

# Governor's FY 2023 Budget: Articles & SFRF Proposals

Staff Presentation to the House Finance  
Committee  
February 15, 2022

---

# Introduction

2022-H 7123	
Article 8 – Sec. 6	Small Business Development Fund
Article 9 (except Section 1)	<b>Economic Development</b>
	<i>Rebuild RI</i>
	<i>Wavemaker Fellowship</i>
	<i>Industry Cluster Grants</i>
	<i>Sunset Extensions</i>
Article 1 Section 16	<b>Related ARPA – SFRF Proposals</b>
	<i>Main Streets Revitalization</i>
	<i>Small Business and Technical Assistance</i>
	<i>Assistance to Impacted Industries</i>
	<i>Minority Business Accelerator</i>
	<i>Small Business Access to Capital</i>

# Article 8, Sec. 6 Small Business Development

- 2019 Assembly authorized development funds with 10-year plans
  - Capitalized by outside investors
    - Half investor funds for tax credits against insurance taxes for provable metrics
      - Non-transferrable, with recapture provisions
      - Maximum of \$42.0 million in tax credits
    - Remainder from other private investors with no expectation of tax credit
    - Limited to USDA & SBA Investment companies
  - Eligible businesses with less than
    - 250 FTE, \$15.0 million revenue, 60% in-state payroll

# Article 8, Sec. 6 Small Business Development

- Article 8 revisions
  - Expands applicable tax types for credit to include & allows transfers
    - Liability for recapture remains with seller
  - Allows different lenders, many small bank-types & others
    - Includes more SBA lenders, federal-regulated lenders to low-middle income communities, Minority Depository Institutions+
  - Removes first come first serve provision
    - Participation more subject to Commerce approval
    - Includes application process changes

# Article 8, Sec. 6 Small Business Development

- Proposal effectively identical to one submitted to 2021 Assembly
  - Additional clarification on regulatory roles of Taxation and Commerce
  - Does not set first solicitation date
- One awardee, Enhanced Capital in 2021
  - Approved for up to \$12.9 million in tax credits
  - Issuances of up to \$4.3 million starting FY 2025

# Economic Development

- 2015 Assembly enacted 15 programs with FY 2016 budget in support of Governor Raimondo's economic strategy
  - 5 tax incentive programs
  - 10 other programs, investments & initiatives
  - Partially funded from debt restructuring
- 2016 - 2021 Sessions
  - Added & made revisions
  - Extended sunsets
  - Recaptured unused funds

# Economic Development

- Article 9
  - Increase limit on Rebuild Tax credits
  - Changes to Wavemaker
  - Appears to revive Industry Cluster Grants
    - Error corrected in 2/15 amendment request
  - Extends sunsets one year to Dec 31, 2023
- Major additional spending using State Fiscal Recovery funds

# Economic Development

Current Programs	2016 – 2021	2022 R	2023
Rebuild RI	\$82.2	\$52.5	\$13.5
Cluster Grants	2.4	-	-
Wavemaker	8.6	1.2	1.8
Innovation Initiative	7.5	1.0	1.0
Small Business Assist.	6.0	0.7	0.7
Supply RI*	0.9	0.3	0.3
Site Readiness*	1.0	1.0	1.0
Air Service Dev.	2.5	-	2.3

\$ in millions \*Not established via statute; sunset repeal does not apply



# Article 9 - Sunsets

## Sec. 3-7, 9, 10, 12-14

- Programs
  - First Wave Closing Fund
  - I-195 Redevelopment Fund
  - Small Business Assistance
  - Main Street
  - Innovation Initiative
  - P-Tech
  - Air Service Development
- Tax Incentives
  - Tax Increment Financing
  - Tax Stabilization Incentive
  - Qualified Jobs Tax Credit

# Rebuild RI Tax Credit: Current Law

- Credits for real estate development
  - Equal to lesser of 20% of project costs or the “funding gap”
  - 30% if criteria met for rehabilitation, reuse, affordability, sustainability, or targeted industry
    - \$15.0 million project cap
    - Redeemed over 5 years
    - Credits transferable / refundable at 90% of value
- Projects may also get sales tax exemption

# Rebuild RI Tax Credit:

## Current Law

- 2016 Assembly changes
  - Capped total credits at \$150 million
  - Allowed use of funds for Tax Stabilization Incentive reimbursements to municipalities
  - Modified language to deal with issues raised by developers and financing entities
- 2019 Assembly raised cap to \$210 million
  - Required sales tax exemption feature to be paid from set aside funds and within cap
  - Established distinct \$25M cap for Parcel 42
    - Not in \$210 total

# Rebuild RI Tax Credit: Current Law

Rebuild RI Project Thresholds			
Dev. Type	Cost	Min ft <sup>2</sup>	Other Min
Commercial	\$5.0 million	25,000	1+ Businesses & 25 FT Employee
Multi-Family Residential*	Discretionary	20,000	20 Residential Units
Mixed Use	\$5.0 million	25,000	1 Business

*\*Hope Communities only; higher poverty rates than other municipalities*

- Certain exemptions
  - Hope Communities
  - Projects with a manufacturer
  - Historic structures not qualified for Historic Tax Credits

# Rebuild RI Tax Credit

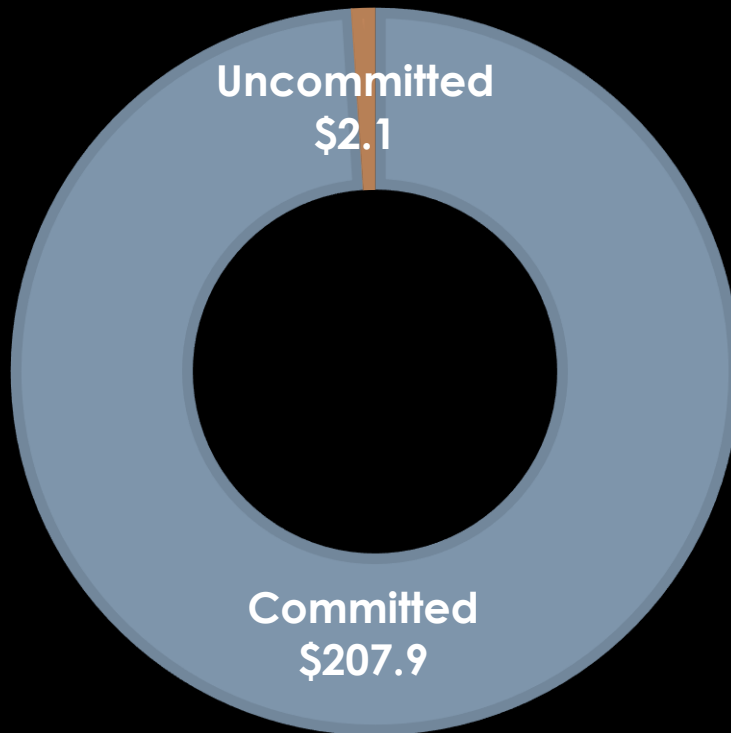
- Rebuild RI credits are paid out over a period of up to 5 years
  - Approved credits approx. \$208 million
    - Inclusive of ~ \$50 million in sales tax exemptions
    - Program sunsets December 2022
  - Prefunding tax credits taken over time
    - \$52.5 million for FY 2022
      - Currently \$134.7 million set-aside from prior appropriations

# H 7123, Article 9, Sec. 2 – Rebuild RI Tax Credit

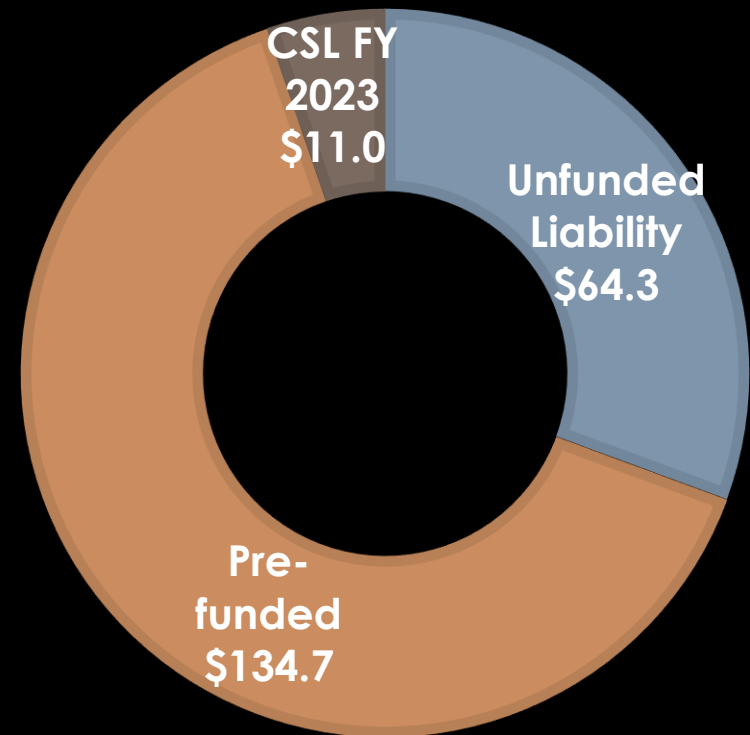
- Governor proposes \$15 million cap increase to \$225.0 million
  - 12 month sunset extension: Dec. 31, 2023
  - Includes \$13.5 million for FY 2023
    - Total set-aside increases to \$148.2 million
- Out-years assume same level
  - Assumes \$13.5 million annually through FY 2026
    - FY 2027 assumes \$11.0 million appropriation
    - \$25.3 million assumed for post-FY 2026 period

# Rebuild RI Tax Credit: Current Law – Committed vs. Funded

## COMMITMENTS



## FUNDING



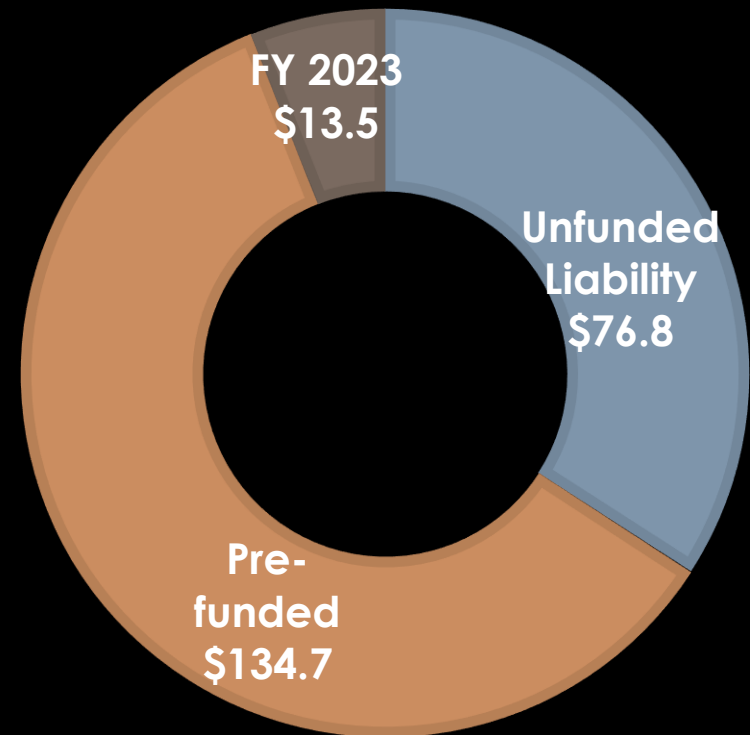
\$ in millions

# Rebuild RI Tax Credit: Governor – Committed vs. Funded

COMMITMENTS



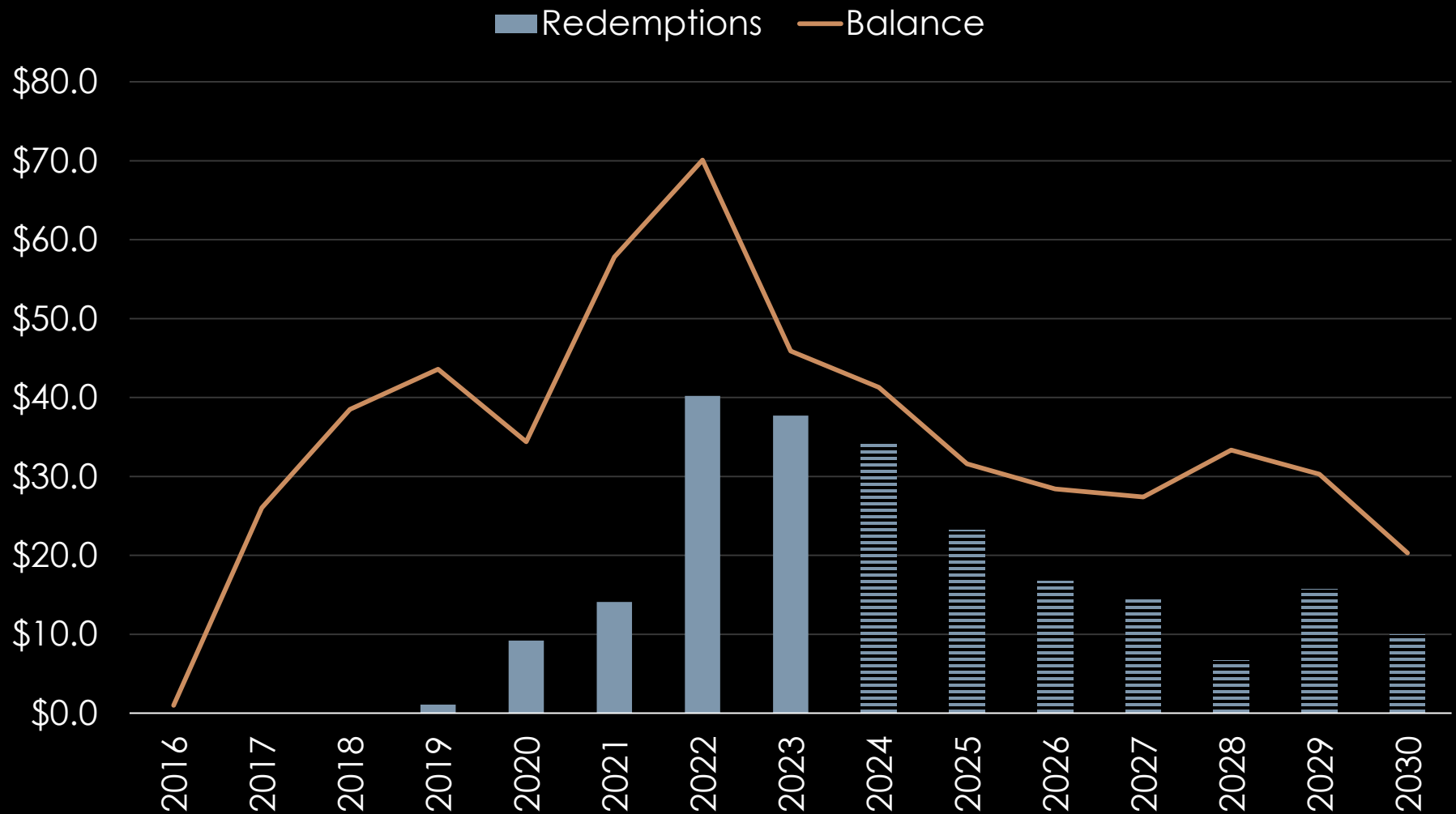
FUNDING



\$ in millions



# Rebuild RI Tax Credit Net Change of Fund Resources



\$ in millions; Redemptions use Nov REC \$195.2M + estimated future use to \$225M

# Wavemaker Fellowships: Current Law

- Tax credits - up to 4 years of college loan repayment assistance
  - Amount of credits/candidate/year based on degree & actual loans
    - Implemented as 2-year awards
  - Funds/credits withheld if recipient becomes noncompliant
    - Annual recertification required

Max Credits Per Year		
Associate's	Bachelor's	Grad/Post Grad
\$1,000	\$4,000	\$6,000

# Wavemaker Fellowships

- Eligible applicants must work full-time for **OR** have accepted offer from company in specific fields
  - Selection is employer-blind & applicant-blind
  - Employer must be RI-based
- 70% of credits must be reserved for permanent RI residents or attendees of a RI college
  - Next application period will open in summer

# Article 9, Sec. 8 – Wavemaker Fellowship

- Expand award eligibility to “high-demand” frontline healthcare workers
  - Current eligibility limited to STEM and finance
  - Joint oversight by Executive Offices of Commerce and Health and Human Services
    - Eligible professions to be defined by Committee
  - Governor estimates 100 two year awards each averaging \$4,000 per year
    - Recommends \$0.8 million in FY 2023 to fully cover one cohort

# Article 9, Sec. 8 – Wavemaker Fellowship

- Appropriations support 5 cohorts
  - FY 2023 budget includes \$2.4 million
    - \$0.8 million more than enacted
      - To capitalize the Healthcare Fund
    - Last cohort awarded FY 2021 - \$3.0 million available now

Appropriations												
FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		FY 2021		FY 2022
\$1.8		\$2.0		\$0.8		\$1.6		\$1.2		\$1.2		\$1.6
Applicants / Fellowships												
305	208	328	219	382	240	688	228	n/a	??	160	Pending	

\$ in millions

# Article 9, Sec. 11 – Industry Cluster Grants

- Grants to encourage geographically concentrated industries
  - \$1.5 million appropriated FY 2016 to FY 2021
  - \$1.3 million disbursed to 13 recipients
- Allowed to sunset in June 2021
- Section 11 revives program and sets new December 2023 sunset
  - Includes no funding
- 2/15 GBA notes section included in error

# American Rescue Plan Act

- State & Local Fiscal Recovery Funds
  - RI to get \$1.8 billion over 2 years
    - \$1,131.1 million to the state
    - \$112.3 million for capital project expenses
    - \$536.8 million to locals
- Use spans several state fiscal years
  - Must obligate by Dec. 31, 2024 - **FY 2025**
  - Funded projects must be completed by Dec. 31, 2026 - **FY 2027**
  - Governor programs all funding from FY 2022 through FY 2027

# ARPA State Fiscal Recovery Funds Timeline

**FY 2021: March 2021 ARPA becomes law**

- 
- \$1,131M - fiscal recovery funds
    - May 2021 interim final rule
    - June 2021 compliance & reporting guidance
    - July 2021 (FY 2022) most recent FAQs updated
    - Dec. 31, 2024 funds must be obligated by (FY 2025)
  - \$112M capital projects fund
    - Sept. 2021 guidance
      - Sept. 24 application opens
    - December 27, 2021 deadline to request funding (FY 2022)
    - September 24, 2022 deadline to submit grant plan (FY 2023)

**FY 2027: All funds must be spent by December 31, 2026**



# American Rescue Plan Act

- Governor programs all funding from FY 2022 through FY 2027 to over 50 projects
  - FY 2022 allocation appear in 2022-H 7122
    - Includes \$119 million approved on Jan 4
  - Remaining allocations in Art 1 2022-H 7123
    - Sec.1 - FY 2023 allocations
    - Sec. 16 - FY 2024-27 & item descriptions by agency
  - Projects mostly one time
    - Some likely create expectation of future support
    - Some funding replaces current state support

# All ARPA Projects

State Fiscal Recovery Funds - Topic	Amount
Housing	\$250.0
Economic and Workforce Development	211.8
Small Business & Impacted Industry	180.5
Public Health	152.3
Children, Families and Education	118.6
Behavioral Health	42.4
Public Infrastructure & Technology	26.5
Climate	132.0
Administration	17.0
<b>Total</b>	<b>\$1,131.1</b>

\$ in millions

# State & Local Fiscal Recovery Funds

A. Respond to the public health emergency (PHE) and its economic impacts

B. Respond to workers performing essential work during COVID-19 PHE by providing premium pay to eligible workers

**ARPA specifies  
four eligible  
uses**

C. Provision of government services to the extent of the reduction in revenue due to the COVID-19 PHE

D. To make necessary investments in water, sewer or broadband infrastructure

# State & Local Fiscal Recovery Funds

U.S. Treasury Eligibility Categories	Code	Share of Total	Project Count
Support public health	A-1	19.4%	9
Address negative economic impacts	A-2	19.0%	11
Services to disproportionately impacted communities	A-3	17.9%	9
Premium pay	B	1.1%	1
Revenue replacement	C	41.0%	21
Infrastructure – water, sewer, broadband	D	0.0%	1

# ARPA – SFRF Programs

- Tonight's ARPA items total \$108.5 million
  - \$45.0 million already in 2021-H 6494 Sub A
  - Programs through Commerce Corporation
    - Funds Main Streets program
    - Extends two programs from 21-H 6494 Sub A
    - Create two new programs
      - Minority Business Accelerator
      - Small Business Access to Capital
  - Qualified use
    - Negative economic impacts
    - Revenue replacement

# ARPA – SFRF Programs

Program	FY 2022	FY 2023	FY 24-27	Total	Code
Main Streets RI	\$ -	\$ 5.0	\$ -	\$5.0	C
Small Business & Technical Assistance	32.0	13.0	-	\$45.0	A-2
Assistance to Impacted Industries	13.0	15.5	-	\$28.5	A-2
Minority Business Accelerator	-	1.5	8.5	\$10.0	A-2
Small Business Access to Capital	-	20.0	-	\$20.0	C
<b>Total</b>	<b>\$45.0</b>	<b>\$55.0</b>	<b>\$8.5</b>	<b>\$108.5</b>	

\$ in millions; FY 2022 same as authorized in 2021-H 6494

# Main Streets Revitalization

- Main Street RI – existing program
  - Enhance sidewalks, signage, lighting, etc. for local business districts
    - Approved by 2015 Assembly
    - Grants or loans of up to \$0.3 million with a 30% matching requirement
  - FY 2016 – FY 2019 appropriated \$3.0 million general revenues
    - \$2.8 million awarded to 16 municipalities and one community organization

# Main Streets Revitalization

- Governor recommends \$5.0 million for award in FY 2023
  - Less than half of projects approved in 2017 and 2018 are complete
    - SFRF spending deadline is 4 years from mid FY 2023
- Proposal not tied to Main Street statute
  - Existing statute gives Commerce Corporation broad discretion
    - Contains reporting requirement



# Small Business and Technical Assistance

FY 2022 “Down Payment” Authorized		Amount
Direct Grants		\$12.5
Technical Assistance		10.5
Public Health Capital Improvements		7.5
Administration		1.5
<b>Total</b>	\$ in millions	<b>\$32.0</b>

- Financial and technical assistance
  - 3,200 preliminarily eligible applications as of today
- Additional \$13 million for FY 2023
  - Presented with the \$32 million enacted for FY 2022
  - Does not specify use of new funds like 2021-H 6494

# Small Business and Technical Assistance

- Does not specify use of new funds
  - Form of assistance determined by Commerce
  - Administrative portion unclear
- 2021-H 6494 specifically required
  - \$1 million revenue maximum
  - 20% minority business set-aside
  - Direct grants limited to revenue replacement
  - \$10,000 limit per business per program
  - \$20,000 limit per business in aggregate

# 21-H 6494, Sub A Small Business & Technical Assistance

- Direct Grants - \$12.5 million
  - Cash infusion to small businesses
    - Less than \$1.0 million in annual gross revenue
    - To replace lost revenue
  - Awards of between \$5,000 and \$10,000
  - 20% reserved for minority owned enterprises
- Technical Assistance - \$10.5 million
  - Grants, vouchers or direct services
  - Build capacity for businesses to respond to changes

# 21-H 6494, Sub A Small Business & Technical Assistance

- Public Health Capital Improvements - \$7.5 million
  - Grants/technical assistance to help business upgrade ventilation & move programming outdoors
    - Reimburse businesses for eligible expenses
    - Provide necessary assistance directly
  - Examples of assistance
    - HEPA filters and other ventilation equipment
    - Design outdoor spaces
    - Business and marketing plans

# 21-H 6494, Sub A Small Business & Technical Assistance

- Administration - \$1.5 million
  - Funding to implement these proposals as well as the tourism initiative
  - Contracted program administration, legal and compliance work and reporting
    - Previous assistance programs used contracted entities to manage application and disbursement
    - Implementation plan includes at least 2 month selection process followed by program setup

# Assistance to Impacted Industries

- Assistance to the tourism, hospitality, & events industries
- Additional \$15.5 million for FY 2023
  - Presented with \$13 million enacted for FY 2022
  - Does not specify use of new funds like 2021-H 6494

<b>FY 2022 Enacted</b>	<b>Amount</b>
Direct Grants	\$8.0
Events, Public & Shared Spaces	3.0
Tourism Marketing	2.0
<b>Total</b>	<b>\$13.0</b>

\$ in millions

# Assistance to Impacted Industries

- Does not specify use of new funds
  - Assistance may take form determined by Commerce
  - Unspecified amount for tourism marketing
  - Administrative portion unclear
- 2021-H 6494 Sub A language specified
  - Direct grants limited to revenue replacement
  - Explicitly limited to businesses within the tourism, hospitality, and events industries

# 21-H 6494 Sub A Assistance to Impacted Industries

- Direct Grants - \$8.0 million
  - Cash support to tourism, hospitality and events businesses in need
    - Not served by previous program or prior recipients still needing assistance
    - To replace lost revenue
  - No maximum grant amount
  - Examples of targeted entities
    - Travel industry
    - Sports/recreation
    - Arts/cultural



# 21-H 6494, Sub A Assistance to Impacted Industries

- Events, Public/Shared Spaces - \$3.0 million
  - Support for main street improvements, public art installations, shared spaces, outdoor performances and event venues
  - Help businesses recover from COVID induced losses by facilitating new activity
  - Provided through “intermediaries”
    - Municipalities
    - Chambers of Commerce
    - Business Improvement Districts

# 21-H 6494, Sub A Assistance to Impacted Industries

- Tourism Marketing - \$2.0 million
  - Additional tourism marketing efforts in coordination with tourism regions & RI Airport Corporation
    - Specific allocations unclear
  - Regional entities and Commerce share in hotel tax revenues as a source of marketing and related operational support
    - These revenues declined significantly in pandemic

# Minority Business Accelerator

- \$10M to support minority business ownership
  - \$1.5 million for FY 2023, \$6.0 million for FY 2024, and \$2.5 million for FY 2025
  - Commerce provided *potential* breakdown by assistance type - not in legislation

Potential Breakdown	Amount
Grants and Technical Assistance	\$4.5
Physical Space	4.0
Loan Capital	1.0
Administration	0.5
<b>Total</b>	<b>\$10.0</b>

\$ in millions

# Minority Business Accelerator

- Does specify
  - Support a program to invest in growth of minority owned businesses
  - “Range of assistance and programming”
- Does not specify
  - Eligibility
    - Definition of minority business
  - Form assistance will take
  - Program oversight

# Minority Business Accelerator

## – Potential Breakdown

- Grants & Technical Assistance - \$4.5M
  - Accounting, finance, & contract procurement assistance
  - Entrepreneurship training
  - COVID adaptation grants of up to \$75,000
  - Information technology software subscriptions and hardware e.g. laptops
  - May be funneled through intermediaries
- Average \$10,000 in support per business

# Minority Business Accelerator

## – Potential Breakdown

- Physical Space - \$4.0 million
  - Operating by selected local organization(s)
  - Would fund acquisition, contraction, and/or renovation
- Loan Capital - \$1.0 million
  - Low interest loans averaging \$50,000
- Administration - \$0.5 million
  - Equivalent of 2 staff
    - Through Commerce Corporation

# Small Business Access to Capital

- Capital support for businesses whose access has been disrupted by COVID
  - \$20.0 million for FY 2023
- Similar to Small Business Assistance Program
  - Loans only
- Examples of eligible expenses
  - Real estate
  - Working capital
  - Refinancing
  - Furniture
  - Fixtures
  - Supplies

# Small Business Access to Capital

- Does Specify
  - Address pandemic related impacts
  - Attempt to leverage other resources
    - Such as Small Business Administration loan program funds
- Does not specify
  - Eligibility
  - Form assistance will take
  - Program oversight
  - Use of repaid loans funds



# Small Business Access to Capital – Possible Format

- Provide flexibility in debt structure & repayment
  - Lines of credit
  - Grants
  - 18 month forgivable loan program
    - May be used to cover non-guaranteed portion of up to 250 SBA loans
    - Concept is to leverage more than invested
    - Repaid loans would be used on other programs

# Prior Relief Programs

State Managed Programs	FY 2021	FY 2022
Hospitality, Arts,& Tourism	\$91.4	\$ -
Restore RI		
Bus Interruption – Restaurants	45.4	-
Small Business Grants	20.7	-
SSBCI	-	61.7
Economic Adjustment Assistance	-	6.8
<b>Total</b>	<b>\$157.5</b>	<b>\$68.5</b>

\$ in millions

# Prior Relief Programs

Direct Federal Assistance to date*	Total
Paycheck Protection Program	\$2,906.1
Shuttered Venue	30.4
Restaurant Revitalization Fund	106.4
Economic Injury Disaster Loan	953.7
<b>Total</b>	<b>\$3,996.7</b>

\$ in millions ; \*source SBA most recent official reports for each program – only EIDL still active

# Governor's FY 2023 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 15, 2022

---