

# Governor's FY 2020 Budget: Articles

Staff Presentation to the House Finance  
Committee  
March 14, 2019

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# Introduction

- 2019- H 5151
  - Article 12, Economic Development
- 2019-H 5150
  - Article 1, Section 12 Quonset Development Corporation transfer
- Governor requested an amendment to Article 12 on March 12, 2019
  - Proposes technical changes as well as clarification and alignment with intent

# Article 12 – Economic Development

- Program Changes
  - Rebuild Rhode Island
  - Stay Invested in RI Wavemaker
  - Qualified Jobs Tax Credits
  - Tax Increment Financing - technical
  - Sunset Dates
- New Programs
  - Transferable R&D Tax Credit
  - State & Local Partnership Council/Site Readiness
  - Opportunity Zone Modifications

# 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
  - 1 program allowed to sunset, Oct. 2018

# 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
  - 2018 Assembly extended to June 30, 2020
- All have annual reporting requirements
  - Tax credit programs reporting more extensive

# Economic Development Incentives - Background

	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Rebuild RI	\$ 1.0	\$ 25.0	\$ 12.5	\$ 11.2	\$ 15.0
Closing Fund	5.0	8.5	1.8	-	-
I-195 Fund	25.0	-	2.0	1.0	1.0
Small Business Asst.	5.5	-	-	-	0.8
Wavemaker	1.8	2.0	0.8	1.6	1.2
Streetscape	1.0	1.0	0.5	0.5	-
Innovation Initiative	1.0	1.5	1.0	1.0	1.0
Cluster Grants	0.8	0.5	-	0.1	0.1
P-Tech	0.9	1.2	-	0.2	0.2
Air Service	-	1.5	0.5	0.5	-
Qualified Jobs	1.0	-	-	-	-
<b>Grand Total</b>	<b>\$ 42.9</b>	<b>\$ 41.2</b>	<b>\$ 19.1</b>	<b>\$ 16.1</b>	<b>\$ 19.3</b>

*\$ In millions*

# Economic Development Incentives - Proposed

<i><b>New Initiatives</b></i>	<i><b>FY 2020</b></i>
State & Local Partnership Council	\$ 1.45
Site Readiness (RICAP)	1.00
Transferable R&D Tax Credit	1.30
Opportunity Zone Modifications	-
<b>Total</b>	<b>\$ 3.75</b>

# Rebuild RI Tax Credit: Current Law

- Credits for real estate development equal to lesser of 20% of 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
- Projects may also get a sales tax exemption



# Rebuild RI Tax Credit: Current Law

- 2016 Assembly revised earlier legislation to address issues raised
  - Capped program credits at \$150 million
    - Sales tax exemption not capped
  - Allow use of funds for Tax Stabilization Incentive reimbursements to municipalities
    - Up to 10% of foregone revenues
    - 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

# Rebuild RI Tax Credit: Current Law

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 only*

- Hope communities
  - Higher poverty rates than rest of the state

# Rebuild RI Tax Credit

- Rebuild RI credits are paid out over a period of up to 5 years
  - Prefunding tax credits taken over time
    - \$15 million for FY 2020
    - Total set-aside increases to \$65 million
  - Nov REC testimony was payments for FY 2019 & FY 2020 would be \$16 million
  - Approved credits total \$105 million
    - Sales tax exemptions total \$40.7 million over more than a decade into the future
    - Program sunsets June 2020

# Rebuild RI Tax Credit

- Governor proposes \$100 million increase in cap
  - And a 3.5 year extension on sunset
  - Out-years assume need to increase the appropriation to fund commitments
    - \$25 million in FY 2021 and FY 2022
    - Almost \$50 million beginning FY 2023
      - Most of that is from the cap increase
  - Sales tax exemption unchanged, not capped

# Article 12 - Rebuild RI Tax Credit

- Article 12 permits separate buildings on I-195 land to be subject to separate \$15.0 million project caps
  - Allows same project to get capped amount on phases if those phases are distinct buildings
  - Current law considers all phases part of the single project and subject to \$15 million cap
    - Narrow exemption exists for a distinct project within a project on 195 land once a year only

# Article 12 - Rebuild RI Tax Credit

- Eliminates a number provisions added in 2016, along with financing flexibility, to ensure uniform applicability of prior limits on tax credit use
  - Drafting issues make the intent unclear
    - Some changes would be significant
- Permits Corporation to use funds set aside to repay credits for “technical assistance” to applicants
  - Up to \$250,000 annually

# Article 12 - Rebuild RI Tax Credit

- Article 12 requires Taxation to send notices to applicants on the 2013 Historic Tax Credit the waiting list for those credits
  - Expense paid by Commerce Corporation
- Requires development of distinct application process for project with
  - Affordable or workforce housing
  - Certified or recognized historic structures
  - A manufacturer

# Article 12 - Rebuild RI Tax Credit

- Article 12 eliminates minimum project cost & square footage thresholds for
  - Projects with 1+ manufacturers
  - Recognized or certified historic structures not qualified for the Historic Tax Credits
    - 2013 program participants already exempt
- Limits awards to these entities to 15% of amount Corporation awards annually
  - Current law limits to 15% of funds appropriated annually



# Article 12 - Rebuild RI Tax Credit

	<b>Rebuild RI</b>	<b>Historic 2013</b>
Credit	Value of project cost gap - Max 20%	Minimum 20%
Enhanced Credit	Max 30%	Minimum 25%
Enhanced Credit Requirement	Locate in Hope Community	If rentable area available to trade or business is the entirety of the 1st floor represent % of the total space
Comm./Mixed Development	Min 25,000 sq. feet	No minimum
Multi-Family Residential*	Min 20,000 sq. feet	

\*With 20 units in a Hope Community

# Article 12 - Rebuild RI Tax Credit

	Rebuild RI	Historic 2013
Required Investment	20%	-
Min. Project Cost*	\$5,000,000	-
Max. Aggregate Credits	\$150,000,000	Available Funding
Max. Project Cap	\$ 15,000,000	\$5,000,000
Administrative Fees	-	3% of qualified rehabilitation expenses to Taxation
Transferable	Yes but state may redeem at 90%	Yes
Carry Forward	5 years	10 years
Current Sunset	June 30, 2020	June 30, 2019

\*Discretionary in a Hope Community

# Wavemaker Fellowships: Current Law

- Tax credits - up to 4 years of college loan assistance
  - Amt. credits/candidate/year based on degree & actual loans
    - Implemented as 2-year awards
  - Funds/Credits withheld if recipient becomes noncompliant
    - Annual recertification required

<b>Max credits per year</b>		
<b>Associate's</b>	<b>Bachelor's</b>	<b>Grad/Post Grad</b>
\$1,000	\$4,000	\$6,000

# Wavemaker Fellowships

- Eligible applicants must work full-time for OR have accepted offer from company in specific fields
  - Selection is employer-blind & applicant-blind
  - Employer must be RI-based
- 70% of credits must be reserved for permanent RI residents or attendees of a RI college

# Wavemaker Fellowships

- Funding through FY 2019 funds 3 cohorts
- Governor includes \$1.2 million for FY 2020
  - Fully funds 4<sup>th</sup> and partially funds a 5<sup>th</sup> but smaller cohort

Appropriations						Gov. Rec	
FY 2016		FY 2017		FY 2018		FY 2019	FY 2020
\$1,750,000		\$2,000,000		\$ 800,000		\$1,600,000	\$1,200,000
Wavemaker: Applicants & Fellowships							
FY 2016		FY 2017		FY 2018		FY 2019	FY 2020
305	208	328	219	382	240	<i>Pending</i>	<i>Pending</i>

# Article 12 - Wavemaker Fellowships

- Article 12 defines “Businesses” to include a variety of financial institutions, pass-through entities & federal agencies
- Repeals the requirement for wages to be subject to withholding
  - To permit eligibility for business owners who pay estimated taxes rather than withholding income tax

# 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 continue to get JDA credits if they remain eligible

# 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
- 30 agreements through January 2019
  - 18 relocated from out of state
  - Total value \$65.5 million
  - 8 new since February 2018
  - Required job ranges total 3,252 to 4,061
    - 1,270 more than February 2018
      - 2 awards totaling 1,002 new jobs



# Article 12 - New Qualified Jobs Tax Credit

- Article 12 reduces the maximum award cap from \$7,500 to \$6,500
  - Except for new class of applicant deemed a economic development opportunity
    - Must be a targeted industry w/ 51% of new jobs defined as high wage by the Commerce Corp
    - Must have
      - Minimum of 100 new jobs – or –
      - Corporate hub or relocated regional/national HQ

# Article 12 – Opportunity Zones

- Established by 2017 Tax Cuts & Jobs Act
  - State designated census tract certified by the U.S. Treasury to receive Opportunity Fund Investments
    - Eligibility based on federal low income guidelines
    - 25 Rhode Island Opportunity Zones
  - Opportunity Zone Fund
    - Investment tool, capitalized through realized capital gains, which deploys 90% of its funding in an opportunity zone

# Article 12 – Opportunity Zones

- Preferential tax treatment for Opportunity Zone Funds
  - Tax deferred for reinvested capital gains
    - Until the fund sold or December 31, 2026
  - Original tax liability reduced by
    - 10% for 5 years, 15% for 7 years
  - No liability on Opportunity Fund gains after 10 years
    - Does not apply to original capital gains liability

# Article 12 – Opportunity Zones

- Article 12 allows investors to access the exemption on new gains through year 7
  - Reserved for 10 years under federal law
  - State would see impact three years sooner than if investment were held for the full term
    - Investor gets no federal tax benefit from an early exit

# R&D Tax Credit: Current Law

- 1994 Assembly established an R&D tax credit
  - Against business, insurance, & personal tax liabilities
    - 22.5% for the first \$25,000; 16.9% thereafter
  - Not to exceed 50% of a taxpayer's liability
    - Nor less than the corporate minimum tax
  - 7-year carry forward
    - Not refundable

# Article 12 - Transferable R&D Tax Credit

- Article 12 provides for a transferable R&D tax credit
  - 22.5% of qualified expenses
  - Investments have to meet federal definition of “qualified research expenses”
    - Includes employee wages, supplies, fees paid to research agencies
- Awards capped at \$1.3 million annually
  - Budget includes revenue reduction

# Article 12 - Transferable R&D Tax Credit

- Credits can not be used with existing R&D credits awarded after June 30, 2019
  - In case of credits awarded prior, the non-transferable credit applies first
- Competitive application to the Commerce Corp.
  - Corporation to define terms
    - Company substantially increasing investment
    - Early stage company

# Article 12 - Transferable R&D Tax Credit

- 15-year carry forward for unused credits
  - Also extends the existing non-transferable tax credit carry forward to 15 years
  - Credit may be sold, transferred or assigned
    - Proceeds from transfer are tax exempt
- Includes reporting requirements and sunset date of December 31, 2023
  - Reporting requirements annual, but delivery date is undefined



# Article 12 - Transferable R&D Tax Credit

- Governor requested an amendment on March 12, 2019
  - Establishes a tax credit cap of \$250,000 in any year
  - Limits applicants to a maximum of 5 awards

# Article 12 – State & Local Partnership/Site Readiness

- Establishes a new quasi-public entity
  - State & Local Partnership Council
    - 9 member board appointed by the Governor, includes Secretary of Commerce & 8 members
    - Same powers as QDC including debt issuance
  - Coordinate with municipalities to improve processes & develop, manage & market lands for development
  - Authority granted only applicable with approval by a governing body or under contract

# Article 12 – State & Local Partnership/Site Readiness

- Preparation & implementation of development policy or planning
  - To the extent permitted by the contract
    - Appears to subsume all local planning authority if not explicitly state otherwise
  - Financial assistance for implementation
    - Including environmental remediation
    - Recommend enhanced reimbursement (up to 50%) for tax stabilizations agreements
      - Subject to Commerce Corporation Board approval
      - Reimbursement awards up to 5x annually

# Article 12 – State & Local Partnership/Site Readiness

- Permits a separate 9 member QDC board to act in place of the Partnership Council
  - Secretary & 6 members appointed with advice & consent of the Senate
  - Also includes 2 members from an impacted municipality
    - Or 1 member from each impacted municipality
  - Prohibited from decisions regarding the Quonset Business Park

# Article 12 – State & Local Partnership/Site Readiness

- Assume development authority upon conveyance of property
  - Expedite pre-permitting & permitting processes
  - Sole issuer of permits & licenses
    - Provided federally mandated environmental licensing remains with the requisite authority
  - Develop designated parcels of land
    - Local authority retained to the extent of the agreement

# Article 12 – State & Local Partnership/Site Readiness

- Governor requested an amendment on March 12, 2019 to clarify that
  - The second 9 member board is intended to be the QDC Board w/ local representation; it may operate in place of the Council
  - Only Commerce Corporation can approve enhanced tax stabilization support
  - Council would issue permits through DBR
    - Consistent with proposed Streamline & Simplify initiative co-administered by EOC & DBR

# Article 12 – State & Local Partnership/Site Readiness

- March 12, 2019 Amendment
  - Removes the Commerce Secretary as the State & Local Partnership Council chair
  - Further defines types of project that could be eligible for this program
  - Allows for management of property vs. ownership
  - Strikes language requiring local vote to enter into agreements with new Council
  - Permits sharing of associated revenues

# Article 12 - Sunsets & Technical

- Original sunsets extended from December 31, 2018 to June 30, 2020 by the 2018 Assembly
- Extends the sunset dates on most programs to Dec. 31, 2023
  - Repeals Small Business Assistance Program sunset
- Makes technical corrections to the Tax Increment Financing statute



# Article 12 - Sunsets & Technical

Sec.	Program	Enacted Sunset	Proposed Sunset
6	Rebuild RI Tax Credit	June 30, 2020	Dec. 31, 2023
8	Tax Increment Financing		
9	Tax Stabilization		
10	First Wave Closing Fund		
11	I-195 Fund		
12	Small Business Assistance		Repeal
14	Wavemaker Fellowship		Dec. 31, 2023
15	Main Street Streetscape		
16	Innovation Initiative		
17	Industry Cluster Grants		
18	P-Tech		
19	Air Service Development		
28	New Qualified Jobs		

# Article 12 - Sunsets & Technical

- June 2020 aligns w/ comprehensive long term economic development report
  - Required during 1<sup>st</sup> year after every gubernatorial election
- Consistent with initial Office of Revenue Analysis reporting due on 2015 programs
  - Pursuant to RIGL 44-48.2
    - Rhode Island Economic Development Tax Incentives Evaluation Act of 2013
    - 5 years for the 1<sup>st</sup> report; triennial thereafter

# Article 12 - Sunsets & Technical

Program Analysis	Due By Statute
Anchor Institution*	June 2020
New Qualified Jobs Incentive Act	
Rebuild RI Tax Credit	
Rebuild RI Sales Tax Exemption	
Rhode Island Tax Increment Financing	
Stay Invested in RI Wavemaker Fellowship	

*\*Not utilized; allowed to sunset in 2018*

# H 5150 & H 5151

## Article 1 Quasi Transfers

- Require payments to the General Fund
  - Various amounts from quasi-state agencies
  - Similar to last four years' proposals
  - \$13 million in new transfers for FY 2019
  - \$7.0 million in FY 2020
- Budgets for these entities appear in the budget publication program supplements
  - Data there do not reflect these transfers

# H 5150 & H 5151

## Article 1 Quasi Transfers

Quasi Transfers	FY 2019	FY 2019 R	Chg.	FY 2020	2Yr Chg.
Resource Recovery	\$ -	\$5.0	\$5.0	\$ -	\$5.0
RI Housing	-	2.5	2.5	1.5	4.0
Infrastructure Bank	4.0	4.0	-	4.0	4.0
RISLA	-	1.5	1.5	1.5	3.0
<b>QDC</b>	-	<b>2.0</b>	<b>2.0</b>	-	<b>2.0</b>
RIHEBC	-	2.0	2.0	-	2.0
<b>Total</b>	<b>\$4.0</b>	<b>\$17.0</b>	<b>\$13.0</b>	<b>\$7.0</b>	<b>\$20.0</b>

*\$ In millions*

# Quonset Development Corporation

- Quonset Business Park land originally 2 naval bases established prior to 1942
  - Base selected for closure in 1991
  - Land transferred to the state from 1978-2000
    - Administered by different state agencies
- Corporation established by 2004 Assembly to develop and manage Quonset Business Park

# Quonset Development Corporation

- Corporation receives no direct general revenues
  - Is self-sustaining
  - State paid debt service for 2 G.O. bonds
- Subsidiary of Commerce Corporation, but receives no funds
  - Commerce Corp. must issue non-G.O. bonds
- FY 2018 enacted budget included \$1.0 million transfer to the state
  - Only enacted transfer since FY 2010

# H 5150, Sec. 15 – Quonset Development Corporation

<b>FY 2018 Cash Flow</b>	<b>FY 2018</b>
<b>Total Cash</b>	<b>\$ 5,095,821</b>
<i>Open projects restricted funds</i>	<i>(1,462,557)</i>
<i>Electric Boat deposits (EB Construction projects)</i>	<i>(1,582,875)</i>
<i>QDC/North Kingstown Infrastructure fund</i>	<i>(1,460,187)</i>
<b>Net Available Cash</b>	<b>\$ 590,202</b>
<i>Accrued FY 2019 Expenses</i>	<i>(554,000)</i>
<b>Actual cash on hand as of July 1, 2018</b>	<b>\$ 36,202</b>



# H 5150, Sec. 15 – Quonset Development Corporation

- FY 2019 Revised Budget as submitted
  - Budget does not include transfer

Revenues		Expenses	
Rental Income	\$ 7,897,108	Personnel	\$ (4,581,947)
Pier Income	1,750,000	Operating	(4,009,640)
Utility Sales	2,948,814	Debt Service	(1,666,852)
RICAP	3,505,557	Capital	(6,505,557)
Other Income*	707,489		
<b>Total</b>	<b>\$16,808,968</b>		<b>\$(16,763,996)</b>

**FY 2019 Revised closing balance: \$44,972**

*\*Includes estimated FY 2018 carry-over of \$5,811; \$30,391 less than actual*

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