

Testimony from Brian M. Daniels, Executive Director
Governor's FY 2020 (H5151) – Article 9, Local Aid
House Committee on Finance
March 7, 2019

Thank you, Mr. Chairman and members of the committee. We appreciate the General Assembly's support for cities and towns in recent budgets. With property taxes making up approximately two-thirds of municipal revenues, every state dollar to cities and towns is effectively a dollar in property tax relief. Because of the state's recent investments in cities and towns and the school funding formula, coupled with careful fiscal management by local leaders, the total property tax levy has increased by only about 2.0% per year for the last five years – well below the 4.0% cap.

For that reason, cities and towns were disappointed when the Governor's budget proposed cutting the Payment in Lieu of Taxes (PILOT) program by \$5.3 million. When property taxes are the primary source of funding for cities and towns, the presence of state or nonprofit facilities can lead to lost tax revenues in a community. The State established the PILOT program to make up for some of those losses, and we appreciate that the Governor and General Assembly have fully funded the state's PILOT commitment for the last three years.

The PILOT cuts would mean a loss of \$4.1 million to Providence and over \$600,000 to Cranston. Even more urgently, because of a precedent from the 1980s, the Governor's proposed cuts for FY 2020 would actually affect city and town budgets in the current fiscal year (FY 2019). The Governor's cuts would create immediate deficits in our cities and towns, which have limited ability to recover lost state funds. Therefore, the proposed PILOT cuts actually hit our cities and towns twice – \$5.1 million that our communities need to find in the current budget year, and \$5.1 million less as they prepare their FY 2020 budgets.

The Governor's proposed solution to the PILOT cut was to let cities and towns tax non-mission related properties owned by qualifying nonprofit institutions. While some of our communities have called for some level of taxing authority of nonprofit properties, we believe that any such authority should be for new revenues, not to replace state cuts. Also, our tax assessors have noted that it will be extremely difficult to determine themselves which properties qualify as non-mission-driven. We seek your help in reversing this budget cut and restoring PILOT funding in accordance with existing general law.

Our members are also concerned with the Governor's proposed changes to the car tax phase-out. These changes have created uncertainty in cities and towns, with local officials now struggling to

plan for their own FY 2020 budgets. The League has been supportive of the plan enacted in 2017 to phase out the car tax over a six-year period, and our members worked with the Administration and General Assembly to offer support and technical guidance on how best to reach this objective. The final plan was carefully drafted, and execution thus far has been relatively smooth.

However, the Administration’s budget proposal, which would change the terms of the current phase-out, presents a dilemma for cities and towns. With the state budget normally not completed until June, communities do not know whether to assume current law or to expect changes when drafting their municipal budgets and preparing their property tax bills – most of which are issued between May and early July. While we are open to considering modifications to the proposal in the later years of the phase out, we believe that the General Assembly should remain with the current plan so that Rhode Island can eliminate the stigma of having some of the highest car taxes in the nation.

With cities and towns now preparing their budgets for FY 2020, we ask that the uncertainty on PILOT and car tax be resolved quickly to avoid impacts on taxpayers this summer. Thank you for your consideration of our views.