etc.) In Boston, the City calculates this expense as equal to approximately 25% of what the nonprofit would pay were its property to be taxable. The nonprofits are then entitled to a credit or offset for certain services they provide "in kind" that benefit the City.

Unlike Massachusetts, Rhode Island provides cities with partial State reimbursement to host cities for the cost of services to nonprofits. Providence receives \$23 million from the State this year, but we estimate the value of City to services to nonprofits at \$41 million, leaving a gap of \$18 million. Current PILOT payments by some universities fund \$2 million of that gap; however, this still leaves a gap of \$16 million with no participation from the hospitals. (The Mayor's office incorporated into this year's budget an expectation of gaining \$7 million in additional PILOT agreements; however, none have been realized as of this time.) The report will propose ways to close the \$16 million gap that currently exists. If we can do this, we will have a better chance at addressing the most glaring inequities in the property tax code. The subcommittee plans another meeting to take place on Monday, November 21 at 4:30 p.m., at which time we hope to review a second draft of the report. These meetings are open to the public, and your attendance would be welcome.

Sincerely,

