Testimony on Budget Article 12: Relating to Economic Development

House Finance Committee
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March 6, 2018

We share a desire to see Rhode Island's economy grow, an economy in which all Rhode Islanders can prosper, and one which sustains the vibrant communities and strong families that are the foundation of the Ocean State.

There are portions of this budget article that have considerable merit.

1. Accountability for tax incentives for economic development – The budget article requires the Rhode Island Commerce Corporation to "assess the performance, effectiveness, and economic impact of" most of the components of the Governor's "suite" of economic development incentives passed during the 2015 General Assembly:

- Rebuild Rhode Island Tax Credit
- Rhode Island Tax Increment Financing (TIF)
- First Wave Closing Fund
- I-195 Redevelopment Project Fund
- Small Business Assistance Program
- Stay Invested in Rhode Island Wavemaker Fellowship
- Main Street Rhode Island Streetscape Improvement Fund
- Innovation Initiative
- Industry Cluster Grants
- High School, College, and Employer Partnerships
- Rhode Island New Qualified Jobs Incentive Act

While we support the increased transparency and accountability that would result from passage of this set of requirements, it is not clear what the relationship is between this required reporting and the explicit requirement that the Office of Revenue Analysis report on the effectiveness of three of these programs (the Rebuild Rhode Island Tax Credit, the Rhode Island TIF program, and the Qualified Jobs Incentive Act) under the terms of the *Tax Incentive Evaluation Act* of 2013,. Nor is it clear why the Anchor Institution Tax Credit (§42-64.30) is <u>not</u> included in this budget article.

We, do, however, have significant reservations about other aspects of this budget article, for the following reasons:

1. **Foregone Revenues** – The *Tax Credit and Incentive Report* prepared annually by the Department of Revenue's Division of Taxation tracks a subset of Rhode Island's economic development tax incentives, "annually report[ing]…recipient's name, address, and amount of tax incentives received"[1]. The report tracked $21.6 million in revenues lost to economic development tax incentives in FY 2017. Between FY2008 and FY2017, **$293.0 million** in revenues were lost to the tax incentives tracked through the Tax Credit and Incentive Report. We are opposed to further eroding public revenues by expanding the number and range of economic incentive tax credits (including, specifically, the provisions in this budget article for the "**Refundable Investment Tax Credit**") until we can determine, based on the much deeper analysis required by the *Tax Incentive Evaluation Act* of 2013, whether the existing credits are providing the "bang for the buck" that has been promised. Key provisions of the 2013 Act require:
   - an assessment of the number of jobs created
   - an assessment of the revenues generated for the state that resulted from the impact of the tax credit
   - a cost-benefit analysis comparing the economic impact of the tax credit in comparison to the impact the foregone revenue would have had if collected and used for other budget purposes.

2. Removal of Sunset Provisions – The General Assembly attached sunset provisions to each component of the Governor's 2015 suite of economic development tax incentives, with each initiative set to expire effective December 31, 2018, unless the General Assembly votes to extend the sunsets. Sunset provisions exist for good reason. The Pew Charitable Trusts notes that:

> [W]hen incentives are enacted as permanent parts of state tax codes, lawmakers often have little impetus to review them. Unlike direct state spending, which must be renewed with each budget, tax incentives frequently continue indefinitely without policymakers revisiting their cost or effectiveness. By integrating the evaluation of tax incentives into the policymaking process, states can ensure that incentives are reconsidered regularly and that elected officials make economic development decisions based on evidence.[2]

Retention of the sunsets is particularly important given the fact that the first round of evaluations required by the ***Economic Development Tax Incentives Evaluation Act of 2013*** [which was amended to cover four of the components of the 2015 suite of economic development incentives] have not yet been completed. While the proposed provisions of §42-64-36(e) discussed above provide a degree of public accountability for the effectiveness of the covered economic development components, a **Commerce Corporation report is not an acceptable alternative to sunset provisions that require the General Assembly to proactively renew economic development tax incentives allocating millions of public dollars**.

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[1] Rhode Island Department of Revenue, Division of Taxation. *Tax Credit and Incentive Report – Fiscal Year 2017.*

[2] The Pew Charitable Trusts. February 2014. *Fact Sheet: Evaluating State Tax Incentives: How to Inform Policy Choices.* http://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2014/02/07/evaluating-state-tax-incentives-how-to-inform-policy-choices. This report holds Rhode Island up as a state to be emulated, on the as yet to be realized assumption that the provisions of the *Economic Development Tax Incentives Evaluation Act* of 2013 would be fulfilled.