Governor’s FY 2015 Budget: Articles

Staff Presentation to the House Finance Committee
February 26, 2014

Introduction

- Article 5, Question 2 – Creative and Cultural Economy Bond
- Article 15 – Historic Structures Tax Credit
Assembly Role

- Appropriate Pay-Go
  - Articles 1 and 10

- Authorize all debt

- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic

Project Considerations

- Does the project need to be done

- Is the project ready to be done
  - When will it start
  - Is it well thought through and ready for funding/financing
  - When will it be complete
Funding Considerations

- Should a project be financed or pay-go
  - Rhode Island Capital Plan funds available as pay-go for all or part of project
  - More pay-go equals less future debt service

Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly’s approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner
Capital

- Includes $200.1 million under Public Corporation Debt Management Act
  - Information Technology
  - Virks Building Renovation
  - Historic Structures Tax Credits
  - T.F. Green Improvements
  - Garrahy Courthouse Parking

Kushner Items

<table>
<thead>
<tr>
<th>Certificate of Participation (in millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology (Feb. 26)</td>
<td>$30.0</td>
</tr>
<tr>
<td>Virks Building Renovation (Feb. 26)</td>
<td>13.0</td>
</tr>
<tr>
<td>Historic Structures Tax Credits (Art. 15)</td>
<td>52.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$95.1</strong></td>
</tr>
</tbody>
</table>
Kushner Items

**Revenue Bonds (in millions)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>T.F. Green Improvements – including Runway Extension (Feb. 25)</td>
<td>$60.0</td>
</tr>
<tr>
<td>Garrahy Courthouse Parking (Feb. 26)</td>
<td>$45.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$105.0</strong></td>
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</tbody>
</table>

Plan relies on $275.0 million of new general obligation bonds for November 2014 ballot
- Higher Education projects
- Transportation
- Water Infrastructure
- Recreation and Environment
- Creative and Cultural Economy
Creative and Cultural Economy

- Cross-agency initiative focusing on the role of the arts in the state’s economy
- Rebuilding cultural assets and facilities
- Highway and urban improvement grants awarded through RISCA
- New Cultural Economy Coordinator at Commerce Corporation

Article 5 Question 2 – Creative and Cultural Economy

- Article 5 Question 2
- $35.0 million general obligation bond
  - $30.0 million - artistic and performance facilities throughout the state
    - Administered by Commerce Corporation in consultation with RISCA
  - $5.0 million - public and nonprofit historic sites, museums and cultural arts centers
    - Administered by Commerce Corporation and Historic Preservation and Heritage Commission
$35.0 million general obligation bond
- Assuming 5.0% rate, 20 year maturity
- Average annual debt service: $2.8 million
- Paid from general revenues
- Total cost of borrowing: $54.2 million

Budget Office does not identify specific recipients’ projects

Legislation does not provide information how funding decisions will be made
Article 15 – Historic Structures Tax Credit

- Expands authorization for bond issuance in support of Historic Structures Tax Credit projects
- Adds authorization for additional $52.1 million of borrowing

Enacted by 2001 Assembly effective January 1, 2002

To promote the rehabilitation, redevelopment, and reuse of historic structures
- Mechanism: State tax credits equal to 30.0% of qualified rehabilitation expenses
**Article 15 – Historic Structures Tax Credit Background**

- Credits, in whole or in part, may be transferred or conveyed in whole or in part
  - Used by developers to secure capital for projects – often through broker or “middleman”

- Qualification: 3 phases of applications submitted to Historical Preservation and Heritage Commission

**Phase I:** Recognized as a historic structure

**Phase II:** Credit determined by scope and value of work

**Phase III:** Application filed to certify completion of work
  - Credits used following approval by HPHC
  - Credits carried forward up to 10 years
Article 15 – Historic Structures Tax Credit Background

2005 Assembly Change
- Increased processing fee to 2.75% of qualified rehabilitation expenses
  - Previous fee structure tiered $500 - $2,000
- Lowered the effective rate of the credits to 27.75%

Article 15 – Historic Structures Tax Credit Background

Program had uneven and significant fiscal impact
- By November 2004 – $143.5 million in credits approved
- By October 2007 – $450.5 million in credits approved
Credits taken varied by year
Article 15 – Historic Structures Tax Credit Background

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Completed</th>
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<tbody>
<tr>
<td>2002</td>
<td>$4.0</td>
</tr>
<tr>
<td>2003</td>
<td>$18.3</td>
</tr>
<tr>
<td>2004</td>
<td>$32.9</td>
</tr>
<tr>
<td>2005</td>
<td>$62.3</td>
</tr>
<tr>
<td>2006</td>
<td>$40.1</td>
</tr>
<tr>
<td>2007</td>
<td>$16.4</td>
</tr>
<tr>
<td>Total</td>
<td>$178.0</td>
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</table>

*In millions

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Active</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
<td>$45.5</td>
</tr>
<tr>
<td>2008</td>
<td>$95.9</td>
</tr>
<tr>
<td>2009</td>
<td>$95.4</td>
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<tr>
<td>2010</td>
<td>$26.0</td>
</tr>
<tr>
<td>2011</td>
<td>$3.9</td>
</tr>
<tr>
<td>2012</td>
<td>$5.9</td>
</tr>
<tr>
<td>Total</td>
<td>$272.5</td>
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</tbody>
</table>

*In millions

Governor Carceieri proposed annual cap on claiming of credits
- $20.0 million for tax year 2007
- $40.0 million for tax years 2008 – 2017

Uncertainty in program would have made credits less marketable
2008 Assembly ended program and developed exit strategy for projects well along pipeline
- No project approvals after December 31, 2007
- Projects in service by December 31, 2007 were still eligible for 30% credit

EDC to issue maximum of $356.2 million of bonds to satisfy the obligations for remaining tax credit program
- $299.9 million maximum for project fund – to reimburse state for claimed credits
- $56.3 million authorized to borrow to pay debt service if necessary
  - This never occurred
  - Project flow made this unnecessary
Projects in service January 1, 2008 or after eligible for reduced credit
- Processing fee paid by May 15, 2008
- New credit and processing fee schedule:

<table>
<thead>
<tr>
<th>Credit</th>
<th>Processing Fee</th>
<th>Effective Credit</th>
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</thead>
<tbody>
<tr>
<td>27.0%</td>
<td>5.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>26.0%</td>
<td>4.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>25.0%</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

Projects that did not prove substantial construction by May 15, 2013 to be declared abandoned
- Credits forfeit
- Processing fee refunded

21 projects abandoned
- $34.5 million in credits
Article 15 – Historic Structures Tax Credit

2013 Assembly established new program to be funded through existing borrowing limit of $299.9 million
- Credit of 20.0% of qualified expenses
  - 25.0% for certain commercial projects
  - Nonrefundable processing fee of 3.0%
- Total project cap of $5.0 million
  - Includes projects spread amongst multiple buildings

Program sunsets June 30, 2016
- Division of Taxation began accepting applications on August 1, 2013
  - 57 applications valuing $62.0 million
- Conditional approval given to 32 projects
  - Total value $34.5 million
  - 5 projects abandoned ($1.2 million)
## Article 15 – Historic Structures Tax Credit

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Current Law*</th>
<th>Article 15*</th>
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<tbody>
<tr>
<td></td>
<td>Borrow Debt Svc.</td>
<td>Borrow Debt Svc.</td>
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<tr>
<td>2009</td>
<td>$150.0 -</td>
<td>$150 -</td>
</tr>
<tr>
<td>2013</td>
<td>$150.0 $84.7</td>
<td>$150 $84.7</td>
</tr>
<tr>
<td>2014</td>
<td>$225.0 $106.1</td>
<td>$225.0 $106.1</td>
</tr>
<tr>
<td>2015</td>
<td>$300.0 $137.4</td>
<td>$300.0 $137.4</td>
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<tr>
<td>2017</td>
<td>$300.0 $211.5</td>
<td>$352.1 $218.7</td>
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<tr>
<td>2025</td>
<td>$300.0 $427.7</td>
<td>$352.1 $492.1</td>
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<tr>
<td>2027</td>
<td>$300.0 $442.0</td>
<td>$352.1 $506.4</td>
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</table>

*In millions

Current law authorizes borrowing of $299.9 million for credits
- $150.0 million has been borrowed
- $75.0 million to be borrowed in FY 2014 and FY 2015
- $442.0 million in total debt service

Article 15 increases total borrowing to $352.1 million
- $52.1 million to be borrowed in FY 2016
- $506.4 million in total debt service
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