

# Governor's FY 2019 Budget: Articles

Staff Presentation to the House Finance  
Committee  
March 6, 2018

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# Introduction

- Article 11, Workforce Development
- Article 12, Economic Development

# Article 11- Workforce Development

- Redirects value of interest earnings on unemployment trust fund to the job development fund
  - Increases job training program resources
  - Swaps reduced UI rate for JDF rate increase
- Codifies “Real Jobs” program and alters other training programs based on current priorities

# Article 11- Workforce Development

- Job Development Fund
- Real Jobs RI
- Job Training Tax Credit Repeal
- State Work Immersion Program and Non-Trade Apprenticeship Program
- Misclassification Task Force and Workplace Fraud Unit

# Article 11 – Background

- Unemployment insurance taxes paid by employers
  - Federal and state component
    - Federal tax used for:
      - Administrative expenses
      - Loans to states when needed to pay benefits
      - Partially reimburse states for extended benefits
    - State tax used solely for benefits
  - Payments and uses tracked by employer

# Article 11 – Background

- State has 9 tax schedules: A - I
  - Each schedule has 28 tax rate groups
- Schedules based on reserve ratio of fund as of September 30 of prior year
  - Trust Fund balance divided by total wages paid during year = reserve ratio
- Individual rates based on each employers' level of reserves

# Article 11 – Unemployment Insurance

2018	Effective Rate	Wage Base	Tax per Employee
Federal	0.6%	\$7,000	\$42
State*	0.89%-9.49%	\$23,000	\$205 - \$2,183
		\$24,500	\$218 - \$2,325
<b>Total</b>			<b>\$247 - \$2,367</b>

*\*Does not include Job Development Assessment of 0.21%*

# Article 11 – Unemployment Insurance

State Unemployment Tax Rates, 2017

State	Wage Base	Minimum Rate	Maximum Rate
Connecticut	\$15,000	1.9%	6.8%
Maine	\$12,000	0.55%	5.46%
Massachusetts	\$15,000	0.73%	11.13%
New Hampshire	\$14,000	0.1%	7.5%
Rhode Island	\$20,600 or \$22,100	1.69%	9.79%
Vermont	\$17,300	1.3%	8.4%

# Article 11 – Background

- Employers who pay UI taxes also subject to additional 0.21% job development assessment
- Directed to the Job Development Fund
  - Admin expenses
  - Programs
  - Lost federal funds

Schedule - Level	JDF	UI	Total
H - 3	0.21%	1.29%	1.50%
G - 6	0.21%	1.79%	2.00%
G - 15	0.21%	4.19%	4.40%
F - 5	0.21%	1.29%	1.50%
F - 28	0.21%	9.19%	9.40%

# Article 11 – Job Development Fund

- Job Development Fund
  - Under current law, 0.02% of the JDF tax is dedicated to support core services
    - Unemployment insurance
    - Employment services programs
  - Remaining 0.19% is allocated at the discretion of the Governor's Workforce Board
    - Subject to appropriation

# Article 11 – Job Development Fund

- Governor's Workforce Board
  - Policy-making body on workforce development
    - 23 members on Board, appointed by Governor
    - 18 members must be from the public
  - Invests in a wide range of programs and services
    - Real Jobs RI, internships, incumbent worker training, continuing adult education

# Article 11 – Job Development Fund

- Current Law:

Actual Year	Taxable Wage Base	0.02 %	0.19 %	Total
<b>2014</b>	\$6,856,911,303	\$1,371,382	\$13,028,131	\$14,399,514
<b>2015</b>	\$7,237,220,432	\$1,447,444	\$13,750,719	\$15,198,163
<b>2016</b>	\$7,547,919,037	\$1,509,584	\$14,341,046	\$15,850,630
<b>2017</b>	\$7,960,942,475	\$1,592,188	\$15,125,791	\$16,717,979

*2017 wage base is estimated*

# Article 11 – Job Development Fund

GWB Cash Flow	FY 2016	FY 2017	FY 2018
Carry-In	\$5,407,409	\$5,590,858	\$7,029,106
Collections	14,019,392	14,739,215	15,725,500
General Revenue	869,462	630,862	748,334
Interest Earnings	24,348	49,282	50,000
DOR Employer Tax Unit	(752,193)	(793,615)	(800,000)
<b>Total Available</b>	<b>\$19,568,418</b>	<b>\$20,216,602</b>	<b>\$22,752,940</b>
Internal Expenses	1,017,581	1,037,753	1,419,585
<b>Available for Contracts</b>	<b>\$18,550,837</b>	<b>\$20,048,311</b>	<b>\$21,333,355</b>
Obligated	12,959,979	12,149,743	18,342,724
<b>Carry Forward</b>	<b>\$5,590,858</b>	<b>\$7,029,106</b>	<b>\$2,990,631</b>

*FY 2018 estimated based on current obligations*

# Article 11 – Job Development Fund

- Job Development Fund
  - As drafted, Section 2 allows the Department to use the entire 0.21% to support core services
  - DLT indicated the intent is to dedicate any amount above the 0.19% for core services
    - Gives DLT the flexibility on how to use additionally generated funds without GWB approval
  - Amendment request received March 5, 2018

# Article 11 – Job Development Fund

- Creates an add-on to the JDF tax
- Employers would pay same total rate
  - 0.21% JDF tax would be increased by a calculation done each September 30
    - Effective the following year
  - UI tax rate would be revised down the same amount to offset the add-on
- Dedicates the funds to core services

# Article 11 – Job Development Fund

- Example of calculation

2015 Trust Fund Interest		2017 JDF Tax Add-on
\$1,632,638		0.02%
<hr/>		+
\$7,960,942,475	X 100	Current law 0.21%
2015 110% taxable wages		<hr/>
		2017 JDF Tax 0.23%

- For an employer who paid 9.00% in taxes:
  - Current law: 0.21% JDF tax and 8.79% UI tax
  - Proposal: 0.23% JDF tax and 8.77% UI tax

# Article 11 – Job Development Fund

- Examples of additional years:

Actual Year	Current Law Deposit 0.21%	Calculated Add-on	Additional JDF Funding
<b>2016</b>	\$15,850,630	0.00%	none
<b>2017</b>	\$16,717,979	0.02%	\$1,592,188
<b>2018</b>	\$17,553,878	0.05%	\$4,179,495
<b>2019</b>	\$18,389,777	0.07%	\$6,129,926

# Article 11 – Job Development Fund

- Limitations
  - No add-on if highest tax schedule is in effect for the ensuing calendar year
    - To avoid exacerbating when the reserves are too low
  - No add-on if the employment security trust fund did not earn interest in the prior year

# Article 11 – Job Development Fund

- Estimated effects
  - Fund Balance Projection for 2019:
    - Without Proposal - \$479.8 million
    - With Proposal - \$473.2 million
    - \$6.6 million or 1.4% difference
  - Less funding for benefits with proposal

# Article 11 – Job Development Fund

- DLT projections for tax schedules:

Actual Year	Current Law		Proposal	
	Tax Schedule	Reserve Ratio	Tax Schedule	Reserve Ratio
<b>2017</b>	H	1.92%	H	1.92%
<b>2018</b>	G	2.32%	G	2.32%
<b>2019</b>	G	2.52%	G	2.49%
<b>2020</b>	F	2.56%	G	2.62%
<b>2021</b>	F	2.49%	F	2.55%
<b>2022</b>	G	2.45%	F	2.41%
<b>2023</b>	G	2.42%	G	2.37%

- Proposal delays schedule change by one year

# Article 11 – Real Jobs RI

- Real Jobs RI – established in FY 2016 as part of the Governor's jobs plan
  - Demand-driven workforce and economic development initiative
  - Goal develop partnerships
    - Bring together various entities to address business workforce demands
  - Targets incumbent workers, out-of-work Rhode Islanders, as well as low and no-skilled workers

# Article 11 – Real Jobs RI

- Codifies Real Jobs RI into law within the Governor's Workforce Board
- Primary program by which the state:
  - Creates, coordinates, supports and holds accountable industry-led partnerships
  - Places new employees into immediate job openings, up-skills existing employees, and creates pipelines for future workforce needs

# Article 11 – Real Jobs RI

- Establishes definitions for the program
- DLT may promulgate guidelines or regulations
  - Implementation
  - Participation terms and conditions
- GWB responsible for education and outreach
  - May also revoke grant funding from a partnership for cause

# Article 11 – Real Jobs RI

- Program will:
  - Provide grants on a competitive basis for sector partnerships, workforce training programs, and other qualified programs
  - Develop and review performance goals and metrics for each approved partnership and continually iterate to build more effective programs based on the needs of employers, the workforce, or program participants

# Article 11 – Job Training Tax Credit Repeal

- Repeals tax credit established in 1996
  - Provides qualifying employers with credits against their state tax obligations
    - Expenses associated with employee training
  - Used by less than 6 companies annually
    - \$450,000 revenue add
    - DLT notes that related policies and processes necessary to analyze training costs and determine if applicants will be afforded credits have not been established

# Article 11 – Job Training Tax Credit Repeal

- With the codifying of Real Jobs RI, the funding related to this tax credit into Real Jobs
  - Employers would be encouraged to address training needs through Real Jobs
  - Governor's FY 2019 budget includes \$0.5 million from general revenues for Real Jobs

# Article 11 – Other Workforce Programs

- State Work Immersion Program
  - Provides work experience to job seekers and assists employers with training individuals for potential employment through the GWB
    - Designed for post secondary students, recent college graduates, and unemployed adults
  - 50% reimbursement of the cost of not more than 400 hours or work experience over 10 weeks
    - If a participant is hired by the employer, reimbursement may be 75%

# Article 11 – Other Workforce Programs

- Article 11 removes statutory limitations
  - Opens the program to students under 18
  - Removes 400 hour and 10 week limitation on the allowable reimbursement period
  - Employers may be eligible to receive a reimbursement of up to 75% for participant wages
    - Legislation is silent on what determines eligibility for reimbursement

# Article 11 – Other Workforce Programs

- Non-Trade Apprenticeship Program
  - Current law:
    - Annually awards funding to one new initiative proposed and operated by the Governor's Workforce Board Industry Partnerships
    - Designed for post secondary students, recent college graduates and unemployed adults
  - Article 11 opens the program to students under 18 as well as any industry, not only those with partnerships

# Article 11 - Restricted Receipt Account

- Establishes “misclassification task force and workplace fraud unit” restricted receipt account
  - Receipts would be from penalties and fees assessed by the unit
    - Recent collections:
      - \$0.1 million in 2016 and \$1.8 million in 2017
      - Fine amounts increased during 2017
  - Would fund expenses related to this unit
    - Any expenses beyond the costs of the unit would be deposited to the General Fund

# Article 11 - Restricted Receipt Account

- Current Unit
  - 12.0 FTE costing \$1.3 million
  - Funded from general revenues and workers' compensation restricted receipts
  - Responsibilities:
    - Enforce prevailing wage requirements
    - Enforce wage and hour issues
    - Identify misclassification of employees as contractors
    - Conduct administrative hearings

# Article 11 - Restricted Receipt Account

- Governor's budget includes 9.0 new positions for the unit
  - \$0.6 million from the new account
  - \$0.3 million from workers' compensation
  - Would bring total unit to 21.0 FTE
  - DLT estimates an additional \$2.7 million from the proposed staff enhancements
    - Not assumed in the budget
- Unconventional restricted account proposal

# Article 12 – Economic Development

- Changed Programs
  - Rebuild Rhode Island
  - Small Business Assistance
  - Qualified Jobs Tax Credits
- New Programs
  - Refundable Investment Tax Credit
  - Manufacturing Site Readiness
  - Municipal Technical Assistance
- Sunset Repeals

# Economic Development Incentives – Background

- 2015 Assembly enacted 15 programs as part of the FY 2016 budget in support of the Governor's economic strategy
  - 5 tax incentive programs
  - 10 other programs, investments & initiatives
- Amended in 2016 and 2017 to modify some programs and add the Air Service Development fund

# Economic Development Incentives - Background

- Most supported by savings from debt restructuring spread over 2 years
- Some supported by general revenues through regular Commerce Corporation funding
- Programs given Dec 31, 2018 sunset
- All have annual reporting requirements
  - Tax credit programs reporting more extensive

# Economic Development Incentives - Background

	<i>FY 2016</i>	<i>FY 2017</i>	<i>FY 2018 E</i>	<i>FY 2018 R</i>	<i>FY 2019</i>
Rebuild RI	\$ 1.0	\$ 25.0	\$ 12.5	\$ 9.5	\$ 15.5
Closing Fund	5.0	8.5	1.8	1.8	1.0
I-195 Fund	25.0	-	2.0	2.0	1.0
Small Business Asst.	5.5	-	-	-	0.5
Wavemaker	1.8	2.0	0.8	0.8	1.6
Streetscape	1.0	1.0	0.5	0.5	0.5
Innovation Initiative	1.0	1.5	1.0	1.0	1.0
Cluster Grants	0.8	0.5	-	-	<b>0.1</b>
P-Tech	0.9	1.2	-	-	0.2
Air Service	-	1.5	0.5	0.5	0.5
Anchor Institution	0.8	-	-	-	-
<b>Grand Total</b>	<b>\$ 42.8</b>	<b>\$ 41.2</b>	<b>\$ 19.1</b>	<b>\$ 16.1</b>	<b>\$ 22.8</b>

\$ In Millions

Table corrected 4.10

# Economic Development Incentives - Background

<i><b>New Initiatives</b></i>	<i><b>FY 2019</b></i>
Refundable Investment Tax Credit	\$ 0.3
Municipal Technical Assistance	0.2
Manufacturing Site Readiness	0.2
<b>Grand Total</b>	<b>\$ 0.7</b>

*\$ In Millions*

# Rebuild RI Tax Credit: Current Law

- Credits for real estate development equal to lesser of 20% project costs or funding gap
  - Up to 30%, if they met designated criteria for rehabilitation, reuse, sustainability, affordability or targeted industry :
    - Project max of \$15.0 million
    - Redeemed over 5 years
    - Credits transferable
  - Refundable at 90% of value

# Rebuild RI Tax Credit: Current Law

- 2016 Assembly revised earlier legislation to address issues raised
  - Capped credits allowed under program at \$150 million
  - Allow use of funds for Tax Stabilization Incentive reimbursements
    - Rebuild credit seekers can be required to obtain a stabilization agreement for project
  - Modified language to deal with issues raised by developers and financing entities

# Art. 12 - Rebuild RI Tax Credit

- Expands eligibility for:
  - Projects occupied by at least 1 manufacturer
  - Qualified Small Business Projects (QSBP)
    - Small business project: commercial project within 1 block\* of an Main Street Streetscape award or a business district defined by the Corporation
- Current law, limits annual credit claimed to 15%-30%
  - Eliminates this provision for projects with a financing gap of less than \$0.5 million

\*Updated 4/10 to correct distance; block undefined

# Art. 12 - Rebuild RI Tax Credit

- Eliminates project cost and minimum square footage thresholds for Manufacturers & QSBP
  - Minimum cost set by Corporation

Rebuild RI Project Thresholds			
Dev. Type	Cost	Min ft <sup>2</sup>	Other min
Commercial	\$5.0 million	25,000	1+ Businesses and 25 FT Employee
Multi-Family Residential*	Discretionary	20,000	20 Residential Units
Mixed Use	\$5.0 million	25,000	1 Business

*\*Hope Community*

# Small Business Assistance: Current Law

- Capital access for business with < 200 employees having difficulties obtaining financing from traditional lenders
  - For start up, improvement or expansion
    - Focus includes minority & women-owned
  - Loans amounts from up to \$750,000
    - Sets aside 10% of funding for microloans of \$2,000-\$25,000
  - Commerce can provide direct assistance or partner with lenders
    - Not required to be limited to loans

# Art. 12 Small Business Fund

- Expands microloan set aside to 10%-25%
  - Budget includes \$0.5 million new funds
- Commerce allocated all of its capacity among the lenders
  - Microloan capacity nearly all committed
    - \$445,000 allocated
    - Less than \$85,000 left
  - Other loans have roughly half committed
    - \$4.9 million allocated
    - \$2.3 million left

# Art. 12 Small Business Fund

Small Business Assistance Uses to Date					
Lender	Alloc.	Tech Assist	Balance	SBAP Funds	Total Loans
Business Dev. Corp RI	\$ 1.00	\$ 0.10	\$ 0.31	\$ 0.60	\$ 1.52
SE Econ. Dev Corp	1.00	0.10	0.16	0.74	2.04
Business Dev. Cap'l Corp- MA	1.90	0.82	1.00	0.04	0.85
Community Investment Co	1.00	0.10	0.77	0.13	0.74
<i>Social Enterprise Greenhouse</i>	<i>0.13</i>	<i>0.03</i>	<i>0.08</i>	<i>0.02</i>	<i>.02</i>
<i>Center Women &amp; Enterprise</i>	<i>0.15</i>	<i>0.04</i>	<i>(-)</i>	<i>0.12</i>	<i>0.12</i>
<i>Community Investment Co</i>	<i>0.17</i>	<i>0.04</i>	<i>0.01</i>	<i>0.12</i>	<i>0.22</i>
<b>Grand Total</b>	<b>\$ 5.35</b>	<b>\$ 1.23</b>	<b>\$ 2.4</b>	<b>\$ 1.77</b>	<b>\$ 5.50</b>

Amounts in Millions; *Italics = Microloans*

# New Qualified Jobs Tax Credit: Current Law

- Credit of between \$2,500 and \$7,500 for new full-time job creation
  - Credit cannot be more than employee's income tax withholdings
- Allowed against all tax types
- Replaced Job Development Act by closing it to new recipients
  - Companies already certified can continue to get JDA credits

# New Qualified Jobs Tax Credit: Current Law

- Company must attest that jobs would not be created in RI “but for” credit
  - Must maintain agreed job level for agreement period, typically 10 years
- 22 agreements through February 2018, 6 more than March 2017
  - Approx. 13 relocated from out of state
  - Totaling 2,151 required jobs, up to 2,756
    - 813 more than March 2017, incl. a 500 emp. award
  - Total of \$43.4 million of committed awards

# Art. 12 - New Qualified Jobs Tax Credit

- Reduce threshold for manufacturers of 10% of its current workforce or 100 jobs
  - Manufacturer of 10 eligible for 1 job

	Current Law		Art 12	
	Employees	New Jobs	Employees	New Jobs
<b>Targeted Industry</b>	≤100	10	No Change	
	>100	≥10% of empl. base or ≥100		
<b>Non-targeted Industry</b>	≤200	20		
	>200	≥10% of empl. base or ≥100		
<b>Manufacturers</b>	No current distinction		Any	10%

# Art. 12 - Refundable Investment Tax Credit

- Expands existing Investment Tax Credit beyond C corporations
  - Allowed for others prior to PIT reform
- Manufacturing associated activities
  - Equipment with 4+ years of useable life
  - Property/Structural with 4+ years of useable life
  - Technology

# Art. 12 - Refundable Investment Tax Credit

- Establishes a refundable credit
  - Refundable for award year only
    - Carryover against future liabilities after that
- Credit up to \$0.1 million, subject to appropriation
  - Non-transferrable/assignable
- Budget includes \$0.3 million

# Art. 12 - Municipal Technical Assistance

- Establishes fund for the Commerce Corp. to assist municipalities in streamlining zoning, planning, & permitting processes
  - By application
    - Grants, loans and “other forms of financing”
- Annual reporting on commitments, disbursements, usage, economic impact
- Budget includes \$0.2 million

# Art. 12 - Manufacturing Site Readiness

- Establishes fund for the Commerce Corp.
  - To complete 'due diligence' activities for inventory of 'vetted pad-ready sites'
    - 'Due diligence' broadly defined
    - 'Vetted pad-ready' not defined
- Corporation to qualify consultants, engineers or other professionals for those activities
- Budget includes \$0.2 million
  - Assumes 2 \$75k site awards

# Art. 12 - Manufacturing Site Readiness

- Pennsylvania has similar program
  - Grants to public sector entities
  - Loans only to private developers
  - Capitalized \$300 million debt issuance
- Tennessee has similar program
  - State uses private vendor to assess and certify sites
  - Only available for public owned land
  - Capitalized roughly \$20 million

# Program Accountability & Sunsets

- Commerce Corp Board responsible to establish accountability, reporting, and outcome standards for each of its programs including
  - Outcomes to measure efficacy of each program
  - Standards for risk analysis, especially for loans and loan guarantees
  - Process for reporting on all of the Corporation's financial commitments

# Program Accountability & Sunsets

- Economic toolbox programs include reporting requirements, some from multiple agencies
  - Inconsistent, some more thorough
  - Some Div. of Tax reporting duplicative
- Office of Revenue reports include
  - Cost-benefit analysis, 5-year revenue impact projection, jobs directly created
  - recommendation to improve measurement efficacy

# Art. 12 - Program Accountability & Sunsets

- Repeals the Dec. 31, 2018 Sunset on all programs
  - Excludes Anchor Institution Tax Credit
  - Air Service has no sunset
- Requires the Commerce Corporation to assess the performance, efficacy and economic impact of initiatives established by the 2015 Assembly
  - Excludes Air Service

# Art. 12 – Program Reporting

	<i>Art. 12</i>	<i>Taxation</i>	<i>Website</i>	<i>Econ</i>	<i>ORA</i>
Rebuild RI	Yes	Yes	Yes	Potential	Yes
TIF	Yes	Yes	No	Yes	Yes
TSA	Yes	Yes	No	Post Project	No
Closing Fund	Yes	No	No	Post Project	No
I-195 Redev. Fund	Yes	No	Yes	Post Project	No
Small Business Asst.	Yes	No	No	No	No
Wavemaker	Yes	No	Yes	Post Project	Yes
Streetscape	Yes	No	No	Post Project	No
Innovation Initiative	Yes	No	Yes	No	No
Cluster Grants	Yes	No	Yes	No	No
P-Tech	Yes	No	Yes	Potential	No
Air Service	No	No	No	No	No
New Qualified Jobs	Yes	Yes	Yes	No	Yes

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