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.
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

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
### Governor’s Economic Strategy Investments

<table>
<thead>
<tr>
<th>Item</th>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce new &amp; expanded ops.</td>
<td></td>
<td>$14.0</td>
<td>$14.0</td>
</tr>
<tr>
<td>Tax Credits (Art. 29)</td>
<td></td>
<td>1.8</td>
<td>16.6</td>
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<tr>
<td>Other Commerce tools (Art 29)</td>
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<td>37.8</td>
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<tr>
<td>School Construction (Art 9)</td>
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<tr>
<td>Affordable Housing</td>
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<td>Infrastructure Bank (Art. 24)</td>
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<td><strong>Subtotal</strong></td>
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<tr>
<td>Amount from Debt Restructuring</td>
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<td>64.5</td>
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*Ongoing funding assumed for operating budget items

### Commerce: New Programs & Expanded Operating Support

<table>
<thead>
<tr>
<th>Item</th>
<th>(Article – Section)</th>
<th>FY 2016</th>
</tr>
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<tbody>
<tr>
<td>Commerce Corp. Operations</td>
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<tr>
<td>Tourism &amp; Marketing</td>
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<tr>
<td><strong>Student Loan Forgiveness (29-9)</strong></td>
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<tr>
<td>High School Partnership: P-Tech (29-9)</td>
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<tr>
<td>Small Business Initiative Research</td>
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<tr>
<td><strong>Innovate Vouchers (29-11)</strong></td>
<td></td>
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<tr>
<td>Building Code &amp; Fire Permit (29-1)</td>
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<tr>
<td>Office of Economic Empowerment</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$14.0</strong></td>
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</table>
### Art 29: Programs & Investments

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<tr>
<th>In Article 29 (Section)</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>I-195 Redevelopment Fund (7)</td>
<td>$25.0</td>
<td>$ -</td>
</tr>
<tr>
<td>Small Business Assist. Program (8)</td>
<td>5.5</td>
<td>-</td>
</tr>
<tr>
<td>Closing Fund (6)</td>
<td>5.0</td>
<td>-</td>
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<tr>
<td>Student Loan Reimb. &amp; P-Tech (9)</td>
<td>2.7</td>
<td>2.7</td>
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<tr>
<td>Streetscape Improvement (10)</td>
<td>1.0</td>
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<tr>
<td>Industry Cluster Grants (12)</td>
<td>0.8</td>
<td>1.3</td>
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<tr>
<td>Innovation Initiative (11)</td>
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<td>Bldg. &amp; Fire Code Inspections (1)</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$41.3</strong></td>
<td><strong>$6.3</strong></td>
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### Article 29: Tax Credit Programs

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<td>Tax Increment Financing (4)</td>
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<tr>
<td>Tax Stabilization Incentive (5)</td>
<td>-</td>
<td>0.6</td>
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<tr>
<td>Anchor Institution (13)</td>
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<td>3.9</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$1.8</strong></td>
<td><strong>$16.6</strong></td>
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<td><strong>Article 29 Total</strong></td>
<td><strong>$43.1</strong></td>
<td><strong>$22.9</strong></td>
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195 Redevelopment Fund

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

- 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
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

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
Small Business Fund

- 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

Closing Fund

- 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
Closing Fund

- 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

Closing Fund

- 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
**Streetscape Improvement**

- 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

**Streetscape Improvement**

- 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
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

- 2/3rd 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
Partnerships – P-Tech

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

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
Innovation Initiative

- 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

Innovation Initiative

- 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
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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- 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
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

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
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

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
Tax Increment Financing

- 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

Tax Increment Financing

- 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
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

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
### Tax Credit Total Impacts

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
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<td>Anchor Institution**</td>
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*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
**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

**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
Tax Expenditures

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