

# Economic Development Incentives: Status

House Finance Committee  
January 20, 2016

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# Introduction

- 2015 Assembly enacted 15 programs as part of the FY 2016 budget in support of the Governor's economic strategy
- Staff review of programs, purposes and implementation progress
- Opportunity to hear directly from Executive Office of Commerce

# Introduction

- 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

# Introduction

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

# Introduction

- Restructuring of GO debt
  - Principal payments are deferred and/or shortened to provide additional savings in particular years
  - Assumed to be \$83.9 million over FY 2016 and FY 2017
    - Net present value savings will be positive

# New Programs and Investments

<i>Article 19 (Section)</i>	<i>2016</i>	<i>2017*</i>
Closing Fund <b>(6)</b>	5.0	-
I-195 Redevelopment Fund <b>(7)</b>	25.0	-
Small Business Assist. Program <b>(8)</b>	5.5	-
Wavemaker Fellowships* <b>(9)</b>	1.8	1.8
Streetscape Improvement <b>(10)</b>	1.0	1.0
Industry Cluster Grants <b>(12)</b>	0.8	1.3
Innovation Initiative <b>(11)</b>	1.0	1.0
P-Tech* <b>(16)</b>	0.9	0.9

*\*Ongoing funding assumed*

# New Tax Incentive Programs

<i>Article 19 (Section)</i>	<b>2016</b>	<b>2017</b>
Rebuild Rhode Island <b>(3)</b>	\$ 1.0	\$ 12.1
Tax Increment Financing <b>(4)</b>	-	-
Tax Stabilization Incentives <b>(5)</b>	-	0.6
Anchor Institution <b>(13)</b>	1.8	3.9
New Qualified Jobs <b>(15)</b>	1.0	-
<b>Article 19 Total</b>	<b>\$45.0</b>	<b>\$22.6</b>

# Closing Fund

- FY 2016 - \$5.0 million
- Intended to 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
- Commerce Board to approve projects
- No per project total or % limits

# 195 Redevelopment Fund

- FY 2016 - \$25.0 million
- Additional tool to attract new institutions and employers to this land
- Close financing gaps
- Bring “catalytic” projects
  - Adjacent land acquisition

# 195 Redevelopment Fund

- Funding for infrastructure improvements /enhance development of:
  - Transportation, parks, greenways, performance venues, community facilities
- Funding not authorized to finance stadium
- No project caps or overall limits beyond total allocation

# 195 Redevelopment Fund

- Administered by Commission
  - Authority to charge application or other fees
- 1.0 new architect position in DOA to review projects
  - Ensure project review will not be delayed
- Rules & Regs. effective 2/1/2016
  - Application currently unavailable

# Small Business Assistance Fund

- FY 2016 - \$5.5 million
- Business with less than 200 employees
  - Having difficulties obtaining financing from traditional lenders
  - Start up, improve or expand operations
- Loans capped at \$750K
- Sets aside 10% of funding for microloan
  - Loan amounts of \$2K-\$25K

# Small Business Assistance Fund

- Commerce to develop procedures for program administration
  - can select an entity to manage
- Different from current federal small business loan program which follows federal standards

# Wavemaker Fellowships

- Commerce Budget assumes - \$1.8 million annually
- Tax credit for up to 4 years of loan forgiveness
  - Per year - \$1K for associate's, \$4K for bachelor's & 6K for graduate/post grad.
  - Life, natural or environmental sciences; Computer, information or software technology
- 70% of recipients must be permanent RI residents or attended college here

# Wavemaker Fellowships

- Recipients must work at least 35 hrs./week for an RI employer
- Funds withheld if recipient becomes noncompliant
- Rules and regs. under ORR review
  - Application currently unavailable



# Streetscape Improvement

- FY 2016 and FY 2017: \$1.0 million
- Provides loans, matching grants and other form of financing
- Create attractive environment for businesses
- Enhance sidewalks, building facades, signage and lighting

# Streetscape Improvement

- Commerce rules and regs. describe
  - Loan/grant amounts
  - Criteria by which grant or loan applications will be judged/awarded
- Grants or loans will be done on a rolling basis
- Currently soliciting applications

# Industry Cluster Grants

- \$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
- Current application deadline 2/8 – was 1/26

# Innovation Initiative

- Innovation Voucher - \$0.5 million for FY 2016 and FY 2017
  - 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
- Commerce currently soliciting applications

# Innovation Initiative

- Innovation Grants - \$0.5 million for FY 2016 and FY 2017
  - 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
- Application currently available

# P-Tech Initiative

- \$0.9 million annually
- Supports partnerships among high schools, CCRI, other institutions of higher education and employers
- Offer courses towards diplomas, internships and associate degrees
- Being implemented in 3 districts – Westerly, Newport and Providence

# Rebuild RI Tax Credit

- Total \$13.1 million from debt restructuring
- Credit for development projects
  - Project max credits of \$15.0 million
  - Lesser of 20% project costs or funding gap
- Credits transferable
- Carry forward – up to 5 years
- Refundable at 90% of value

# Rebuild RI Tax Credit

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



# 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
  - Finished building houses at least 25 jobs
  - No minimum if project in Hope Community
    - Family poverty levels exceed state median

# Rebuild RI Tax Credit

- Tax credits available based on amount in program fund and sign off from OMB
- Commerce Corporation board approves application
  - May require tax stabilization agreement
- Commerce may confer project status
  - Project exempt from sales and use tax

# Rebuild RI Tax Credit

- Commerce must provide written confirmation of project scope, total credits to be authorized, & assumed impact
- Additional reporting requirements for Commerce & Taxation
  - Includes: jobs created, project costs, credits awarded, credits taken each year

# Tax Increment Financing

- Developers reimbursed 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
- Agreements apply to privately issued bonds or Commerce issued bonds
- Can be used for pre-existing municipally-owned stadium w/10,000 seats

# Tax Stabilization Incentives

- FY 2017 - \$0.6 million from debt restructuring
  - No program caps, subject to funding
- Encourage 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

- \$5.7 million over 2 years – \$1.8 in FY 2016
  - 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
    - No more than 75% of total can go to single entity
  - Rule and regs. complete

# Qualified Jobs Tax Credit

- FY 2016 - \$1.0 million revenue loss
- Credit against all tax types
- Credit of between \$2,500 and \$7,500 for new job creation
  - Credit cannot be more than employee's income tax withholdings
  - Must attest that jobs would not be created in RI "but for" the credit

# Qualified Jobs Tax Credit

- Companies must maintain level of jobs created for agreement period
- Commerce approved first company on January 4th
- Replaces Job Development Act by closing it to new recipients
  - Companies already certified can continue to get JDA credits



# New Programs and Investments

<i>Article 19 (Section)</i>	<i>Rules &amp; Regs</i>	<i>Application Available</i>
Closing Fund <b>(6)</b>	review	-
I-195 Redevelopment Fund <b>(7)</b>	2/1	-
Small Business Assist. Program <b>(8)</b>	n/a	-
Wavemaker Fellowships <b>(9)</b>	review	-
Streetscape Improvement <b>(10)</b>	X	X
Industry Cluster Grants <b>(12)</b>	X	X
Innovation Initiative <b>(11)</b>	X	X
P-Tech <b>(16)</b>	n/a	n/a

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Tax Increment Financing <b>(4)</b>	X	X
Tax Stabilization Incentives <b>(5)</b>	X	X
Anchor Institution <b>(13)</b>	X	X
New Qualified Jobs <b>(15)</b>	X	X

# Commerce – Reporting

- Includes select Commerce Corporation programs in report produced by Office of Revenue Analysis, including:
  - Rebuild RI Tax credits
  - Tax Increment Financing
  - Wavemaker Fellowship credits
  - Anchor Institution credits
  - New Qualified Jobs 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 close of FY 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

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