


Examining Alternative  
Revenue Options for the  
City of Providence, Rhode  
Island



# Purpose

- Ameliorate Providence's outsized reliance on property taxes for revenue
  - Property Taxes → 63%
  - State Aid → 17%
  - Misc. Fees → 8%
  - Federal Aid → 5%
  - Other → 4%
- Provide examples of innovative policies used by other cities, which can help Providence generate more revenue + diversify its tax structure
- Disclaimer: This presentation has the purpose of providing alternative examples for the commission to consider
  - Applicability to Providence was considered but not extensively affirmed

# Outline

1. Alternative Fees/Corrective Taxes
  - a. Example: Sugar-Sweetened Beverage Tax
  - b. Case Study: Philadelphia, PA
2. Property Tax Modifications
  - a. Example: Split-Rate Land Value Taxation
  - b. Case Study: Pittsburgh, PA
3. Sales Tax Modifications
  - a. Example: Local-Option Sales Taxation
  - b. Case Study: Des Moines, IA

# Fees/Corrective Taxes

- Cities can leverage fees on certain activities or purchases within city limits in order to generate revenue
  - Examples (10/23 Tax Commission meeting) → Parking Tax, Admissions Tax, Meal and Beverage Tax, Cigarette Tax, etc.
- Corrective Taxes: Additional fees or taxes on certain activities or purchases that incur negative economic costs on the individual and community generally (ex: increased health care costs)
  - Examples: Alcohol Taxes, Marijuana Taxes, Cigarette Taxes, Parking Taxes
- Benefits → Serves dual purpose of generating revenue + discouraging a negative behavior or activity
- Concerns:
  - Regressivity → Lower-income consumers often spend a larger portion of their income on these products
    - Can be countered by directing revenue towards programs that benefit lower-income individuals
  - Revenue limitations → Evidence of long-term growth for corrective tax revenue is often weak and limited
    - These taxes can still be useful as short-term solutions to budget gaps however

# Sugar-Sweetened Beverage Taxes

- Excise tax on drinks sweetened with sugar
- Currently used in 7 US cities and has raised \$134 million annually
  - Typically accounts for ~1% of general fund revenue in each of these cities
- Associated with reduced consumption of sugar-sweetened beverages (SSBs) and improved health outcomes and costs
  - After Berkeley's SSB Tax → Purchases of SSBs dropped 26.8% compared to similar cities without an SSB tax
    - Population's health improved, saving the city money in terms of reduced health care costs (\$100000 per 10000 residents over 10 years)
- SSB Tax Rate can be structured based on the jurisdictions primary motivations
  - Goal → Reducing negative side effects of sugar consumption
    - Tax the drink's sugar content (ex: tiered system based on certain unit thresholds for sugar content)
  - Goal → Revenue generation + administrative simplicity
    - Tax beverage volume (ex: per ounce tax) and tax as many drinks as possible

# Case Study: Philadelphia, PA

- Taxes drinks with a sugar-based sweetener OR artificial sugar substitute at a rate of 1.5 cents/ounce
  - More expansive in that the per volume tax is levied on all sweetened drinks rather than exclusively drinks in which the sweetener adds calories
- Much of the revenue generated from this SSB tax was used to fund Philadelphia's expansion of pre-kindergarten access in public schools
- Generated \$409 million and \$70-80 million/year since its inception
  - Philadelphia's population is roughly 8x population of Providence
- Problems → Revenue projections can fluctuate yearly
  - Philadelphia made the mistake of making an important human capital program (universal pre-K) contingent on solely this revenue source, which led to service cuts when revenues fell below expectations
  - If a SSB-tax is to be successful, it should be as a supplement to general fund revenue rather than the primary source of funding for a specific program

## Revenue Calculations: City of Philadelphia Sugar-Sweetened Beverage Tax (FY2017 - FY2022)

	Total Revenue	General Fund	Pre-K	Debt Services	Community Schools	Program Admin.	Parks & Rec
FY2017	\$39.5M	\$29.4M (74%)	\$8.37M (21%)	\$0 (0%)	\$1.17M (4%)	\$564k (1%)	\$0 (0%)
FY2018	\$77.4M	\$53.6M (69%)	\$21M (27%)	\$0 (0%)	\$1.67M (2%)	\$572k (1%)	\$507k (1%)
FY2019	\$76.9M	\$48.9M (64%)	\$23.1M (30%)	\$1.68M (2%)	\$2.05M (3%)	\$664k (1%)	\$448k (1%)
FY2020	\$69.9M	\$23.7M (34%)	\$35.4M (51%)	\$6.8M (10%)	\$2.67M (4%)	\$930k (1%)	\$411k (1%)
FY2021	\$70.2M	\$23.2M (33%)	\$34.1M (49%)	\$6.8M (10%)	\$4.89M (7%)	\$667k (1%)	\$506k (1%)
FY2022	\$75.4M	\$24.7M (33%)	\$36M (48%)	\$6.8M (9%)	\$6.65M (9%)	\$663k (1%)	\$538k (1%)
All Years	\$409M	\$204M (50%)	\$158M (39%)	\$22.1M (5%)	\$19.1M (5%)	\$4.06M (1%)	\$2.41M (1%)

Source: Office of the Controller - The City of Philadelphia

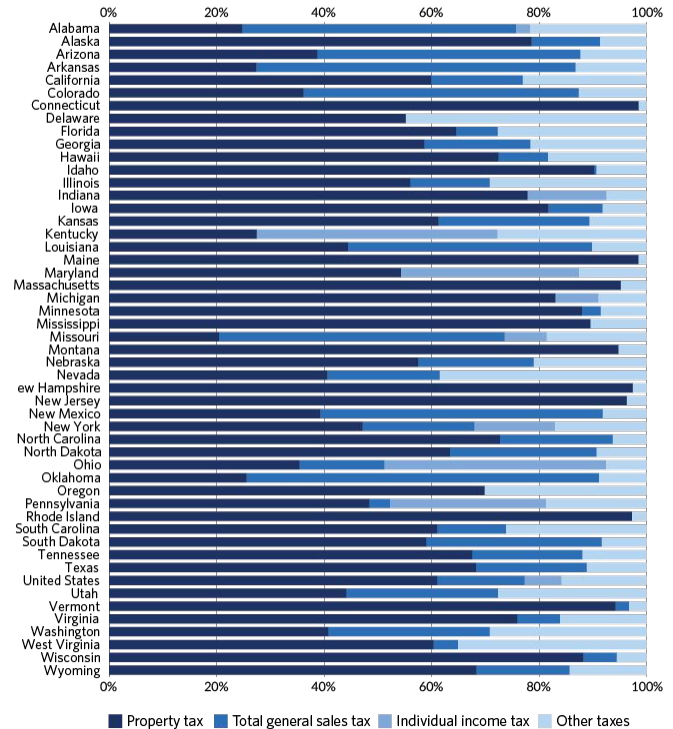
# Property Tax Modifications

- Property taxes are commonly the largest source of municipal revenue
  - Between 60-70% of a municipality's total revenue
- Rhode Island municipalities have the 4th highest reliance on property tax among municipalities in the US
- Traditional Property Tax → Taxes land and improvements at the same rate
  - Can penalize owners for improving their buildings by causing their taxes to rise, which incentivizes land speculation and inflation of real estate prices
  - William Vickrey (1996 Nobel Prize in Economics recipient) → “The property tax is, economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements ... and one of the best taxes – the tax on land or site value”

Figure 2

## Where Local Governments Get Their Tax Dollars

Property taxes are most common, but some localities rely more on sales and income taxes



Source: Pew analysis of 2017 U.S. Census Bureau data

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# Split-Rate Land Value Taxation

- Split-Rate Land Value Taxation → Revises all or part of the property tax system such that the value of land is taxed at a higher rate than the tax rate on the value of buildings and improvements
- Benefits:
  - Increases investment of vacant or underutilized parcels, leading to an increase in the supply of housing and neighborhood revitalization
    - Detroit Mayor Mike Duggan (2023) → Split-rate taxation would tax “empty parcels at higher rates”, forcing their owners “to develop them into something useful”
    - Associated with significant increases in construction and building permits
  - Restricts urban sprawl by promoting density
  - Stabilizes land and housing values
  - Saves money for homeowners → Because for most homeowners the assessed value of the house is nearly five times the value of the site
- Serves more of the purpose of a revenue maximizer rather than a revenue generator:
  - Tax on land is neutral, but benefit is derived from a reduction to the tax on improvements, which leads to positive effects on local building activity
  - Can generate as much revenue as the traditional property that it replaces, but in a way that promotes more equity, economic development, and cyclical stability in municipal revenue

# Case Study: Pittsburgh, PA

- From 1913-2001, Pittsburgh utilized a split-rate land value taxation structure
  - Usually taxed land and improvements according to a 2:1 ratio, although in 1979, the ratio was raised to 5:1
- Tax structure led to increased building activity and less speculation
  - Oates & Schwab (1997) → Compared building activity in Pittsburgh and 14 similar industrial cities in the Northeast
    - Pittsburgh exhibited a 70% increase in value of building permits while all other cities except Columbus experienced declines in building activity
    - “The Pittsburgh tax reform, properly understood, has played a supportive role in the economic resurgence of the city”
  - Among older industrial cities, Pittsburgh become renowned for its continuing building activity and avoidance of dereliction and damaging real estate crashes
- 2001 → Repealed due to political pressure stemming from “infrequent and inaccurate assessments and clumsy rate-setting procedures”
  - While split-rate land value taxation necessitates a strong assessment system, repeal was mostly due to poor administrative practices and political interference rather than a fundamental economic failure
  - After repeal:
    - 19.5% decline in private new construction
    - Increase in property taxes for 54% of homeowners

# Effect on Building Activity

	1960–79	1980–89	% change
Akron	134,026	87,907	- 34.41
Allentown	48,124	28,801	- 40.15
Buffalo	93,749	82,930	- 11.54
Canton	40,235	24,251	- 39.73
Cincinnati	318,248	231,561	- 27.24
Cleveland	329,511	224,587	- 31.84
Columbus	456,580	527,026	15.43
Dayton	107,798	92,249	- 14.42
Detroit	368,894	277,783	- 24.70
Erie	48,353	22,761	- 52.93
Pittsburgh	181,734	309,727	70.43
Rochester	118,726	82,411	- 30.59
Syracuse	94,503	53,673	- 43.21
Toledo	138,384	93,495	- 32.44
Youngstown	33,688	11,120	- 66.99
15 city average	167,504	143,352	- 14.42

NB: All figures are in thousands of US dollars at 1982 values

Source: Oates & Schwab (1997)

# Equivalent Revenues Under Split-Rate LVT

	Single Rate System	Split-Rate System
Land Tax Rate	5%	7.5%
Improvement Tax Rate	5%	2.5%
Assessed Land Value	\$50,000	\$50,000
Land Tax Bill	\$2,500	\$3,750
Small Improvement Value	\$50,000	\$50,000
Big Improvement Value	\$100,000	\$100,000
Tax Bill on Small Improvement	\$2,500	\$1,250
Tax Bill on Big Improvement	\$5,000	\$2,500
Total Tax Bill with Small Improvement	\$5,000	\$5,000
Total Bill with Big Improvement	\$7,500	\$6,250

Source: Banzhaf & Lavery (2017)

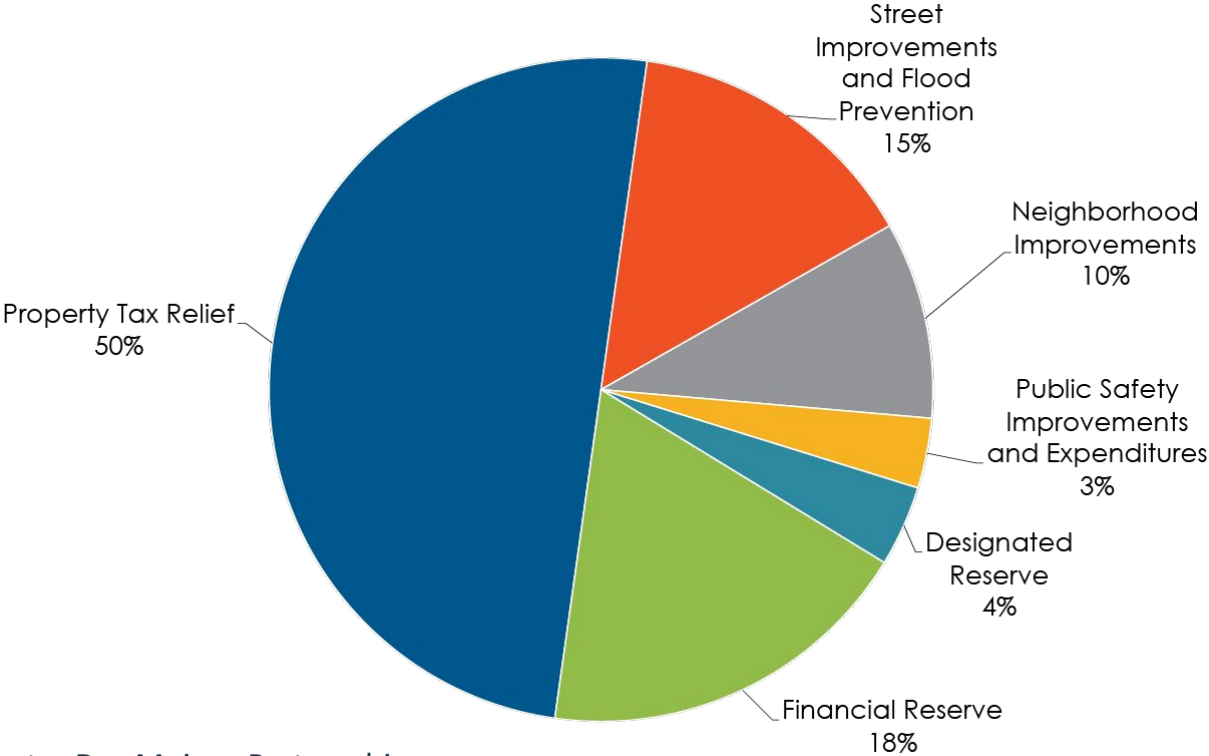
# Local-Option Sales Taxes (LOST)

- 45 US States charge sales tax on certain goods and services
  - On top of the state rate, 38 of the 45 states allow for localities to charge an additional sales tax rate, which is referred to as a local-option sales tax
  - Most states (32) administer the local sales tax at the state level and remit the revenues back to localities, which saves municipalities from additional administrative burdens
- Benefits of Local-Option Sales Taxes:
  - Provides greater revenue diversification and autonomy
    - Less reliant on property taxes
      - Rhode Island municipalities currently have the 4th highest reliance on property taxes among municipalities in the US
    - Less reliant on state aid
      - State funds often come with specific requirements, so a local revenue sources will give cities more control over their spending decisions
  - Shifts tax burden off of residents and onto non-residents who work or shop in the city
    - Less of a tax burden on homeowners and diminishes much of the regressivity concerns associated with the sales tax
  - Allows municipalities to leverage their economic strengths
    - Larger cities with more commercial and retail outlets will be able to capitalize on their economic significance to generate more revenue
- Rhode Island currently has a state sales tax rate of 7%, with no local sales taxes

# Case Study: Des Moines, IA

- Similar population to Providence, capital city, prominent metro area
- 2019 → Voters approved a one-cent LOST
  - Adds 1% to Iowa's statewide 6% sales tax rate
- Yearly revenue generated by Des Moines' LOST:
  - FY2020 → \$38 million
  - FY2021 → \$34.5 million
  - FY2022 → \$46.6 million
- Benefits from Des Moines' Local-Option Sales Tax:
  - Reduced reliance on property tax → Des Moines lowered its property tax levy by 60 cents, to the lowest rate in seven year
    - So homeowners did not see their taxes increase, despite paying a higher sales tax
  - Funding for infrastructure improvements → Increased street paving and storm sewer upgrades + expansion of its program to remove dilapidated, abandoned homes
    - Visibility of these programs increased public support for the LOST
  - Funding for city services → Library hours extended + firefighter and mobile mental health services expanded
  - Tax burden taken off residents → 1/3 of tax remittances came from visitors to Des Moines

# Revenue Allocations from Des Moines Local Option Sales Tax



Source: Greater Des Moines Partnership