Proposal: At no cost to the State budget, Grow Smart recommends providing an incentive - and a means - for economic revitalization of urban and town centers through critical infrastructure investments that stimulate “location-efficient” (smart) economic development and permanent job creation. We propose an amendment to RIGL 44-5-2 entitled “Levy and Assessment of Local Taxes” (better known by its 2006 bill number, S-3050). The proposed amendment would allow municipalities to exempt from the levy cap calculation the incremental increase in property tax revenue generated within locally-designated and state-approved “growth centers”, provided that such revenues are reinvested exclusively back into the growth center through a municipal economic development trust account. This proposal, which aims to maximize use of existing assets and efficiency of limited resources, recommends a not-to-exceed safeguard cap to prevent an undermining of the original intent of the levy cap law.

Guidance and instructions for designating and mapping growth centers in accordance with RI’s State Guide Plan are already provided by the RI Division of Planning.

Need: When the property tax levy cap took effect in 2007, it may have also inadvertently created a disincentive for local communities to expand their commercial tax bases. The result is that some local communities are indifferent to new economic development projects because there is little perceived fiscal benefit to the city or town – especially if such development requires municipal investment in infrastructure. As local officials wrestle with budget priorities, it is clear that many lack the capacity or incentive to invest in economic development, based on the number of municipalities at or near the levy cap and the reasons cited (or not) for seeking approval to exceed the cap.

Keys to the success of the proposal:

- Must be meaningful enough to warrant municipal participation and to achieve results.
- Must not undermine the intent of the levy cap to control municipal spending.
- Must restrict the use of exempted funds to qualified physical capital improvements.
- Must not be overly burdensome to administer by municipal officials.
- Must not be overly burdensome to administer/certify by the State Department of Revenue.
- Must be consistent with the goals and objectives of Rhode Island’s State Guide Plan.
- Must reward communities that use land, resources and infrastructure most efficiently.

Officials in Burrillville, Newport and Providence have assisted Grow Smart in evaluating the order-of-magnitude impact of implementing such an incentive. Each municipality measured the increase in property tax growth within its municipally-designated “growth centers” over a 4-year period* as follows:

<table>
<thead>
<tr>
<th>Designated Growth Centers</th>
<th>2005-2009 Increase</th>
<th>Total Property Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Incremental Increase</td>
<td>% of Total Property Tax Levy</td>
</tr>
<tr>
<td>Burrillville Growth Centers</td>
<td>$412,058</td>
<td>1.96%</td>
</tr>
<tr>
<td>Newport North End Devel. District</td>
<td>$362,697</td>
<td>0.62%</td>
</tr>
<tr>
<td>Providence Growth Districts, Corridors</td>
<td>$1,432,429</td>
<td>0.49%</td>
</tr>
</tbody>
</table>

*a 4-year period was selected to gauge impacts over more than a single year.
For the purposes of this order-of-magnitude evaluation, each municipality imported tax assessor’s data into its Geographic Information System (GIS) mapping software. Property tax receipts generated within defined “growth center” boundaries were then isolated. A spreadsheet compared total collections from 2005 to 2009.

Under Grow Smart’s proposal, revenues eligible to be exempted from the levy cap calculation must be deposited into a Municipal Economic Development Trust account to be used exclusively to fund fixed capital improvements in designated “growth centers”. Allowable expenditures from the Municipal Economic Development Trust would be limited to physical infrastructure repair/construction, planning studies, design/engineering, land acquisition, development of public amenities and/or debt service on same.

**Municipalities that may lack capacity to invest in economic development:**

The following chart indicates those municipalities that have reached, exceeded or come within ½ % of the levy cap for the last three years. ¹

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>At or above the levy cap</th>
<th>Within .5% of the levy cap</th>
</tr>
</thead>
</table>

¹ A cap on the property tax “levy” should not be confused with the “tax rate”. The levy is the aggregate amount of property taxes raised from ALL property taxpayers (including new property taxes resulting from economic growth), while the tax “rate” is the rate per $1,000 of assessed value for a given property. The total property tax levy can increase with or without an increase in the tax rate.

**Permitted reasons for exceeding the levy cap:**

Under existing statute, there are four (4) provisions under which a municipality may seek approval to exceed the levy cap. They are listed below along with the number of times each was used as the basis for requesting approval to exceed the levy cap.

1. Loss of non-property tax revenue (27)
2. Fiscal emergency (2)
3. Increase in debt service obligation (10)
4. Growth that necessitates increased expenditure for infrastructure or municipal services (0)

¹ Source: Division of Municipal Finance, Dept. of Revenue Annual Reports on the Property Tax Levy Cap, Fiscal Years 2009, 2010, 2011

Rev. 03.23.11
The fact that no municipality has ever sought approval to exceed the levy cap based on “growth” underscores the concern about stalled economic development at the municipal level. The statute assumes growth would occur first and then necessitate infrastructure investment, when in fact substantial growth might not be able to take place without first making the public investment in infrastructure to accommodate desired growth.

**Process:** Under this proposal, municipalities would follow the normal procedure for forecasting and reporting proposed levy increases to the Department of Revenue. As part of that process, a municipality would be allowed to exempt incremental property tax revenue increases within state-approved “growth centers”, as compared to the base year of FY 2010, up to a maximum of 2% of the total municipal levy, provided that such revenue shall be deposited in a Municipal Economic Development Trust account for the purposes stated above.

In order to participate, municipalities would follow the existing process to designate “growth centers” consistent with the guiding principles in *Land Use 2025*, the state’s long range land-use plan. Specific guidance and instructions are available in the Office of Statewide Planning’s HandBook 16, Section IV that outlines a process for communities to identify and for the state to approve “growth centers”.

**Background:** This concept for jump-starting economic development was first presented and vetted through the 22-member Regulatory Review Task Force convened by Governor Carcieri in 2009. The recommendation to consider such an exemption from the levy cap was included in the *Final Memo and Recommendations* submitted to the Governor in November 2009.

Grow Smart RI has long been a champion for incentives that promote implementation of *Land Use 2025* and that encourage new commercial and residential development in and adjacent to traditional urban, town and village centers. Prioritizing public and private investments in identified “growth centers” helps to maximize existing investments in roads, sewer, water and other critical infrastructure rather than incurring the costs of new infrastructure (and their maintenance) in undeveloped areas. Perhaps more importantly, leveraging such investments can give Rhode Island’s economic development initiatives a competitive edge because it leads to more walkable, livable downtowns and residential neighborhoods that are particularly attractive to knowledge economy start-up businesses, young workers and older workers or retirees seeking urban amenities. Such development reinforces Rhode Island’s energy-efficient development patterns as concerns about rising energy costs continue to increase.

Many investment policies at the state and local level have yet to catch up to or adapt to strategies recommended in *Land-Use 2025*. By putting an end to wasteful public subsidies of sprawl and instead focusing on incentives for future commercial and residential growth and re-growth in centers, Rhode Island can capitalize on its existing assets and reap the economic, environmental, social and community benefits of doing so.