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WSJ: Cuts in State Aid Leave Cities Reeling.

PROVIDENCE, R.I.— John Rousseau likes to get a rise out of his Louisiana relatives by talking about taxes in his adopted home here.

Providence charges an annual tax on the value of vehicles, much like a property tax. This year, the levy on Mr. Rousseau's Honda was \$927, up from \$99 three years ago. The 63-year-old advertising consultant said that when he recounted the figures at a recent family wedding, "everyone's mouths flew open."

Rhode Island's capital has been squeezing its 178,000 residents for more cash since losing a significant chunk of a big revenue source: state aid.

Most city budgets rely on a combination of property-tax revenue, fees and state aid. After the recession bit into sales- and income-tax revenue, states cut overall aid by 6.2%, or \$31 billion, from 2009 to 2011, according to the most recent data available from research nonprofit Pew Charitable Trusts. Although state coffers have been growing nationwide, aid to cities hasn't been restored to precrisis levels.

Providence saw one of the largest percentage-point drops in aid from 2007 to 2012 among the nation's 250 largest cities, according to an analysis by The Wall Street Journal of data provided by Merritt Research Services LLC. A few cities' figures weren't available by August 2013, when Merritt collected the figures.

Last year, Rhode Island gave the city \$37 million, or 8.39% of Providence's general fund, the main pot of cash that pays for employees and basic services. In 2007, that figure was \$67 million, or 16.74% of its general fund.

Mayor Angel Taveras, a Democrat running for governor, floated the possibility of bankruptcy when confronted with a \$110 million deficit upon taking office in 2011. Instead, Providence raised taxes and asked for contributions from nonprofits that don't pay property taxes. The city also cut spending.

The state said it had little choice: During the economic crisis, tax revenue fell while spending on social programs rose, said Susanne Greschner, chief of the municipal-finance division in the state's revenue department.

Fitch Ratings said Rhode Island's economy shrank 1.5% from 2007 to 2012, among the worst drops in the nation. Last year's 10.4% state unemployment rate was behind only Nevada's and California's, the firm said.

Providence, founded in 1636 at the head of Narragansett Bay, once was a prosperous maker of jewelry, textiles and other manufactured goods. It revitalized itself in the 1980s by creating a new waterfront and attracting condos, an upscale downtown mall and a thriving arts scene.

But it still is hurting from a decline in its traditional industries. "The city has had a real difficult time

transitioning from that base to the new sort of service-based economy,” said Marion Orr, director of the Taubman Center for Public Policy & American Institutions at Providence’s Brown University.

The city’s unemployment rate was 11.5% in August, compared with a national rate of 7.3%, according to the most recent federal data.

There are few options for the government to tap more money. The city’s commercial-property taxes are the highest in the nation among major cities, at \$5,085 per \$100,000 of land-and-building market value, according to a May report by the Lincoln Institute of Land Policy.

“It’s a tough environment to succeed in,” said Michael Manni, whose family owns the 90-year-old LaSalle Bakery. A 2012 report on commercial rates commissioned by Providence City Council used the bakery in one example and found it paid 21% more in taxes than it would in neighboring Cranston.

In perhaps the most vivid symbol of the city’s challenges, its tallest building, a distinctive Art Deco structure built in 1927, lost its last tenant in April. The tower is known locally as the “Superman building” for its resemblance to the Daily Planet newspaper building in the comic books and 1950s TV show.

“It’s a 428-foot stark reminder of the economic woes facing Rhode Island,” said Bill Fischer, spokesman for owner High Rock Development LLC, which is trying to find another use for the skyscraper.

The city raised residential property-tax rates twice in recent years, to \$19.25 per \$1,000 in value this past July.

Jane Peterson moved to Providence eight years ago with her architect husband, attracted by the city’s older homes and cultural life supported by the city’s seven college campuses. They are paying about \$1,600 more in property taxes since the July increase, boosting their 2013 bill by 23% from a year earlier, city records show.

“We said, ‘OK, we can do this. It’s worth it and we love the city,’ ” said Ms. Peterson, who heads a volunteer park conservancy. “But we wonder. if it’s going to happen a lot what we would do.”

About 39% of Providence’s land is held by nonprofits and doesn’t generate property taxes, the city says. Four colleges—Brown, Rhode Island School of Design, Johnson & Wales University and Providence College—and several hospitals agreed after negotiations with the mayor last year to pay about \$48 million total to the city by 2022 in lieu of property taxes.

If the universities and major hospitals did pay property taxes, officials estimate they would contribute \$105 million annually, a big boost to the city’s finances.

Meantime, Providence has made spending cuts. The firefighters union agreed in 2012 to forgo an annual pension cost-of-living increase in exchange for an extension of their contract. Union head Paul Doughty said that unlike in past negotiations, city officials laid out spreadsheets and reports to make it plain the city was hurtling toward bankruptcy. He said some members still resisted because the city had skipped some required pension payments. “Do you want to be right?” Mr. Doughty said he replied. “Or do you want a pension?”

The city had 1,630 employees as of July, down 10% from three years earlier. It closed four of 45 schools and curtailed spending on the court system, parks and the finance department.

In September, the credit-ratings firm Standard & Poor's upgraded its outlook on Providence's municipal bonds to stable from negative, meaning a downgrade is less likely. But S&P kept its triple-B rating, two notches above "junk" territory.

"We're in better fiscal shape than we were," said Neil Steinberg, president of the Rhode Island Foundation, a philanthropic organization involved in revitalizing the local economy, "but still not out of the woods."

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