Governor’s FY 2018 Budget: Articles

Staff Presentation to the House Finance Committee
March 16, 2017
Article 2 – Economic Development and Tax Credits

- Innovation Initiative
- Refundable Investment Tax Credits
- Refundable Job Training Tax Credits
- Technical Assistance for Municipal Zoning & Permitting
- New Qualified Jobs Incentive Act - GBA
## Economic Development Incentives – Article 2

<table>
<thead>
<tr>
<th>Program</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Initiative</td>
<td>$1.0</td>
<td>$1.5</td>
<td>$2.5</td>
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<tr>
<td>Refundable Investment Tax Credit*</td>
<td>-</td>
<td>-</td>
<td>3.25</td>
</tr>
<tr>
<td>Refundable Job Training Tax Credit*</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
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<tr>
<td>Tech Assist Municipal Zoning &amp; Permitting Fund</td>
<td>-</td>
<td>-</td>
<td>0.25</td>
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</tbody>
</table>

| Total                                        | $1.0 | $1.5 | $8.0 |

*Budget treats as revenue loss; intent is appropriation to funds established
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
Most supported by savings from debt restructuring spread over 2 years
Some supported by general revenues through regular Commerce Corporation funding
All programs given Dec 31, 2018 sunset
All have annual reporting requirements
  - Tax Credit programs reporting more extensive
## Economic Development Incentives - Background

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017 Enacted</th>
<th>FY 2017 Rev</th>
<th>FY 2018 Rec</th>
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<tbody>
<tr>
<td>Closing Fund</td>
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<td>7.0</td>
<td>8.5</td>
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<td>I-195 Redevelopment Fund</td>
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<td>Small Business Assist. Program</td>
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<td>-</td>
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<td>Wavemaker Fellowships</td>
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<td>3.5</td>
<td>2.0</td>
<td>1.6</td>
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<tr>
<td>Streetscape Improvement</td>
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<td>1.0</td>
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<tr>
<td>Industry Cluster Grants</td>
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<td>0.5</td>
<td>0.5</td>
<td>-</td>
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<tr>
<td>Innovation Initiative</td>
<td>1.0</td>
<td>1.5</td>
<td>1.5</td>
<td>2.5</td>
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<tr>
<td>P-Tech</td>
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<td>1.2</td>
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<td>Rebuild RI</td>
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<td>25.0</td>
<td>25.0</td>
<td>20.0</td>
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<tr>
<td>Air Service Development</td>
<td>-</td>
<td>1.5</td>
<td>1.5</td>
<td>0.5</td>
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<tr>
<td>Anchor Institution</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>-</td>
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</tbody>
</table>
Section 1, Innovation Initiative

- Innovation Vouchers
  - Small businesses with less than 500 employees
  - Purchase wide range of research and development support from institutions of higher ed. and other providers
    - Voucher awards $5k – $50K
  - Submit application to Commerce
Section 1 - Innovation Initiative

- Article reserves $1.0 million of appropriation for small business manufacturers
  - Eligible entities are defined in new language
    - Requested amendment clarifies definition
  - Expands use to allow internal research and development funding by these businesses without higher ed. or other partner
Section 2 - Refundable Investment Tax Credit

- Expands existing Investment Tax Credit beyond C corporations
  - Allowed for others prior to PIT reform
- Establishes a refundable credit
  - Refundable for award year; carryover there after
- Manufacturing associated activities
  - Equipment with 4+ years of useable life
  - Property/Structural with 4+ years of useable life
  - Technology
Section 2 - Refundable Investment Tax Credit

- Credit up to $0.2 million, subject to appropriation
- Governor requested amendment to clarify that all credits will be refunds
  - Limits C Corps to investments in excess of tax liability
  - Other business types up to credit amount
  - Non-transferrable/assignable
Section 3 - Refundable Jobs Training Tax Credit

- Expands existing Jobs Training Tax Credit to manufacturers or targeted industries beyond C corporations
- Establishes a refundable credit
- Similar uses and eligibility of existing tax credit
  - Greater eligibility restrictions
  - Not on per employee basis
  - Not a percent of spend
Eligibility

- Businesses report to the Governor’s Workforce Board, not professional services
- Employees: 150% minimum wage, 30 hours
- In-state training unless not available or less expensive

Manufacturers or targeted industries
- Governor requested amendment to cap non-manufacturers claims at 20% of total appropriation
Section 3, Refundable Jobs Training Tax Credit

- Credit up to $0.2 million, subject to appropriation
- Governor requested amendment to clarify that all credits will be refunds
  - Limits C Corps to expenses in excess of tax liability
  - Other business types up to credit amount
  - Non-transferrable/assignable
Governor requested amendment to unify job training tax credit programs under the Commerce Corporation

- Currently administered through DLT
  - Governor’s Workforce Board/Human Resources Investment Council
  - Currently programs must be preapproved by the Governor’s Workforce Board
Establishes fund for the Commerce Corp. to assist municipalities in streamlining zoning, planning, permitting & processes
  - By application
    - Grants, Loans and “other forms of financing”

Annual reporting on commitments, disbursements, usage, economic impact

Sunsets December 31, 2019

Governor recommends $250,000
New Qualified Jobs Tax Credit: Current Law

- Credit against all tax types
- Replaced Job Development Act by closing it to new recipients
  - Companies already certified can continue to get JDA credits
- Credit of between $2,500 and $7,500 for new full-time job creation
  - Credit cannot be more than employee’s income tax withholdings
Company must attest that jobs would not be created in RI “but for” credit
- Must maintain level of jobs created for agreement period

15 Agreements through January 2017
- 10 relocated from out of state
- Totaling 1,238 jobs
- Typically 10-year agreements
- Median wages rage from $33,500 - $137,000
  - Median wage of $51,500 across all agreements
New Qualified Jobs Tax Credit – Requested Amendment

- Reduce minimum job creation requirements for manufacturers
  - 200 employees or less
    - Add at least 5 new full-time jobs
  - Over 200 employees
    - Add at least 5% of base jobs or 50 new jobs
- Manufacturers with 50 employees or less may join together for common purpose or collective expenditure
  - Create 5 new full-time jobs, and 1 at each partner
## New Qualified Jobs Tax Credit: Governor’s FY 2018 Proposal

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Current Law</th>
<th>Governor’s Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Targeted Industry</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>≤100</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>&gt;100 ≥10% of empl. base or ≥100</td>
<td>No Change</td>
</tr>
<tr>
<td><strong>Non-targeted Industry</strong></td>
<td>≤200</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>&gt;200 ≥10% of empl. base or ≥100</td>
<td></td>
</tr>
<tr>
<td><strong>Manufacturers</strong></td>
<td>No current distinction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>≤200</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>&gt;200 ≥5% of empl. base or ≥50</td>
<td></td>
</tr>
<tr>
<td><strong>2+ Manufacturers</strong></td>
<td>≤50 each ≥5 w/ at least 1 each business</td>
<td></td>
</tr>
</tbody>
</table>
New Qualified Jobs Tax Credit – Requested Amendment

- Fiscal impact – none assumed
- FY 2017 Governor’s budget included a proposal to reduce all minimum job requirements by half
  - Also removed the per job credit cap of $7,500
  - Neither provision enacted
- 2017-H 5375 mirrors FY 2017 budget proposal
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