

Governor's FY 2015 Budget: Articles

Staff Presentation to the House Finance
Committee
February 26, 2014

Introduction

- Article 5, Question 2 – Creative and Cultural Economy Bond
- Article 15 – Historic Structures Tax Credit

Assembly Role

- Appropriate Pay-Go
 - Articles 1 and 10
- Authorize all debt
- Approve General Obligation Bond Referenda
 - Voters approve or reject
 - Debt service automatic

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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
 - When will it be complete

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Funding Considerations

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

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Public Corporation Debt Management Act (Kushner Act)

- Enacted in 1994
- Subsequently amended to increase Assembly's approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

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Capital

- Includes \$200.1 million under Public Corporation Debt Management Act
 - Information Technology
 - Virks Building Renovation
 - *Historic Structures Tax Credits*
 - T.F. Green Improvements
 - Garrahy Courthouse Parking

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Kushner Items

Certificate of Participation (in millions)	
Information Technology (Feb. 26)	\$30.0
Virks Building Renovation (Feb. 26)	13.0
<i>Historic Structures Tax Credits (Art. 15)</i>	<i>52.1</i>
Total	\$95.1

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Kushner Items

Revenue Bonds (in millions)

T.F. Green Improvements – including Runway Extension (Feb. 25)	\$60.0
Garrahy Courthouse Parking (Feb. 26)	45.0
Total	\$105.0

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General Obligation Bonds

- Plan relies on \$275.0 million of new general obligation bonds for November 2014 ballot
 - Higher Education projects
 - Transportation
 - Water Infrastructure
 - Recreation and Environment
 - *Creative and Cultural Economy*

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Article 5, Question 2 – Creative and Cultural Economy

- Creative and Cultural Economy
 - Cross-agency initiative focusing on the role of the arts in the state's economy
 - Rebuilding cultural assets and facilities
 - Highway and urban improvement grants awarded through RISCA
 - New Cultural Economy Coordinator at Commerce Corporation

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Article 5, Question 2 – Creative and Cultural Economy

- Article 5 Question 2
- \$35.0 million general obligation bond
 - \$30.0 million - artistic and performance facilities throughout the state
 - Administered by Commerce Corporation in consultation with RISCA
 - \$5.0 million - public and nonprofit historic sites, museums and cultural arts centers
 - Administered by Commerce Corporation and Historic Preservation and Heritage Commission

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Article 5, Question 2 – Creative and Cultural Economy

- \$35.0 million general obligation bond
 - Assuming 5.0% rate, 20 year maturity
 - Average annual debt service: \$2.8 million
 - Paid from general revenues
 - Total cost of borrowing: \$54.2 million

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Article 5, Question 2 – Creative and Cultural Economy

- Budget Office does not identify specific recipients' projects
- Legislation does not provide information how funding decisions will be made

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Article 15 – Historic Structures Tax Credit

- Expands authorization for bond issuance in support of Historic Structures Tax Credit projects
- Adds authorization for additional \$52.1 million of borrowing

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Article 15 – Historic Structures Tax Credit Background

Enacted by 2001 Assembly effective January 1, 2002

- To promote the rehabilitation, redevelopment, and reuse of historic structures
 - Mechanism: State tax credits equal to 30.0% of qualified rehabilitation expenses

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Article 15 – Historic Structures Tax Credit Background

- Credits, in whole or in part, may be transferred or conveyed in whole or in part
 - Used by developers to secure capital for projects – often through broker or “middleman”
- Qualification: 3 phases of applications submitted to Historical Preservation and Heritage Commission

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Article 15 – Historic Structures Tax Credit Background

- Phase I: Recognized as an historic structure
- Phase II: Credit determined by scope and value of work
- Phase III: Application filed to certify completion of work
 - Credits used following approval by HPHC
 - Credits carried forward up to 10 years

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Article 15 – Historic Structures Tax Credit Background

2005 Assembly Change

- Increased processing fee to 2.75% of qualified rehabilitation expenses
 - Previous fee structure tiered \$500 - \$2,000
- Lowered the effective rate of the credits to 27.75%

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Article 15 – Historic Structures Tax Credit Background

Program had uneven and significant fiscal impact

- By November 2004 –\$143.5 million in credits approved
- By October 2007 – \$450.5 million in credits approved

Credits taken varied by year

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Article 15 – Historic Structures Tax Credit Background

Project Credits as of October 2007*		Predicted Credit Use as of October 2007*	
Calendar Year	Completed	Calendar Year	Active
2002	\$4.0	2007	\$45.5
2003	\$18.3	2008	\$95.9
2004	\$32.9	2009	\$95.4
2005	\$62.3	2010	\$26.0
2006	\$40.1	2011	\$3.9
2007	\$16.4	2012	\$5.9
Total	\$178.0	Total	\$272.5
*In millions		*In millions	

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Article 15 – Historic Structures Tax Credit Background

- Governor Carceieri proposed annual cap on claiming of credits
 - \$20.0 million for tax year 2007
 - \$40.0 million for tax years 2008 – 2017
- Uncertainty in program would have made credits less marketable

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Article 15 – Historic Structures Tax Credit Background

2008 Assembly ended program and developed exit strategy for projects well along pipeline

- No project approvals after December 31, 2007
- Projects in service by December 31, 2007 were still eligible for 30% credit

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Article 15 – Historic Structures Tax Credit Background

- EDC to issue maximum of \$356.2 million of bonds to satisfy the obligations for remaining tax credit program
 - \$299.9 million maximum for project fund – to reimburse state for claimed credits
 - \$56.3 million authorized to borrow to pay debt service if necessary
 - This never occurred
 - Project flow made this unnecessary

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Article 15 – Historic Structures Tax Credit Background

- Projects in service January 1, 2008 or after eligible for reduced credit
 - Processing fee paid by May 15, 2008
 - New credit and processing fee schedule:

Credit	Processing Fee	Effective Credit
27.0%	5.0%	22.0%
26.0%	4.0%	22.0%
25.0%	3.0%	22.0%

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Article 15 – Historic Structures Tax Credit Background

- Projects that did not prove substantial construction by May 15, 2013 to be declared abandoned
 - Credits forfeit
 - Processing fee refunded
- 21 projects abandoned
 - \$34.5 million in credits

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Article 15 – Historic Structures Tax Credit

2013 Assembly established new program to be funded through existing borrowing limit of \$299.9 million

- Credit of 20.0% of qualified expenses
 - 25.0% for certain commercial projects
- Nonrefundable processing fee of 3.0%
- Total project cap of \$5.0 million
 - Includes projects spread amongst multiple buildings

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Article 15 – Historic Structures Tax Credit

- Program sunsets June 30, 2016
 - Division of Taxation began accepting applications on August 1, 2013
 - 57 applications valuing \$62.0 million
 - Conditional approval given to 32 projects
 - Total value \$34.5 million
 - 5 projects abandoned (\$1.2 million)

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Article 15 – Historic Structures Tax Credit

Fiscal Year	Current Law*		Article 15*		Debt Svc Difference*
	Borrow	Debt Svc.	Borrow	Debt Svc.	
2009	\$150.0	-	\$150	-	-
2013	\$150.0	\$84.7	\$150	\$84.7	-
2014	\$225.0	\$106.1	\$225.0	\$106.1	-
2015	\$300.0	\$137.4	\$300.0	\$137.4	-
2017	\$300.0	\$211.5	\$352.1	\$218.7	\$7.2
2025	\$300.0	\$427.7	\$352.1	\$492.1	\$64.4
2027	\$300.0	\$442.0	\$352.1	\$506.4	\$64.4

**In millions* 29

Article 15 – Historic Structures Tax Credit

Current law authorizes borrowing of \$299.9 million for credits

- \$150.0 million has been borrowed
- \$75.0 million to be borrowed in FY 2014 and FY 2015
- \$442.0 in total debt service

Article 15 increases total borrowing to \$352.1 million

- \$52.1 million to be borrowed in FY 2016
- \$506.4 million in total debt service

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