2002 Budget Address
Mayor Vincent A. Cianci, Jr.
May 2, 2001

Council President Lombardi, honorable members of the Providence City Council, ladies and gentlemen:

The spending plan I am submitting today is the culmination of a decade of budgetary reconstruction and reform.

Over this period of time, Providence has rebuilt its revenue base, and significantly reduced its dependence on the property tax. As a result, we are saving tens of millions of dollars for our taxpayers every year. We are also increasing our investments in education, public safety, public parks, and the neighborhoods of Providence.

The agenda of fiscal reform has been based on three fundamental concerns:

First, that there was a serious over-reliance on the property tax to pay for governmental services in Rhode Island. Second, that the growth of tax-exempt institutions in Providence and other cities was seriously eroding the tax base of these communities. And, third, that school enrollment and costs in Providence were growing at such a rapid pace that the district needed an unprecedented level of State involvement.

The over-reliance on the property tax affected all 39 cities and towns. In 1996, the Rhode Island property tax was 5th highest among the 50 states. By comparison, the state income tax ranked 28th, and the sales tax ranked 40th. The property tax in Rhode Island was raising more revenue than the income and sales taxes combined. We called for the elimination of the property tax on motor vehicles, and the reduction of the tax on business tangibles. Thanks to the leadership of the General Assembly, and particularly finance chairman Tony Pires, these reforms are now taking place. The Providence delegation deserves credit for its hard work in support of these vital reforms.

Something also had to be done about the fastest-growing sector in

Providence – the tax-exempt sector. The total value of property owned by tax-exempt institutions and government in Providence is now almost 4 billion dollars. Among the top ten property-owners in the city, tax-exempts rank first, second, fourth, seventh and eighth. When I took office in 1991, however, the State was reimbursing communities for only about 5% of the lost taxes from such institutions. By the mid-nineties, we had succeeded in raising the percentage to 27%. And we expect to receive more than $13 million in PILOT revenue during fiscal 2002.

Regarding education, Census 2000 is showing the dramatic increase in immigrant population from Latin America and elsewhere. Since I took office in 1991, the public-school population has increased by more than one-third. In response, we have formed a unique partnership with the State to improve the performance of every public school in Providence. We are creating one of the most progressive urban school systems in the country. But the cost of system-wide innovation is very high – far beyond what the city's taxpayers could afford. And we have succeeded in obtaining our fair share of school aid from the State.

Providence deserves generosity from the State because we contribute so much to the wealth of Rhode

Island. The Providence economy generates more than 25 percent of the economic value in this state. Employers in the city pay more than four billion dollars in salary to 120,000 employees every year. The banks, the hospitals, the universities, and the governmental offices are located here. More than 35% of the shoppers at Providence Place come from out-of-state, creating a tremendous economic boon for the state. The result is that Providence sends up at least $400 million in tax revenue to the State of Rhode Island. As the renaissance of the city continues, and as new rounds of business investment take place, the Providence economy will become even more valuable to the rest of the state. When we ask for additional aid from the state, therefore, we are not asking for a handout. We are asking for our fair share of the common wealth.

I commend the General Assembly for recognizing the need to share more state revenue with the 39 cities and towns. Outside of New England, many local governments rely on income or sales taxes as well as property taxes for their revenue. In Rhode Island, however, the State retains a monopoly over these taxes. But in order for the cities and towns to have a diversified revenue base, the State must be willing to share its revenue.

The additional revenue from the State is being used to reduce property taxes, and to increase investment in education and other important purposes. This year, Providence will receive $57 million in municipal aid – an amount equal to one-quarter of our property tax levy. This amount does not include aid to education. Ten years ago, by contrast, we received only about $2 million from this source.

With a growing, diversified revenue base, Providence has been able to make strategic investments that significantly improve our city.

In the public schools, for example, we have increased the amount we spend per pupil by 67% since 1991. Furthermore, one-quarter of all classrooms in the city have been constructed since 1990, and they have been equipped with the latest in computer technology. We have also reduced the average number of children per school by almost 150. We replaced half-day kindergarten sessions with full-day, and almost 1,500 of our children are now enrolled. We also tripled the amount we spend on school books, increased the building-repair budget by ten-fold, and brought teacher salaries to competitive levels once again.

In the police department, we have increased the number of officers by 60. We are replacing one-third of the front-line cruisers every year. And police officers have immediate access to criminal records from mobile computers located in their cruisers. In the fire department, we have invested more than $3.5 million to purchase new engine, ladder, and rescue vehicles. As a result, the average age of the fleet has declined from 10 years in 1990 to less than six years today.

Of course, we are also constructing a new, state-of-the-art public safety headquarters, which will occupy a prominent site on the border of Route 95.

In the neighborhoods, we provided financing for 4,500 homes to be purchased or renovated. That's 20% of all of the houses in the city, excluding the East Side. In addition, we resurfaced 86 miles of streets, equal to 20% of all the mileage in the city. In recent years, we have renovated, or constructed, half of the parks and playgrounds in Providence. We also built community centers in eight neighborhoods throughout the city.

These strategic investments make an important contribution to the Providence Renaissance. The construction of Providence Place Mall is the most visible evidence of the Renaissance. But easing the tax burden on property owners, creating a first-class urban school system, fixing streets, parks, playgrounds and thousands of houses, are also extremely important. The Providence Renaissance didn't just happen. We earned the designation – with wise investments, visionary planning, attention to detail, and exacting standards.

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The revaluation of property this year gives us an opportunity to institute another type of reform. It has long been recognized that the system of tax rates that was implemented in 1988 needs to be changed. The rate for computers, furniture and other business tangible property – currently $83.86 – is much too high.

In order to attract major business investment to Capital Center, the Route 195 area, and the New Cities, it is clear that the tangible tax rate in Providence must be drastically reduced. To meet this objective, and to conform to a new state law, I propose that the tangible rate be reduced by 40% this year.

This reduction will encourage banks, insurance companies, law firms and other large employers to expand in Providence. And it will remove a major obstacle to the full realization of the Providence Renaissance.

Since 1988, there has also been a great deal of discussion regarding the homestead exemption. The existing exemption offers the most favorable tax rate to owner-occupied and absentee-owned property alike. We believe that, in future years, the best rate should go to owner-occupants only. This is because absentees operate apartment buildings primarily as a business. Typically, absentees have greater financial resources than homesteaders have, and they have less of a stake in the neighborhood as well. Owner-occupants are the most important force in strengthening a neighborhood, and they should be rewarded for their commitment.

Therefore, I propose that Providence adopt a "true" homestead exemption for the first time. Owner-occupants will be offered a rate that is

33% less than the rate we will charge commercial real estate. This is the maximum reduction allowed under state law. According to the city's revaluation consultant, close to 70% of the residential properties in the city are owner-occupied. Absentees will still be offered a 13% reduction in their rate, because we want to minimize the adverse effects of tax increases on renters.

The tax rates we have chosen provide the maximum possible benefit to homesteaders, while also making major reductions in the tax burden on business. The rates increase our overall collection from the property tax, but only by a relatively modest 3.3 percent.

With the new valuations, tax bills for more than 7,000 homeowners will go down. Citywide, the median increase for owner-occupants will be a modest $173. This is less than 50 cents a day. For absentee properties, the increase works out to $22 per apartment per month. Since only about 10% of the city's homeowners appealed their new valuations, it is apparent that most residents believe that their new assessments reflect the current market value of their homes.

As you know, residential values on the East Side and the South Side generally rose by a higher percentage than in other parts of the city. To minimize adverse effects on the South Side, we introduced a bill in the legislature that provides tax relief to low-income homeowners. The bill applies to owner-occupants with incomes of $25,000 or less. For these homeowners, the tax bill can rise by no more than 5.5 percent, regardless of increases in the value of the home. This will certainly help low-income homeowners, including the elderly and handicapped.

The East Side is experiencing an explosive increase in residential values. This is dramatic evidence that affluent families want to be part of the Providence Renaissance. Many houses are being put on the market today at prices that exceed their new tax valuations as of last December. Asking prices in excess of $400,000 are now common. Despite these market trends, the median increase in tax bills for East Side owner-occupants is a modest $760. Keep in mind that the phase-out of the tax on automobiles will save most East Side families thousands of dollars. Therefore, there will be a net decrease in local taxes for most homeowners on the East Side. This is true for the rest of the city as well.

The tax structure I propose today serves our most important purposes as a city. We will offer our most generous homestead exemption to the families that own and occupy their homes. As a result, tax bills for two-thirds of these owners will either decrease, or rise by less than $400. For most residential property-owners, especially on the East Side, the savings from the elimination of the tax on their automobiles will far exceed any increase in the tax on their homes. And for low-income homeowners, tax bills will be permitted to increase by no more than 5.5 percent.

At the same time, we are making substantial reductions in the tax burden on business. Many companies, it is true, face an increase in their real estate taxes. But the tangible tax for building-owners and their tenants is also decreasing by 40% -- all in one year. And we are in the process of eliminating the tax on business inventories over a number of years as well.

These reductions will be very beneficial for the companies that are the foundation of our city economy – especially large banks, insurance companies, retail and wholesale businesses, computer-processing centers, restaurants and hotels. Large businesses currently pay the lion's share of the tangible tax, and will be the principal beneficiaries of its reduction.

The actions I propose will significantly improve our competitive position in attracting business investment. The success of the new mall is causing many developers to consider investing in Providence. Now is the time to reduce our business taxes. We are poised to receive a wave of investment that is unparalleled in our city. This investment will not only rebuild our skyline and provide jobs for our people. It will also assure that business taxes will rise over time, and ease the tax burden on homeowners in the neighborhoods.

The budget I am submitting today lists total expenditures of almost $506 million. Expenditures rise by almost $59 million. Increased spending for education accounts for two-thirds of the total growth of the budget.

As usual, the budget I submit on May 2nd must be provisional, since the legislature has yet to adopt a state budget for next year. However, my budget does assume that the legislature continues to phase out the automobile tax. We believe that the legislature will honor its commitment to almost 400,000 households that own automobiles in this state. My budget also assumes that the legislature and national foundations provide sufficient revenue to the school department, covering operational costs as well as reform initiatives. In addition, we are awaiting the outcome of revaluation appeals.

I urge the honorable City Council to give careful study to the new tax structure I propose, and to the budget I have placed before you. I believe that, on balance, these proposals meet the needs of the time, and position Providence to continue its splendid renaissance for many years to come.

Mayor Vincent A. Cianci, Jr.
May 2 -'01