

SAM
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September 14, 2011

Dear Fellow East Siders:

While the City turned a corner this summer by enacting a budget, there remain a number of financial issues that the Council will address this fall. During the coming week, the Finance Committee will continue hearings on the proposed collective bargaining agreements with the police and teachers unions. As part of that process, I will be chairing a hearing of the Education Subcommittee this coming Monday night, September 19, at 5:30 p.m. on the third floor of City Hall. We will hear a presentation from the City Solicitor's office concerning changes the new contract proposes for hiring teachers. For the past two years, Providence has used a "criterion-based hiring" system that matches the needs of students with the preferences of teachers. The proposed contract would modify the present system through a lengthy document entitled the "mediated settlement agreement," which will be explained at next Monday's hearing. We also will hear public comment about the contract in general. The full Finance Committee will meet on Tuesday night to review the auditor's fiscal analysis of the police and teachers contracts. The Council will then hold a public hearing on the two contracts next Thursday night.

While completing these tasks, the Council also is looking at revisions in the tax structure going forward. For the past several months, a Revenue Study Commission has been studying the City's property tax structure, which includes a homestead exemption of 50%. The exemption has allowed the property tax rate for homeowners to remain within the range of other Rhode Island municipalities, but Providence's property tax on businesses and apartments is significantly higher than elsewhere, both at an absolute level and in relation to the amount of property tax charged to homeowners. (Homeowners will argue that Providence would be better off if their tax bill were lowered, and I would agree; however, the Revenue Study Commission's charge is to look at the balance of the relative rates.) This issue came to the fore in the summer of 2010, when the City Council eliminated a 33% exemption for apartment owners, causing their tax rate to rise to double the net rate for homeowners. In 2011, the Council restored 15% of the 33% exemption, but that change cost the City \$10 million on budgeted revenues. This year's budget also contains a 15% apartment exemption.

The landlords have proposed that Providence repeal the homestead exemption entirely. This would reduce substantially their own tax rate, but would require homeowners to absorb a tax increase of around 20%, which is not feasible or appropriate. As a result, the Revenue Study Commission's task is to find a way to reduce the tax burden on businesses and apartment owners without imposing unacceptable increases on homeowners. Part of this solution requires new sources of revenue from such places as the City's tax-exempt property owners, a franchise tax on utilities, new sales taxes or the like. The Commission is therefore looking at ways to (1) reduce, but not eliminate the homestead exemption, (2) limit the tax rate increase for homeowners to a manageable level, (3) calculate a "price tag" of additional revenues required to accomplish (1) and (2) while maintaining the City's current budget and (4) proposing new revenue sources to fund the cost of tax reform.

The Revenue Study Commission will hold its next meeting on Friday, September 23 at 12:00 noon. It aims to submit a report in October. If you are interested in this issue, I encourage you to come to a meeting.

Sincerely,

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