

# Governor's FY 2016 Budget: Article 29

Staff Presentation to the House Finance  
Committee  
April 15, 2015

## Introduction

- Article 29 has 13 sections with 15 distinct programs supporting the Governor's economic strategy
  - Tax credit programs
  - Programs, investments and Initiatives
- Most supported by savings from debt restructuring
  - Spread over two years
- Some supported by general revenues through EOC of Commerce Corp.

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## Introduction

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### Restructuring of GO debt

- Principal payments are deferred and/or shortened to provide additional savings in particular years
- In total, an additional \$90.0 million of long term debt will be incurred to save the projected \$83.9 million during the next two fiscal years
  - However, net present value savings will be slightly positive based on current projections

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## Introduction

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- Fiscal Staff has met with Commerce to review proposals
- Some common issues identified
  - Consistent definitions
  - Reporting requirements
  - Models for estimating costs and revenues
- Amendment forthcoming

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## Governor's Economic Strategy Investments

	Fiscal Year	
	2016	2017*
Commerce new & expanded ops.	\$14.0	\$14.0
Tax Credits (Art. 29)	1.8	16.6
Other Commerce tools (Art 29)	37.8	2.8
School Construction(Art 9)	20.0	-
Affordable Housing	3.0	-
Infrastructure Bank (Art. 24)	2.0	-
<b>Subtotal</b>	<b>\$78.6</b>	<b>\$33.4</b>
<i>Amount from Debt Restructuring</i>	<i>64.5</i>	<i>19.4</i>

\*Ongoing funding assumed for operating budget items

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## Commerce: New Programs & Expanded Operating Support

Item	( Article – Section)	FY 2016
Commerce Corp. Operations		\$4.3
Tourism & Marketing		5.5
<b>Student Loan Forgiveness (29-9)</b>		<b>1.8</b>
<b>High School Partnership: P-Tech (29-9)</b>		<b>0.9</b>
Small Business Initiative Research		0.5
<b>Innovate Vouchers (29-11)</b>		<b>0.5</b>
<b>Building Code &amp; Fire Permit (29-1)</b>		<b>0.3</b>
Office of Economic Empowerment		0.3
<b>Total</b>		<b>\$14.0</b>

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## Art 29: Programs & Investments

<i>In Article 29 (Section)</i>	<i>2016</i>	<i>2017</i>
I-195 Redevelopment Fund (7)	\$25.0	\$ -
Small Business Assist. Program (8)	5.5	-
Closing Fund (6)	5.0	-
Student Loan Reimb. & P-Tech (9)	2.7	2.7
Streetscape Improvement (10)	1.0	1.0
Industry Cluster Grants (12)	0.8	1.3
Innovation Initiative (11)	1.0	1.0
Bldg. & Fire Code Inspections (1)	0.3	0.3
<b>Subtotal</b>	<b>\$41.3</b>	<b>\$6.3</b>

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## Article 29: Tax Credit Programs

<i>In Article 29 (Section)</i>	<i>FY 2016</i>	<i>FY 2017</i>
Rebuild RI (3)	\$ -	\$12.1
Tax Increment Financing (4)	-	-
Tax Stabilization Incentive (5)	-	0.6
Anchor Institution (13)	1.8	3.9
<b>Subtotal</b>	<b>\$1.8</b>	<b>\$16.6</b>
<b>Article 29 Total</b>	<b>\$43.1</b>	<b>\$22.9</b>

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## 195 Redevelopment Fund

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- Section 7 - \$25.0 million
  - Additional tools to attract new institutions and employers
  - Close financing gaps
  - Bring "Catalytic" projects
    - Adjacent land acquisition

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## 195 Redevelopment Fund

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- Funding for infrastructure improvements to enhance development such as transportation, parks, greenways, performance venues, community facilities
- Exclusions: Funding not intended to finance stadium
- No project caps or overall limits beyond total allocation

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## 195 Redevelopment Fund

- Would be administered by Commission
  - Adopt rules/regs. to implement program
  - Authority to charge application or other fees
- 1.0 new architect position in DOA to review projects
  - Ensure project review would not be delayed
  - Supported from I-195 Redevelopment Loan Fund, fees?
- Reporting: 60 days after end of fiscal year

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## Small Business Assistance

- Section 8 - \$5.5 million
  - Capital Access Fund
  - Business with less than 200 employees
  - Having difficulties obtaining financing from traditional lenders
  - Start up, improve or expand operations
  - Sets aside 10% of funding for microloan
    - Loan amounts of \$2K-\$25K

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## Small Business Fund

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- Commerce to develop rules/regs. for program administration
- Commerce can select an entity to manage
- Different from current federal loan program which follows fed standards
- Would not be limited to loans
- Reporting only required of participating lenders

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## Closing Fund

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- Section 6 - \$5.0 million
- Provide flexibility when working with businesses interested in locating to or expanding in Rhode Island
- Critical investments, resolve complex negotiating issues and obtain technical and legal support when closing transactions

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## Closing Fund

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- Funds can be used for working capital, equipment, fixtures, constructing or rehab.
- Cover financing gaps compared to need or to have an advantage over alternative out of state option

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## Closing Fund

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- Commerce Corporation Board would approve projects
- Reporting requirement: 60 days after end of fiscal year
  - Speaker of the House & President of Senate
- No per project total or % limits

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## Streetscape Improvement

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- Section 10 - \$2.0 million over two years
- Provides loans, matching grants and other form of financing
- Create attractive environment for businesses
- Enhance sidewalks, building facades, signage and lighting

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## Streetscape Improvement

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- Commerce to develop rules and regs.
  - Loan/grant amounts
  - Criteria by which grant or loan applications will be judged/awarded
- Grants or loans will be done on a rolling basis
- Legislation does not include any reporting requirements

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## Student Loan Reimbursement Fund

- Section 9 - \$1.8 million
- Competitive student loan forgiveness
  - Up to 4 years of loan forgiveness and 100% of education loan expenses
  - Awards are done as a cash payment
- Application fee not to exceed \$50
  - Deposited into fund
- Commerce Corporation annually publish list of awardees on its website

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## Student Loan Reimbursement Fund

- 2/3<sup>rd</sup> of recipients have to be permanent resident of the state or have attended an institution in the state
- Associate, bachelor, or graduate degree in: environmental sciences, computer tech., engineering and medicine
- Recipients must work at least 35 hrs./week for an employer located in the state
- Funds withheld if recipient becomes noncompliant

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## Partnerships – P-Tech

- Section 9 - \$0.9 million
- Supports partnerships among High schools, CCRI, other institutions of higher ed. and employers
- Offer courses towards diplomas, internships and associate degrees
- Commerce would establish rules and regs;
- No reporting requirements

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## Industry Cluster Grants

- Section 12 - \$0.8 million in FY 2016 and \$1.3 million in FY 2017
- Support activities within an industry cluster and to close industry cluster gaps
  - Startup & technical assistance grants ranging \$75K to \$250K
  - Competitive grants from \$100K to \$500K
- Rules and regs
- Annual reporting requirement

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## Innovation Initiative

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- Section 11 - Innovation Voucher - \$0.5 million each in both years
  - Small businesses with less than 500 employees
  - Establishes Innovation Voucher Program
    - Purchase research and development support from institutions of higher ed. and other providers
    - Voucher awards \$5k – \$50K
  - Submit application to Commerce

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## Innovation Initiative

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- Section 11 - Innovation Network Program
  - Provides grants to organizations, must be matched
  - Non-profits, for-profit and universities
  - Offer technical assistance, space on flexible terms, and access to capital
  - Business in advanced or targeted industries
  - Annual report on Dec. 31 to Speaker and Senate President

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## Building & Fire Code Inspections

- Section 1 - \$0.3 million
  - Projects receiving Commerce Corp. incentives be subject only to state building and state fire codes
  - A municipality with population greater than 150K may opt to have other projects reviewed and inspected by state
    - State building and fire codes will stand

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## Rebuild RI Tax Credit

- Total \$12.1 million from debt restructuring
  - But no project caps, no program caps
- Credit for development projects
  - Can be used against all taxes
  - Lesser of 20% project costs or funding gap
- Credits transferable
- Carry forward – up to 5 years
  - As drafted, increments do not need to be equal
- Refundable at 90% of value

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## Rebuild RI Tax Credit

- Projects may qualify for credits up to 30%, if:
  - Rehabilitation of historic property
  - For targeted industry – industries to be determined by Commerce Corp.
  - In transit area (defined by Commerce Corp.)
  - At least 20% affordable housing
  - Industrial property remediation/reuse
  - Meet environmental standards/LEED

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## Rebuild RI Tax Credit

- Developer applies to Commerce Corporation
  - Application fee and timing requirements to be determined
  - At least 25,000 sq. feet
  - Total project costs of \$5.0 million
  - Project “contains” at least 25 jobs
  - No minimum if project in Hope Community
    - Family poverty levels exceed state median

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## Rebuild RI Tax Credit

- Administration determines total credits available per year – based on state “revenue capacity”
  - Analysis by Office of Management and Budget and Department of Revenue
  - Commerce Corporation board approves application
    - May require tax stabilization agreement

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## Rebuild RI Tax Credit

- Commerce Corp may confer project status
  - Project exempt from sales and use tax
  - Authority previously vested with former EDC, rescinded several years ago

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## Tax Increment Financing

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- Developers receive reimbursements up to 30% of project costs from revenues
  - Up to 75% of revenues that would not have been generated without project
    - Includes current revenue at risk of loss
- Designed to be revenue neutral
  - Determination requires information sharing that may prove difficult

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## Tax Increment Financing

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- Agreements apply to privately issued bonds or the Commerce Corp. may issue revenue bonds
- Can be used for pre-existing municipally-owned stadium with more than 10,000 seats

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## Tax Stabilization Incentives

- Total \$0.6 million from debt restructuring
  - No program caps, subject to funding
- Encourage property tax stabilization agreements between locals & developers
  - For projects of at least \$10.0 million
    - Unless "Hope Community"
  - Locals receive reimbursement of up to 10% of foregone revenue for length of agreement

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## Anchor Tax Credit

- Section 13 - \$5.7 million over 2 years
  - No project caps, no program caps
  - Credit against corporate income tax
  - For existing RI businesses that attract other businesses to state, either:
    - Physical relocation
    - At least 10 full-time jobs
  - Total credit amount determined by Commerce Corporation

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## Tax Credit Total Impacts

	<i>Fiscal Year</i>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Rebuild RI	\$	-	\$ 7.1	\$13.7	\$19.4	\$25.1
Tax Increment Financing		-	-	-	-	-
Tax Stabilization Incentive*		-	0.6	1.4	2.1	2.6
Anchor Institution**		1.8	1.8	-	-	-
<b>Total</b>		<b>\$ 1.8</b>	<b>\$9.5</b>	<b>\$15.1</b>	<b>\$21.5</b>	<b>\$27.7</b>

\*Not included in the out-year forecasts for FY 2018, FY 2019, and FY 2020

\*\*Differs from presentation in other reports

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## Commerce – Reporting

- Section 2 – Reporting
  - Authorizes Sec. of Commerce to promulgate rules or regs. related to use & effect of funds for all tax credits/incentives
  - Person/entity fails to provide information may have credit withheld unless information does not exist or cannot be compiled

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## Commerce – Reporting

- Section 2 – Reporting
  - Suspension of benefits will be lifted once Secretary of Commerce notifies Taxation that the information was either
    - Provided
    - Does not exist or
    - Cannot be compiled
  - Section does not currently specify which credits

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## Tax Expenditures

- Recent national attention to states' practices around tax incentives and expenditures
- RI adopted legislation to require routine evaluations of its tax incentives
  - Every 3 years
  - Due by 2017
  - Staffing issue likely to delay this

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## Tax Expenditures

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PEW Center on the States *"Tools to avoid blank checks"*

- Reliable cost estimates
  - Project economic impact, identify uncertainty, link to policy
  - Professional and transparent
- Annual controls
  - Budget for costs, set caps, reconsider in future years

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