The Economic Progress Institute
www.economicprogressri.org

Testimony Regarding H-7171, Article 11 Relating to Economic Development
Senate Finance Committee
July 7, 2020

Article 11 extends from December 31, 2020 to December 31, 2023 the sunset dates for eleven tax credit/incentive programs administered by the Commerce Corporation. The Article also raises the cap on the Rebuild RI program from $210 million to $250 million.

Rhode Island's economic development programs are investments of taxpayer funds—and just like for any other investment, investors need to know whether they are working, whether there is any return on investment. Investors would be unwise to increase or extend their investments without evidence of success. In this regard, evaluation remains critical to the success of the state's economic development programs.

Article 11 asks you to expand and extend the investment of taxpayer funds *before* you have the opportunity to make an informed assessment of these programs. Three of the eleven programs for which the three-year extension has been requested—Rhode Island Qualified Jobs Incentive Act of 2015 (RIGL §44-48.3), Rhode Island Tax Increment Financing (RIGL §42-64.21), and Rebuild Rhode Island Tax Credit Act (RIGL §42-64.20)—are all bound by the extensive reporting and analyses required by the Rhode Island Economic Development Tax Incentives Evaluation Act of 2013 (RIGL §44-48.2-4).[1]

The Department of Revenue's Office of Revenue Analysis (ORA) has undertaken impressive work in evaluating a number of programs covered by the Evaluation Act, however initial reports on these three programs are not yet available. We urge you to extend the sunsets for these programs by only one year, until the close of calendar year 2021, so that you have the opportunity to review the evaluation reports prepared before making a decision about whether to continue these programs. We also propose that the other programs be extended for only one year as well. Although formal evaluations of the efficacy of these programs by ORA is not required, there should be a determination of the economic impact of each program and a review by the General Assembly on a yearly basis as to whether the programs are providing "a bang for the buck."

Article 11 also calls for expanding one of these programs, Rebuild RI, by increasing the cap of allowable credits by $40 million. Only last year, in the FY2020 budget, the General Assembly increased the cap from $150 million to $210 million. Although there does exist a special account for this program, it still requires appropriations from the General Assembly. To date, that fund includes under $50 million, although something on the order of $150 million in credits

600 Mount Pleasant Avenue, Building #9, Providence, RI 02908 ph. 401-456-8512 f. 401-456-9550

have already been approved by the Rhode Island Commerce Corporation. By increasing the cap to $250 million, the General Assembly would be committing close to $200 million in future revenues—$100M already approved but not appropriated, $60M more up to the $210M cap, and then this additional $40M if the cap is raised yet again—at a time when revenues are short and without clear evidence that the program is working, including paying for itself. Any such expansion ought to be paused until issuance of the expected Office of Revenue Analysis report and a public hearing on this report.

[1] Five of the eleven programs for which the three-year extension has been requested require annual reporting but no evaluation requirements altogether: Tax Stabilization Incentive (RIGL §42-64.22), Innovation Initiative (RIGL §42-64.28), Industry Cluster Grants (RIGL §42-64.29), Air Service Development Fund (RIGL §42-64.32), and High School, College, and Employer Partnerships (RIGL §42-64.31). Three of the programs require reporting and possibly some evaluation: First Wave Closing Fund Act (RIGL §42-64.23), I-195 Redevelopment Project Fund Act (RIGL §42-64.24), and Main Street Rhode Island Streetscape Improvement Fund (RIGL §42-64.27). The statutes for these include the following element: "The report shall also, to the extent practicable, track the economic impact of projects that have been completed using the fund." However, it is not clear that such tracking of economic impact has been used to evaluate these programs.

600 Mt. Pleasant Ave., Providence, RI 02908 • p (401) 456-8512 • f (401) 456-9550 • email Info@povertyinstitute.org • www.povertyinstitute.org