

# Governor's FY 2021 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 26, 2020

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# Introduction

Topic	
Article 5 – Question 3 (b,c,e,f)	State Preservation Grants Program
	Cultural Arts & the Economy Grant Program
	Industrial Site Development (Site Readiness)
	Port of Davisville Infrastructure at Quonset
Article 10, Sec. 9	Stay Invested in RI Wavemaker Fellowship
Article 11	Economic Development
Long Term Economic Development Plan	

# Long Term Economic Development Plan

- Economic Planning Council
  - Appointed after each Gubernatorial Election
  - 15 Members from public (key cabinet members) & private sector (higher ed., labor, business)
  - Develop a written comprehensive economic development policy for the state & a strategic plan for implementing it
    - Due December 31
    - Public hearing by Legislature before finalized

# Long Term Economic Development Plan

- Rhode Island Innovates: A competitive strategy for the Ocean State
  - Collaboration w/ Metropolitan Policy Program at Brookings, Battelle Technology Partnership Practice, & Monitor Deloitte
  - Released January 19, 2016
    - Heard in HFC March 15, 2016
  - Defines strategy for eligibility & standards for economic development toolbox
    - Targeted Industries & Fragile Industries

# Long Term Economic Development Plan

<b>Targeted Industries</b>	<b>Fragile Industries</b>
Biomedical Innovation	Manufacturing & Logistics (including but not limited to processing, refining, metalworking, packaging, warehousing, shipping, & distribution)
Defense Shipbuilding & Maritime	
Advanced Business Services	
Design, Food, & Custom Manufacturing	Seafood (including but not limited to harvesting, growing, & processing)
Transportation, Distribution, & Logistics	
Arts, Education, Hospitality, & Tourism	

# Long Term Economic Development Plan

- Rhode Island Innovates 2.0
  - Released Feb 17, 2020
  - Collaboration w/ New Localism Associates, QVARTZ, & City Facilitators
    - New Localism Associates founded by original Brookings authors
  - Reviews changes to RI economy since 2016
  - Proposes new programs/approaches
    - Including replacing two existing initiatives with new initiatives

# New Requested Debt – GO November 2020

<b>Ballot Questions</b>	<b>Amount</b>	<b>Annual Debt</b>
Higher Education	\$117.3	\$9.4
Environment & Recreation	64.0	5.1
Housing, Cultural, Infrastructure	87.5	7.0
<b>Total</b>	<b>\$268.8</b>	<b>\$21.6</b>

Assumes 5% rate & 20 year term  
\$ in millions

# Assembly Role

- Appropriate Pay-Go
  - (Articles 1 of 7170 & 7171)
- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic
- Other Financing (Kushner)
  - Approve or reject resolution
  - Generally appropriate debt service



# Project Considerations

- Does the project need to be done?
- Is the project ready to be done?
  - When will it start?
  - Is it well thought through and ready for funding/financing?
    - What will the operating budget impacts be?
      - Maintenance costs, staff savings?
  - When will it be complete?

# Funding Considerations

- Should a project be financed or pay-as-you-go?
  - Rhode Island Capital Plan funds available as pay-go for all or part of project
  - More pay-go equals less future debt service

# Funding Considerations

- State's overall debt structure
  - Net tax supported debt would decrease by \$19.9 million to \$1,917.2 million
    - Had dropped to \$1.3 billion in FY 2003 after use of tobacco bonds to defease debt
    - Past practice indicates it will be higher as more projects are added

# Funding Considerations – Debt Ratios

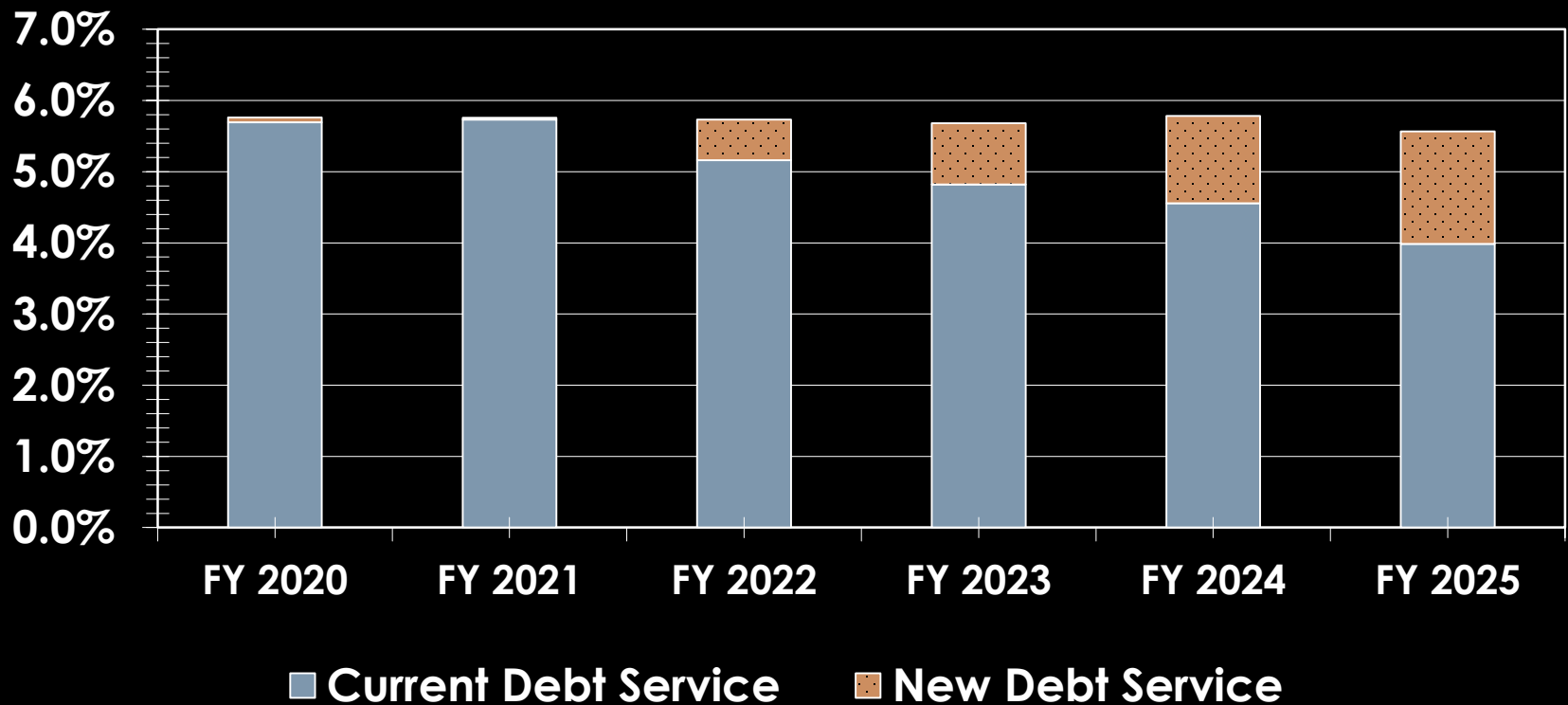
- Debt as % of personal income
  - Drop from 3.1% in FY 2019 to 2.6% in FY 2025
  - Likely to be higher as projects are added
- Treasurer's January debt capacity letter
  - Update to PFMB Debt Affordability Study
    - Bond capacity for 2020 ballot: \$208.3 million
      - Appears to assume faster issuance schedule than typical
  - Treasurer updated letter on Feb. 11
    - Liability would remain within recommended levels based on projected issuance schedule

# Funding Considerations – Debt Service

<b>Fiscal Year</b>	<b>Net Tax Supported Debt Service</b>	<b>Pct. of Revenues</b>
2020	\$243.4	5.8%
2021	\$252.7	5.8%
2022	\$261.8	5.8%
2023	\$265.5	5.8%
2024	\$276.0	5.9%
2025	\$267.7	5.6%

\$ in millions

# Debt Service as Percent of Useable Revenues



# New Requested Debt - GO

<b>Q3: Housing, Cultural, Infrastructure</b>	<b>Amount</b>	<b>Annual Debt</b>
<i>Housing Opportunities*</i>	\$25.0	\$2.0
Port of Davisville Infrastructure at Quonset	20.0	1.6
Industrial Site Development	21.5	1.7
<i>Early Childhood Care &amp; Education*</i>	15.0	1.2
Cultural Arts & the Economy Grants	5.0	0.4
State Preservation Grants	1.0	0.1
<b>Total</b>	<b>\$87.5</b>	<b>\$7.0</b>

\$ in millions \* not on 2/26 agenda

# Creative & Cultural Economy Bond Funds: Background

- \$35.0 million from new G.O. bonds
  - Approved by voters in November 2014
- Council: \$30.0 million
  - Renovations to nonprofit theaters and performance spaces
- Historical Preservation and Heritage Commission: \$5.0 million
  - Historic sites and nonprofits



# Creative & Cultural Economy Bond Funds

- Council on the Arts: \$30.0 million
  - Renovations to nonprofit theaters and performance spaces
    - 9 specific entities named to receive \$23.1 million from bond funds
  - \$6.9 million assumed for competitive application & administration
  - All grants 1:1 match basis
    - Program has supported 62 grants to 37 projects with total spending over \$52.0 million

# Creative & Cultural Economy Bond Funds

Recipient	Pre-FY 20	FY 2020	Post-FY 20	Total
Competitive Grants	\$5.5	\$0.6	\$0.3	\$6.4
Admin Costs	0.2	0.1	0.2	0.5
2 <sup>nd</sup> Story Theater	0.9	-	0.1	1.1
AS220	1.4	0.7	-	2.1
Chorus of Westerly	0.9	0.2	-	1.1
Newport PAC	4.1	-	0.1	4.2
RI Philharmonic	2.4	-	-	2.4
Stadium Theater	2.1	-	-	2.1
Trinity Rep	4.2	0.2	0.2	4.6
United Theater	0.7	0.6	1.1	2.4
Waterfire	3.2	-	-	3.2
<b>Total</b>	<b>\$25.6</b>	<b>\$2.3</b>	<b>\$2.0</b>	<b>\$30.0</b>

\$ In millions

# H 7171 Article 5 Question 3

## Cultural Arts & Economy Grants

- \$5.0 million from new bond proceeds
  - \$4.0 million for 2 entities also named in 2014
  - Trinity Rep. Co. \$2.5 million; 2014 - \$4.6 million
    - “For the Lederer Theater, in Providence, used for performance facilities, educational instruction, production and administration”
  - RI Philharmonic \$1.5 million; 2014 - \$2.4 million  
“For the Carter Center for Music Education and Performance in East Providence, used for music teaching, learning, performance and administration”

# H 7171 Article 5 Question 3

## Cultural Arts & Economy Grants

- \$5.0 million from new bond proceeds
  - \$1.0 million for competitive application
  - Same 1:1 matching grants requirement
  - \$8.2 million assuming 20 years & 5% interest
- Essentially same bond language as 2014
  - Named entities' projects must be at prevailing wage

# H 7171 Article 5 Question 3

## State Preservation Grants

- Historical Preservation & Heritage Commission
  - Responsible for state historical preservation plan, identifying & protecting historic sites and structures
  - Conducts and maintains statewide survey of historical sites and buildings
  - Develops and runs programs to document and celebrate RI's cultural heritage
  - Administers State Preservation Grants

# H 7171 Article 5 Question 3

## State Preservation Grants

- State Preservation Grants - \$1.0 million
  - Provides grants to renovate and preserve historic sites
  - Competitive application process with required match
  - Previous bonds 2002, 2004 & 2014
    - \$1.2 million remaining to be disbursed

# H 7171 Article 5 Question 3

## State Preservation Grants

- Awards granted on a two year basis
  - Payments continue as projects move towards completion

<b>CY</b>	<b>Awards</b>	<b>Completed Projects</b>	<b>Total Awarded</b>	<b>Balance</b>
2015	23	19	\$1.8	\$0.3
2016	14	10	1.2	0.3
2017	20	10	1.9	0.5
<b>Total</b>	<b>57</b>	<b>39</b>	<b>\$4.9</b>	<b>\$1.2</b>

\$ in millions

# H 7171 Article 5 Question 3

## Industrial Sites (Site Readiness)

- \$21.5 million of new G.O. bonds
  - To prepare sites for development of manufacturing, assembly, distribution & commercial activities that produce jobs
  - Proceeds intended for entities distinct from the state & awarded on a competitive basis
  - \$35.1 million total cost over 20 years assuming 5.0% interest



# Site Readiness

- Enacted budget includes \$1.0 million from general revenues for new site readiness program
  - Assist municipalities to develop pad-ready industrial sites
    - Governor had recommended more expansive program including \$1.0 million from RICAP for improvements to land put under state control
  - Similar proposals in prior years

# Site Readiness

- Program began Oct. 1, 2019
  - Funding is awarded for 2 categories
    - Site Specific Improvements
      - Land clearing, engineering & environmental studies, infrastructure & building improvements,
    - Municipal assistance
      - Land use & permitting processes, zoning & planning board member or building code official training,
    - Planning and ordinance drafting assistance

	<b>Locals</b>	<b>Companies</b>	<b>Developer</b>	<b>Other</b>
Awards -15	8	7	-	-
Applicants - 22	11	9	1	1

# Quonset – Capital Projects

Completed Quonset GO Projects	
1996 Ballot	\$72.0 million
2004 Ballot	\$48.0 million

- Current Quonset Point Capital Projects
  - Quonset Piers - \$90.0 million
    - Includes \$50 million from 2016 G.O. bonds
    - Refurbish and extend Pier 2 at Davisville
  - Quonset Infrastructure - \$14.0 million
    - Increase roadway crossing capacity, utility relocation, & pier construction & dredging

# Quonset – Current Capital Projects

Source	Piers	Infrastructure	Total
G.O. Bonds	\$50.0	\$ -	\$50.0
RICAP	15.0	14.0	29.0
QDC Resources	25.0	-	25.0
<b>Total</b>	<b>\$90.0</b>	<b>\$14.0</b>	<b>\$104.0</b>
Scope	Refurbish dredge & extend Pier 2	Roadway crossing capacity, utility relocation, new pier construction & dredging	
Timing	FY 2017- FY 2022	FY 2019 – FY 2021	

\$ in millions

# Quonset Piers

	<b>Prior</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>Total</b>
G.O. Bonds	\$21.7	\$22.8	\$5.5	\$ -	\$ -	\$50.0
Revenue Bonds	-	-	-	20.9	-	20.9
RICAP	5.0	5.0	5.0	-	-	15.0
QDC Funds	1.1	1.0	1.0	1.0	-	4.1
<b>Total</b>	<b>\$27.8</b>	<b>\$28.8</b>	<b>\$11.5</b>	<b>\$21.9</b>	<b>\$-</b>	<b>\$90.0</b>

\$ in millions

# Quonset - Infrastructure

- New project in FY 2019
  - Increase roadway crossing capacity & utility relocation
  - \$14.0 million from RICAP
    - \$4.0 million for FY 2019 and FY 2020
    - \$6.0 million for FY 2021
- Total improvements estimated to cost at \$34.5 million
  - Electric Boat to pay the remainder of project costs pursuant to agreement with QDC

# H 7171 Article 5 Question 3 Port of Davisville Infrastructure

- \$20.0 million of new G.O. bonds
  - To finance a port master plan, construction of a new pier, rehabilitation of pier 1 & dredging
  - Project intended to support logistics staging & cargo for offshore wind projects, & available to the port's other businesses
  - \$32.7 million assuming 20 years & 5.0 percent interest

# Port of Providence

- Port of Providence - \$20 million G.O. Bond
  - Approved by the voters in 2016 for up to 25 acres land acquisition & improvement
    - Language allows up to 7 years to utilize funding
  - Proposed to increase containerized port capacity
    - Subsequent updates noted strategy to accommodate offshore wind demand

<b>Pre FY 2020</b>	<b>FY 2020</b>	<b>FY 2021</b>
\$40,000	\$15.0 million	\$5.0 million



# Issues to Consider

- Project Financing Considerations
  - Is the project appropriate for public debt?
    - Who is the underlying beneficiary?
  - Is the project appropriate for long term debt financing?
    - What is the “useful life”?

# Wavemaker Fellowships: Current Law

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

<b>Max Credits Per Year</b>		
<b>Associate's</b>	<b>Bachelor's</b>	<b>Grad/Post Grad</b>
\$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

# Article 10, Sec. 9 - Wavemaker Fellowships

- Defines “Businesses” to include corporations, and pass-through entities, financial institutions, & federal agencies
- Repeals “wages subject to withholding” requirement
  - For business owners paying estimated taxes rather than withholding income taxes
  - Amends language to exempt tax credits from taxation
    - Currently only cash redemption tax exempt

# Article 10, Sec. 9 - Wavemaker Fellowships

- Expands eligibility to “high-demand STEM” teachers
  - Limits awards to 100 teachers & 25% of funding awarded in a calendar year
    - Technical changes to facilitate the inclusion of these entities
- Governor recommends \$2.1 million for FY 2021 to fund the existing program & teacher expansion

# Article 10, Sec. 9 - Wavemaker Fellowships

- Appropriations through FY 2020 supports 4 cohorts
  - FY 2021 budget includes \$2.1 million

Appropriations									
FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
\$1.8		\$2.0		\$0.8		\$1.6		\$1.2	
Wavemaker: Applicants & Fellowships									
FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
305	208	328	219	382	240	688	228	Pending	

\$ in millions

# Article 11 – Economic Development

- Program Changes
  - Rebuild Rhode Island
  - Sunset Dates
- New Program
  - Site Readiness

# Economic Development Incentives – Background

- 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
  - Anchor tax credit program allowed to sunset, Oct. 2018



# Economic Development Incentives - Background

- Most supported by savings from debt restructuring spread over 2 years
- Some supported by general revenues through regular Commerce Corporation funding
- 2018 Assembly extended Dec 31, 2018 sunset to June 30, 2020
  - 2019 Assembly extended to Dec 31, 2020
- All have annual reporting requirements
  - Tax credit programs reporting more extensive

# Commerce

<b>Current Programs</b>	<b>FY 16/ FY 17</b>	<b>FY 18/ FY 19</b>	<b>FY 20 Rev</b>	<b>FY 21</b>
Rebuild RI	\$26.0	\$23.7	\$10.0	\$22.5
Cluster Grants	0.8	-	0.1	0.4
Wavemaker	1.8	0.8	1.6	2.1
Innovation Initiative	1.0	1.0	1.0	1.0
P-Tech	0.9	-	0.2	0.2
I-195 Redev. Fund	25.0	2.0	-	1.0
Small Business Assist.	5.5	-	0.5	0.8
Supply RI	-	-	0.3	0.3

\$ in millions

# Rebuild RI Tax Credit: Current Law

- Credits for real estate development equal to lesser of 20% of project costs or funding gap
  - 30% if they meet criteria for rehabilitation, reuse, sustainability, affordability or targeted industry
    - \$15.0 million project cap; \$25.0 million for Hope Point
    - Redeemed over 5 years
    - Credits transferable / refundable at 90% of value
- Projects may also get a sales tax exemption

# Rebuild RI Tax Credit: Current Law

- 2016 Assembly revised earlier legislation to address issues raised
  - 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 funds set aside and within cap

# Rebuild RI Tax Credit: Current Law

- Certain exemptions
  - Hope communities
  - Projects w/ a manufacturer
  - Historic structures not qualified for Historic Tax Credits

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

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

# Rebuild RI Tax Credit

- Rebuild RI credits are paid out over a period of up to 5 years
  - Prefunding tax credits taken over time
    - \$10 million for FY 2020
    - Total set-aside increases to \$59.7 million
  - Approved credits approximately \$144 million
    - Inclusive of about \$38 million sales tax exemption
    - Program sunsets December 2020

# Rebuild RI Tax Credit

- Governor proposes \$40 million increase in cap & 3 year extension on sunset
  - Out-years assume need to increase the appropriation to fund commitments
    - About \$30 - \$35 million annually
  - Reduces available credit to 15%
    - Unless infrastructure costs 20% of project costs, or a recognized historic structure
    - Infrastructure costs undefined

# Commerce

- Site Readiness

- Facilitate development & investment
  - \$1.0 million for site readiness
  - \$0.4 million for 5 Commerce Corp. fellowships
  - \$21.5 million from new G.O. Bonds for development
- Legislation establishes roles for Quonset or Commerce to contract with locals for development assistance at agreed upon sites
- Elements of prior proposals not enacted



# Article 11 – Site Readiness

- Establishes new committee at the Commerce Corporation
  - Appointed from its Board membership & members of RI League of Cities & Towns & impacted municipality
  - To administer new, permanent program
    - Provide municipalities technical support for planning & processes & financial assistance
  - Authority granted only applicable with approval by a governing body or under contract

# Article 11 – Site Readiness

- Preparation & implementation of development policy or planning
  - To the extent permitted by the contract
    - Empowered with local planning authority if not explicitly stated otherwise
  - Financial assistance for implementation
    - Including environmental remediation
    - Recommend enhanced reimbursement (up to 25%) for tax stabilizations agreements
      - Subject to Commerce Corporation Board approval
      - Reimbursement awards up to 5x annually

# Article 11 – Site Readiness

- Permits Quonset Development Corporation to act in place of Commerce
  - If requested by a municipality
  - Committee appointed from its Board membership
  - Also includes representative of RI League of Cities & Towns, & RI Manufacturers Assoc.

# Article 11 – Site Readiness

- To the extent allowed through the authorization
  - DBR may issue any or all permits & licenses or conduct code reviews
  - On designated parcels, committee may
    - Operate, maintain, construct or alter areas
    - Develop all permitting & planning processes
      - Provided federally mandated environmental licensing remains with the requisite authority
  - Revenues may be split among parties to the contract

# Article 11 – Site Readiness

- Areas w/specified facilities exempted from local land use, zoning, fire & building codes, plans or regulations

<b>Exempt Facility Uses</b>	
Significant Commercial Office Space	Sporting/Performance/Outdoor Entertainment Venue
Innovation/Laboratory	Structure needing rehabilitation, revitalization, replacement or other uses determined for this purpose by the Economic Development Planning Council
Industrial/Port/Marine/Distribution	

# Article 11 - Sunsets & Technical

- 2019 Assembly extended sunsets from June 30, 2020 to December 31, 2020
  - Original sunsets extended by 2018 Assembly from December 31, 2018 to June 30, 2020
- Extends the sunset dates on most programs to December 31, 2023
  - Repeals Small Business Assistance Program sunset

# Sunset Extensions

Art.	Sec.	Program	Enacted Sunset	Proposed Sunset	
10	9	Wavemaker Fellowship	December 31, 2020	Dec. 31, 2023	
11	2	Rebuild RI Tax Credit			
	3	Tax Increment Financing			
	4	Tax Stabilization			
	5	First Wave Closing Fund			
	6	I-195 Fund			
	7	Small Business Assistance			<i>Repeal</i>
	8	Main Street Streetscape			
	9	Innovation Initiative			
	10	Industry Cluster Grants			Dec. 31, 2023
	11	P-Tech			
	12	Air Service Development			
	14	New Qualified Jobs			

# Sunset Extensions

- Office of Revenue Analysis evaluation
  - RIGL 44-48.2
  - 5 years for the 1st report; triennial thereafter

<b>Program Analysis</b>	<b>Due By Statute</b>
Anchor Institution*	June 2020
New Qualified Jobs Incentive Act	
Rebuild RI Tax Credit	
Rebuild RI Sales Tax Exemption	
Rhode Island Tax Increment Financing	
Stay Invested in RI Wavemaker Fellowship	

\*Not utilized; allowed to sunset in 2018



# Other Issues to Consider

- Program use overlap
  - Complementary programs
    - Credits
    - Job Training/Employee support
- Program eligibility
  - Targeted vs. broad vs. mix
- Tax climate
  - Selective vs. broad initiatives

# Governor's FY 2021 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 26, 2020

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