The Rhode Island Housing and Conservation Trust Fund: A Sound Investment for Rhode Island's Future Minority Report by the Rhode Island Association of REALTORS

Overview

The Rhode Island Association of REALTORS (RIAR) is a professional association that consists of 5,000 real estate brokers and salespeople. Our members help the public buy, sell, and rent homes, and our association strongly supports the American Dream: home ownership. We recognize that some low and moderate income Rhode Islanders cannot afford to rent or purchase a home without a subsidy, which is why we actively participated in the Housing and Conservation Trust Study Commission for over a year. While RIAR agrees with many of the concepts outlined in the majority report, we strongly disagree with the funding alternative that the majority proposes: increasing the real estate transfer tax for the second time since 2002.

Areas of Agreement

The Rhode Island Association of REALTORS (RIAR) agrees with a number of proposals that are included in the majority report:

- "[A]dditional resources [for affordable housing and open space] must come from State and municipal funds and private funds." Our primary area of disagreement is the majority's proposal to increase the real estate transfer tax, which was increased less than four years ago, and earmark the proceeds for this purpose.

- Coordination of land conservation and affordable housing planning and programming should occur at the state level.

- Bond funding at the state and local level should continue to be used to preserve natural resources and open space. We further support the use of bond funding for affordable housing to supplement a line item in the budget and allow tax payers to determine their level of support of government subsidized housing.

- The Rhode Island Division of Planning should oversee the Housing and Conservation Board and its staff, which should be limited to an executive director and one administrative assistant.

Funding Issues

Although staff and university students spent a great deal of time researching alternatives from other states to assist the Housing and Conservation Trust Commission, it was clear from the first meeting of this commission that the majority wished to use the real estate transfer tax as a funding mechanism, and RIAR opposed the inevitable proposal to increase this tax. After reviewing research from other states, RIAR's position has been to support a quiltwork of proposals including bonding, budgetary funding and means to adopt voluntary contributions from the private sector. The majority rejected creative solutions that have been adopted in other states to increase voluntary – rather than involuntary - contributions from the private sector on the basis that they would not result in enough revenue. RIAR acknowledges that it is unlikely that proposals such as selling special housing license plates, and using voluntary check offs on the income tax return would generate sufficient revenue to be a sole source of funding subsidized housing; however, these proposals could be used to attract additional private funds – to supplement a line item in the state budget for housing and open space programs.

Areas of Disagreement

Objections to Increasing the Real Estate Transfer Tax

The majority of the Rhode Island Housing and Conservation Trust Study Commission recommends that the real estate transfer tax imposed on home sellers should be increased for the second time since July 1, 2002 at nearly double the original rate and would dedicate a portion of the increase so that it would not be subject to appropriation by the General Assembly. The Rhode Island Association of REALTORS opposes placing the burden of creating affordable housing and open space on only those property owners who happen to sell their homes.

Adopting the majority's proposal would result a 96% increase in the transfer tax since 2002. Less than four years ago, the Rhode Island General Assembly increased the real estate transfer tax from $1.40 per $500 to $2 per $500, the current rate stated in R.I.G.L.§ 44-25-1, ($2.80 per $1,000 to $4 per $1,000) to make Rhode Island consistent with the tax rate in Massachusetts.

Increasing the tax to $2.25 per $500 ($5.50 per $1,000) would represent an increase of 96% from the original rate of $1.40 per $500 before the tax increased on July 1, 2002.

Increasing housing taxes to fund government subsidized affordable housing will make the American Dream less accessible for middle income Rhode Islanders. We support Smart Growth and preservation of open space, which is why we met for more than a year to discuss possible sources of funding for affordable housing and open space.

The majority proposes tax increases claiming that the recent boom in the real estate market is responsible for a lack of affordable housing: in other words, that because a senior who sells her home for market rate is somehow responsible for a lack of affordable housing. In reality, regulatory hurdles, excessive impact fees, zoning restrictions, and NIMBY-ism have all discouraged the production of new affordable housing. Rhode Island ranks among the lowest in the country in new housing production. [*Rhode Island Builder Report*]

In addition, while preservation of open space has earned popular support statewide in terms of open space bonding and at the local level, the more land that is preserved places a premium on the value of the remaining land on which affordable housing could be built.
The majority report states that 23% of the state's total land acres are "protected by purchase of land or development rights/conservation easements." **The more open space that is preserved, the less land is available to build affordable housing.**

Rhode Island has the sixth highest property tax burden in the country.
Currently, Rhode Island's property tax burden ranks as the 6th highest in the country. The high property tax burden affects the ability of this state to promote economic development and compete effectively with our neighboring states. "Rhode Island's property tax burden is placing the State at a

competitive disadvantage and making it increasingly difficult for some Rhode Island to afford to live in their home."[Rhode Island Public Expenditure Council report - "FY 2005 Property Tax Burdens in Rhode Island"] Our neighboring state of Massachusetts, ranks 17th. [RIPEC State and Local Property Tax Collections Per $1,000 of Personal Income Fiscal Year 2002].

An increase in the real estate transfer tax is an additional property tax. The real estate transfer tax is an additional tax on home owners, who are already overburdened by their property taxes.

An increase in the transfer tax could rob seniors of equity acquired through years of home ownership. Rhode Island enjoys the third highest population of senior citizens in the country. Yet, the transfer tax taps the equity in the homes in which seniors have lived for many years. Since the majority has not made a firm recommendation to increase the transfer tax by a specific percentage increase it is not possible to know precisely how great the burden on seniors could be. Seniors who wish to sell their big family home to downsize could be deprived of much needed equity to be used to offset the cost of new housing, medications, and heating costs.

The transfer tax has a very narrow tax base – the burden falls on a small percentage of residents of the state: those who are selling their homes.
It is unfair for a small percentage of residents in the state to shoulder the burden of paying a tax to subsidize housing for which they derive no direct benefit. The funding of subsidized housing is normally a function of government. The burden should be distributed fairly among all residents of the state.

The transfer tax is regressive because it taxes all income levels at one flat rate.
The transfer tax does not take into account income levels of the taxpayer and their ability to pay. Both high and low income earners will be paying the same amount of tax; therefore low income earners will pay a higher percentage of their income and bear the highest burden. (This is true even if a two-tiered approach that exempts sales below a certain number is proposed because it still does not take into consideration the income levels of the individual sellers in each tier).

The transfer tax is highly volatile and dependent upon market conditions.
The transfer tax should not be relied upon as a steady stream of revenue for a particular purpose because it is a stream of revenue that is very volatile. While home sales have steadily increased in the past years, there is no predicting the future of home sales. In the 1980s homes sales volume had declined by 50 percent from the previous decade. Sales also fell in the early 1990's by 20 percent. In the current market, some economists predict that rising interest rates could lead to a significant drop in homes sales. As the real estate market continues to slow, will the majority approach the General Assembly year after year to request additional increases in this tax.

Conclusion

The Rhode Island Association of REALTORS supports the creation of affordable housing – both market and government subsidized – and the preservation of open space. We also support the concept of "smart growth" to use our resources wisely, which is why we support most of the majority report. However, we believe that all Rhode Islanders should share the costs of these programs rather than shifting the burden to tax the nest egg of working and middle class families, seniors and others who have built equity in their home.