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2013 General Assembly Economic Development Legislative Packages Update

This report provides an overview of the House and Senate economic development legislative packages, including a status update on each piece of legislation. It also references components of the General Assembly's FY 2014 budget proposal that relate to business climate issues. Lastly, this report provides an overview of other relevant legislation that, if enacted, may have a negative impact on the state's business climate.

Overview

Reforming Rhode Island's economy has been the center of public conversation over the past year. Stakeholders from private, public, and non-profit sectors have provided feedback on potential areas to improve the state's economy and its approach to economic development. Most prominently, both chambers of the General Assembly have championed substantive economic development packages to reform Rhode Island state government's role in economic development.

In March, Senate leadership unveiled the "Moving the Needle" legislative package of over two dozen bills to improve the state's business climate. Similarly, in April, House leadership announced the 18-bill House economic development package. Both packages include legislation that would positively change the way business is done in Rhode Island, and both packages have two goals in common:

- Reforming Rhode Island state government's response to economic development; and
- Reforming broader business climate issues.

Combined, the structural and business climate goals addressed in these two packages would systematically affect the business climate in Rhode Island. These packages recognize that no single act will fix Rhode Island's relative economic position. Rather, reform should focus on a comprehensive array of structural and programmatic initiatives.

These suggested changes could both positively impact the way business is done and the business climate as perceived in Rhode Island. While this opportunity is at hand, legislative leaders and other stakeholders must continue working together to enact positive change before the General Assembly concludes its legislative session.

Structural Reforms

The House and Senate economic development packages both suggest reforms to Rhode Island's state government approach to economic development. Reforms in this category mostly focus on improving the state's capacity for economic planning and analysis, as well as reorganizing state government to realign and reemphasize commerce-related functions.

Economic Planning and Analysis

Both the Senate and House economic development packages address shortcomings in current state economic planning and analysis through the following legislation:

Economic Plan

Both chambers have proposed the establishment of a consensus-based economic development plan. Each proposal suggests the creation of a diverse planning council to develop a plan, present it for public comment, and submit it to policymakers at the beginning of each gubernatorial administration. Both General Assembly proposals are closely modeled after Massachusetts' Economic Development Planning Council.

Economic Analysis

The House and Senate both acknowledged the need for increased economic analysis in economic development policymaking. The House addressed this shortcoming by establishing a Council of Economic Advisors. Members from inside and outside state government would be appointed by the Governor. Among many other functions, the Council would serve as a collection point for data and information on the economy, and advise policymakers on economic policy through analysis and reports.

The Senate addressed the need for increased data analysis through the creation of a Division of Economic Data and Information within the Department of Administration. This initiative would also establish an Economic Data and Information Advisory Council, comprised of seven members. Among other responsibilities, the Council would serve as the collection point of data and information on Rhode Island's economy, and prepare economic policy analysis on specific issues, such as tax expenditures and economic activity and policy.

Government Structure

The House and Senate packages also suggested structural reforms to state government, and the Rhode Island Economic Development Corporation, the quasi-public agency that is currently the lead economic development organization for the state.

State Government Restructuring

House bill 6063 would create an Executive Office of Commerce as Rhode Island's lead agency for economic development. From February to October 2014, various functions and divisions from the Department of Business Regulation, Department of Labor and Training, and the Department of Administration would be reorganized to operate under the Executive Office of Commerce. The Executive Office would also oversee the newly restructured quasi-public agency (formerly the RIEDC), the Council of Economic Advisors, and the newly created economic planning process.

While the Senate package did not suggest the creation of an Executive Office of Commerce, the Senate's proposal to create the Division of Economic Data and Information, summarized above (S730), and the creation of a Commerce and Workforce Coordination Cabinet (S713), promote commerce and coordinate workforce priorities within state government.

Quasi-public Restructuring

Both chambers included proposals to reform the existing RIEDC. The Senate does this through two bills: S718 and S714. Senate bill 718 would rename the RIEDC the Rhode Island Commerce Corporation (RICC). Furthermore, this bill increases coordination of economic development and workforce development issues by adding the chairperson of the Governor's Workforce Development Board to the RICC Board of

Directors. It also increases transparency, accountability, and oversight. This is done by subjecting proceedings to open records laws, requiring clear procedures for loan program administration, and ongoing agency performance evaluations and audits. It also enhances the overall oversight capacity of the Board. Moreover, Senate bill 714 would rebrand the RIEDC by requesting that the state's Office of Digital Excellence work with the RIEDC to develop an upgraded, interactive, and responsive website. A third Senate bill would preserve the Renewable Energy Fund as a tool for economic and job development within the RIEDC, contrary to a budget proposal to move that fund to the Department of Administration.

The House package suggested reforming and rebranding the RIEDC through two bills—6071 and 6067. The first would replace the RIEDC with the Rhode Island Commerce Corporation (RICC), with the Secretary of Commerce serving as the chairperson and chief executive officer. The RICC would also have its own chief operating officer. Additionally, this bill enhances guidelines for the RICC Board's financial oversight and accountability. House bill 6067 would also affect the newly created RICC, through its inclusion of a Business Development Center to provide a customer-centric approach for businesses interested in maintaining, expanding, and creating new opportunities. The Center would also assist businesses with permitting, regulatory requirements, mentoring, and financial needs.

Business Climate Reforms

In addition to legislation that affects state government's economic development approach, both packages address important business climate reform issues. As RIPEC previously [reported](#), Rhode Island often

compares poorly to regional and national competitors in national business climate rankings. While there is no consensus about the factors included in the definition of business climate, several national rankings regularly include factors such as taxes, regulatory climate, and workforce or labor supply.

Taxes, Regulatory and Workforce

In addition to other programmatic changes, both the House and Senate economic development packages address these three business climate components.

Taxes

The House package includes two pieces of legislation impacting taxes. H6060 would re-establish the historic tax credit program, which entitles entities with qualified rehabilitation expenditures to a credit against taxes imposed on those expenditures. This credit would be equal to 20.0 or 25.0 percent of the qualified rehabilitation expenditures (depending upon whether a portion of the rentable area of the structure is made available for a trade or a business). The credit allowed under this proposal would not exceed \$5.0 million per project, and could be carried forward for the succeeding ten years (or until the full credit is used).

Additionally, H6064 establishes a manufacturing industry revitalization tax expenditure program for companies interested in undertaking major capital investments in Rhode Island. Under this program, a manufacturing company must agree to conditions including: making a capital expenditure (or a series of capital expenditures) within two years following the effective date (and undertaken within a 10-year period); employing at least 100 full-time employees in excess of its stabilized employment in each calendar year; and cooperating in the development of a

workforce training program. Following the completion of these terms, the company is qualified to receive a portion of their expenditure through post-performance tax credits.

The Senate's tax bills include changes to tax credits and increased tax expenditure transparency. S743 would supplement existing arts district designations with a statewide sales tax exemption for local works of art. S733 would restore the state tax credit on the restoration of historic properties. S734 SUB A, the Economic Development Tax Credit Accountability and Review bill, requires the chief of the Office of Revenue Analysis, in consultation with the EDC Director, and the Department of Labor and Training (DLT) Director, to prepare a report with regard to all economic development tax credit programs.

S745 would provide additional tax expenditure transparency measures by requiring any general law enacted after July 1, 2013, that creates or modifies tax expenditures to include a statement of intent that clearly provides the purpose and objectives of the expenditure (including measurable goals). Similarly, S827 enhances tax expenditure transparency by requiring recipients of certain tax exemptions, credits, or deductions to report information to the Division of Taxation. Lastly, S747 would provide greater transparency regarding projects that are supported by the Historic Tax Credit, to alleviate current limitations on information sharing regarding program outcomes.

In addition to tax reforms suggested by the House and Senate economic development packages, the Governor's FY 2014 budget proposal includes a provision to reform the state's corporate tax rate structure. Under this proposal, beginning in FY 2014, Rhode Island's corporate income tax rate would be reduced from 9.0 percent to 7.0 percent over

three years (TY 2014: 9.0 to 8.0; TY 2015: 8.0 to 7.5 percent; and TY 2016: 7.5 to 7.0 percent). This proposal suggests offsetting lost revenue from the rate reduction by phasing-out two current tax preferences: the enterprise zone tax credit, and the jobs development credit.

Regulatory

Both economic development packages aim to make Rhode Island's regulatory system clearer, more predictable, and more reliable. For example, the packages include a bill that would require local wetlands and septic ordinances to be consistent with state regulations (H5425 and S672 SUB A), since many municipalities have implemented stricter setback and septic disposal standards than the state.

Similarly, the Senate's package promotes regulatory reform through S495 SUB A, which would allow the Director of Environmental Management to use an expedited citation process for alleged noncompliance. The Senate's package also includes a proposal (757 SUB A) to establish a municipal advisory council on statewide permitting that would develop recommendations to establish a statewide process for electronic plan review, encourage full participation of each city and town in the state, and then review which cities and towns are participating (until a statewide process is established). Lastly, S761 as amended would create a code consistency council to reconcile inconsistencies in the state's building, fire, elevator, and other related state codes.

Workforce

There are several programs in both packages that address workforce and labor issues. For example, H5959 would help promote opportunities in the biosciences industry by providing state money for paid internships. Similarly, H6062 SUB A revises labor laws

to allow students to train during school hours in approved apprenticeship programs in trade and industry. The House package also includes legislation to allow flexibility in terms of payroll frequency (bi-weekly pay), as well as the types of holidays they offer to their employees.

The Senate package offers legislation to expand the provision of child care to participants in state-approved training, apprenticeship, internship, or other job readiness programs (S250). The Senate also reintroduced legislation to establish a web-based system to link employers with prospective employees, and identify skill gaps (S403). Similarly, the Senate package includes a resolution to help former students finish their college degrees by putting them in touch with staff and faculty trained to help them navigate the process and overcome barriers to completion (S512).

Additionally, the Senate's reverse transfer legislation would require the Board of Education to establish a policy for RI's public higher education institutions to enable credits earned toward a 4-year degree to be transferred and counted toward the awarding of a 2-year Associates degree (S511). Lastly, S600 would allow a dual enrollment policy in which high school seniors could take some of their senior year classes at the community college, allowing them to simultaneously complete high school requirements while earning college credits.

Both chambers introduced a Back-to-Work RI program (H5033 and S402 SUB A), which allows a person collecting unemployment benefits to be paired with a business for training at no expense to the business. This proposal was modeled after

popular and successful programs in Georgia and New Hampshire.

Other Programmatic Changes

There are several other bills in both packages that do not address taxes, regulatory, and workforce issues, but would also have an impact on the state's business climate. For example, the Senate's package promotes enhancing the business community's presence on the statewide planning council, and the development of a coordinated branding strategy for products manufactured in Rhode Island. The Senate package also aims to reduce the cost of doing business through two bills designed to make renewable energy more cost competitive through the state's Distributed Generation Program, and to contain health care costs through payment and delivery reform.

The House package includes additional business climate-related programmatic changes. For example, it establishes "Rapid Rhody," a small business loan program to provide more timely access to capital for employers with fewer than 100 employees. It also uses state funds to establish a revolving loan fund that would help municipalities conduct road repairs. Another proposal would direct the Department of Labor and Training to prepare options for addressing the issue of employers with seasonal use of the unemployment system, and any options for limiting their cost impact on the unemployment insurance system. Lastly, the package includes a proposal to require the Office of Management and Budget to inventory reports required across agencies and include their status reports in the annual budget.

Status of House and Senate Packages

As illustrated by Table 1, legislation from both the Senate and House economic development packages are at various stages of the legislative process. Of the Senate’s “Moving the Needle” bills, 6 bills are still in a Senate committee. Five of these bills are in Senate Finance, and S600 is held for further study in Senate Education. Sixteen of the original “Moving the Needle” bills are being held for further study in a House committee. Of these, 9 are in House Finance; 3 are in House Corporations; 3 are in House Environment and Natural Resources; and 1 is in the House Education and Workforce committee. Three “Moving the Needle” bills have passed the Senate, but have not yet been referred to the House.

Six of the initial House economic development package bills are technically still in committees in the House. However, all, but one, of these bills (H5698 Sub A), were incorporated into the General Assembly’s proposed FY 2014 budget. Nine House economic development bills have been passed-out of the House and are now in Senate committees. Of these nine bills, 5 are in Senate Commerce; 2 are in Senate Labor; and 2 are in Senate Finance. Four bills have passed both chambers in concurrence and are awaiting the Governor’s signature.

FY 2014 General Assembly’s Budget Proposal

On Tuesday, June 18, the Rhode Island House Finance committee passed a revised FY 2014 budget proposal that included several changes to the Governor’s proposed FY 2014 budget. In relation to economic development issues, the General Assembly proposal unveiled on Tuesday included several key reforms targeted at improving Rhode Island’s business climate. In particular, articles 9, 15, 18, 20, 22, 23, 24,

Senate Bills			House Bills		Governor
In Senate Committee	In House Committee	Passed Senate, Not referred to House	In House Committee*	In Senate Committee	Awaiting Signature
S250	S402 Sub A	S512	H5033	H6065 Sub A	H6062 Sub A
S600	S403	S713	H5698 Sub A	H6061 Sub A as amended	S672/H5425
S736	S511 Sub A	S714	H5979	H6067	H6030
S735	S495 Sub A		H6064	H6070 Sub A as amended	S809 Sub A
S743	S757		H6060	H6071 as amended	
S733	S761 As amended		H6059	H6063 Sub A	
	S540 Sub A as amended			H6069 Sub A	
	S641 Sub A			H6068 Sub A	
	S712 as amended			H6066	
	S718 Sub A				
	S730 Sub A				
	S760				
	S734 Sub A				
	S745				
	S747				
	S827				

* All bills in this column, except for H5698 Sub A, were incorporated into the General Assembly’s budget proposal for FY2014

and 25 of the General Assembly’s budget propose changes to the state’s approach to economic development.

Article 9

Article 9 relates to taxation, and while it does not specifically address any of the policy areas addressed in either the House or Senate economic development packages, it proposes important business climate reforms. For example, one provision of Article 9 removes the \$25,000 cap on direct expensing of fixed asset acquisitions under federal Internal Revenue Code Section (IRC) 179, bringing the RI depreciation rules more in line with the Federal rules. This provision should be a major help for small businesses matching their cash flow with their tax deductions. Article 9 also has a provision to disallow the Federal Domestic Production deduction under IRC 199 for purposes of determining RI taxable income. Several states have historically

required this deduction to be added back for state tax purposes.

Article nine also creates a pilot sales tax exemption for Class A liquor stores, and increases the excise tax on beer, still wines grown outside Rhode Island, and some types of hard liquor.

Article 15

Article 15 relates to the Human Resource Investment Council and workforce training issues. It develops a state work immersion program and a non-trade apprenticeship program, funded by the job development fund account. Each participant in this program shall reimburse eligible businesses up to 50.0 percent of the cost.

This article also establishes a “Back to Work RI” program, which is identical to the proposal found in bill H5033 in the House economic development package, and S402 Sub A in the Senate package. This program allows unemployed claimants to be matched with participating employers for skill enhancement and job training for up to six weeks.

Article 15 also establishes a program to provide child care to families with income below 180.0 percent of the federal poverty level for those families with members participating in training, apprenticeship, or other job readiness programs. This proposal is similar to S250 from the Senate’s “Moving the Needle” package.

Lastly, it establishes a Jobs Match Enhancement Program, which aims to match unemployed individuals with hiring employers. This proposal is similar to Senate bill 403 from the Senate’s “Moving the Needle” package.

Article 18

Article 18 relates to child care, as it establishes the Child Care Subsidy

Transition Program. This program is a pilot program for families who receive childcare assistance, but become ineligible for childcare as a result of incomes exceeding 180.0 percent of the federal poverty level. Under this proposal, these families would continue to receive assistance through Sept 2014, or until their incomes exceed 225.0 percent of the federal poverty level. Families must contribute financially to some portion of the childcare received, based on a sliding fee scale. This proposal was also found in Senate bill 736, as part of the “Moving the Needle” package, as it aims to address one element of the “benefits cliff” for low income working families.

Article 20

This article creates a municipal road and bridge revolving fund to be administered by the Rhode Island Clean Water Finance Agency (CWFA). CWFA would have the authority to receive and disburse funds from the state for the revolving fund; make and enter into binding commitments to provide financial assistance to local cities and towns; and levy administrative fees on cities and towns as necessary (only if the fees have been previously authorized). Similar to House bill 6059 of the House economic development package, this proposal invests in Rhode Island’s infrastructure by lowering the costs of borrowing for roads and bridges.

Article 22

Article 22 re-establishes the state historic tax credit program, allowing participating individuals a credit equal to 20.0-25.0 percent of qualified rehabilitation expenditures. The credit allowed cannot exceed \$5.0 million, and the provision includes an apprenticeship requirement for projects valued at \$10.0 million. It also includes reporting requirements, and a sunset provision. This article is similar to House Bill 6060 of the House economic development package.

Article 23

Article 23 creates the Innovate Rhode Island Small Business Program, funded by a new revenue fund that would provide grants to Rhode Island businesses competing for federal funding. In particular, efforts would be focused on providing assistance for federal programs administered by the Small Business Administration, called the Small Business Innovation Research (SBIR) program, and the Small Business Technology Transfer (STTR) program. These programs allow small businesses to explore their technological potential, and provide incentives for commercialization. This proposal would also establish a bioscience internship program. This proposal closely mirrors House bill 5979 from the House economic development package.

Article 24

Article 24 establishes a manufacturing industry revitalization program for companies interested in undertaking major capital investments in Rhode Island. Under this program, a manufacturing company must agree to make a capital expenditure (\$10.0 million minimum) within two years of the agreement. The company must also agree to employ at least 100 full-time employees in excess of its stabilized employment in each year, as well as participate in a workforce training program. Once these conditions are met, this proposal authorizes the state to provide annual post-performance tax credits. This proposal is similar to House bill 6064 from the House economic development package.

Other Important Business Climate Legislation

In addition to the proposals found in the economic development packages and the General Assembly’s FY 2014 proposed budget, there are other legislative proposals

that have the potential to negatively impact Rhode Island’s business climate. Two bills that stand out in this regard are Senate bill 293 Sub A/House bill 5472, and Senate bill 368 Sub A. In particular, several members of Rhode Island’s business community (including the entire Rhode Island Chamber of Commerce Coalition), wrote to the General Assembly on June 19 to oppose these bills.

Senate bill 293 Sub A and House bill 5472 relate to legal requirements for apprenticeship programs. This legislation requires bidders, who are responding to an invitation to bid on all state, municipal, and quasi-public works projects over \$1.0 million, to have an apprenticeship program. No less than 15.0 percent of the project’s labor hours must be performed by apprentices in this program. This legislation requires that the apprenticeship program be registered and approved by the United States Department of Labor. Under this proposal, the state Department of Labor and Training (DLT) may impose penalties on employers of up to \$500 per calendar day of noncompliance.

As expressed in one of the June 19 letters, Rhode Island’s business community has serious concerns about the effect that this legislation could have on the cost of doing business. In particular, the business community has noted there may be better models of training programs that could take the place of the mandated apprenticeship programs. Similarly, these business membership organizations have pointed out there is no clear definition of which crafts or trades fall under the jurisdiction of this legislation (for example, who defines an “apprenticeable craft”?). Lastly, as indicated by a municipal fiscal note prepared on this bill, there are concerns about the cost of implementation and oversight of these requirements.

The second bill that is of concern to the business community is Senate bill 368 Sub A, which would change requirements relating to the methodology for determining whether an individual is an independent contractor or an employee. While the previous standard was to use the Internal Revenue Service (IRS) code to distinguish an employee's status, this proposal defers these types of disputes to Rhode Island's workers' compensation court.

Opposition to this proposal is centered upon the position that the creation of new standards for independent contractor classification is unnecessary, and that the state workers' compensation board may not be the best jurisdictional venue. Most importantly from a business climate perspective, this legislation has the potential to result in uncertainty for existing businesses in the state.

There are other bills that have been introduced that have the potential to harm the state's business climate, rather than improve it. For example, one bill in the Senate and House, (S794 and H5946) would create a bargaining representative for individual health care providers to negotiate conditions of employment, benefits, grievance procedures, and other matters, and would require the Governor to negotiate subject to the same procedures as if they were state employees. This extension of bargaining rights includes a fee to be charged to all health care individual providers. This would establish a precedent whereby the state collectively bargains with private sector employees.

Comments

The House and Senate economic development packages address many of the fundamental shortcomings of Rhode Island's

current economic development system. As RIPEC has reported, Rhode Island lacks a systematic, data-driven approach for evaluating its economy, which has prevented Rhode Island from developing a coordinated vision and plan to move the economy forward. Similarly, Rhode Island is an outlier in that it is the only state in New England that does not have a state government agency or department devoted to economic development. The lack of a state government presence for economic development has led to a responsibility gap in terms of commerce, which has resulted in the duplication of efforts, and missed opportunities.

As exhibited by various national rankings, Rhode Island's business climate is not competitive. Whether through tax, regulatory, workforce development, or other programmatic reforms, both chambers' economic development packages aim to put the state in a position to create an environment to grow commerce—not to provide a one-time fix. These proposals aim to position the state for long-term structural issues and short-term regulatory and programmatic changes. Collectively, by addressing a wide variety of factors, these proposals recognize that no one action will improve the state's relative economic position. These proposals change the way responsibility and accountability are assigned for economic development in Rhode Island.

In addition to these legislative packages, the General Assembly's FY 2014 budget aims to make the state's tax climate more competitive by refraining to use broad-based tax or fee increases. It also contains new workforce development initiatives, and invests in public education by fully funding the K-12 funding formula with additional aid. Additionally, the General Assembly's proposed FY 2014 budget includes several

articles that have important economic development implications. In particular, articles 9, 15, 18, 20, 22, 23, 24, and 25 suggest reforms that, in many cases, would reduce the cost of doing business in the state, and would improve the long-term economic climate.

RIPEC's research has shown that reversing the state's consistently low ranking in business climate reviews should be a priority on the state's economic development agenda. To change the way that the state really conducts economic development, an overhaul in the state's structure and regulatory system is needed. Before Rhode Island is able to change the types of economic development programs it offers, the state must fundamentally change the structure of the way in which the state pursues economic development.

Both economic development packages are an excellent start in changing the emphasis of economic development policy—from offering deal-by-deal tradeoffs, to systematically shifting the business climate through structural and programmatic reforms. While these packages reflect a significant improvement, they represent one component of an overall strategy to reform the state's economic condition.

There are still essential economic development pillars, such as taxes, the education system, and the infrastructure system, that need continued reform. It will take time—perhaps several legislative sessions—to enact the type of substantial changes necessary to improve Rhode Island's economy.

This session has been pivotal in terms of identifying priorities and focusing on economic issues. It has provided the opportunity for the business community and policymakers to coalesce around issues of improving Rhode Island's relative economic

position. For example, a coalition of some of the state's largest business membership organizations, including RIPEC, has met consistently over the past several months to advocate for business policy to improve the state's business climate. Stakeholders from the private and public sector have played a critical role in these business climate deliberations, and this momentum should continue past this legislative session.

The General Assembly has placed emphasis on economic development and commerce throughout this legislative session. Rhode Island's weak economic condition calls for systemic, structural reform outcomes this session. Only then will the environment be created to allow for the state to promote long-term economic growth for Rhode Islanders.