The Economic Progress Institute

Are Economic Development Tax Incentives Reports Facilitating Transparency and Accountability?

INTRODUCTION

Like most states, Rhode Island offers numerous tax incentives seeking to generate economic activity and create jobs. These Economic Development Incentives aim to leverage state revenues to encourage new business start-ups, facilitate the expansion of existing businesses, and attract new businesses to the state. The incentives take many forms, including those of tax credits, tax exemptions, tax deductions, and preferential tax rates. In some cases, incentives are triggered automatically when a business fulfills statutory requirements. In other cases, a company must apply for and be awarded an incentive.

These programs have costs, so it is important to figure out if the incentives work, if the returns on these investments surpass the investments themselves. Moreover, most tax credits are awarded in one year and disbursed in later years, and Rhode Island has already committed over $200 million in such expenditures over the next five to ten years. In the wake of the 38 Studios debacle, in which the state bet and lost tens of millions of dollars providing incentives for a single company, Rhode Island policy makers have enacted laws and implemented procedures to ensure both transparency and accountability of state tax expenditures in support of economic development.

It is an especially opportune time to review program accountability, as the suite of incentive programs enacted in the Governor's FY2016 budget approach their December 31, 2020 expiration date.

How is Rhode Island doing in making sure we are getting an appropriate return on our investments? What is the current state of reporting on economic development programs? State agencies currently produce a number of sometimes overlapping reports providing some basic data about incentive programs and companies receiving incentives, as well as some in-depth analysis and recommendations

Overview of Rhode Island's required reports tracking economic development tax incentives		
Basic Information	Some Analysis	In-Depth Analysis and Recommendations
Tax Credit and Incentive Report (TCIR)	Unified Economic Development Report (UED)	Economic Development Tax Incentives Evaluation Act (EA)
Annual Report of Tax Credit and Incentives Administered in Conjunction with the Rhode Island Commerce Corporation (TCIR-CC)		
Report on Commerce Corporation Incentive Programs (CCIP)		

This table identifies, by depth of reporting and analysis provided, the five reports discussed in this research brief.

FIGURE 1

After providing a short explanation of how economic development incentives are meant to work, this research brief offers an overview of the reports that track these incentives and then presents targeted recommendations or building upon these reports. With such information and recommendations, this research brief will help policy makers and the public better understand the tools available to weigh the effectiveness of these tax incentives that have committed hundreds of millions of public dollars to generate jobs and economic activity in Rhode Island. Especially this year — when the Governor and General Assembly will determine whether the group of incentive programs from 2015 will continue as they are, continue with modifications, or be allowed to sunset and come to a close — it is critical to ensure that the tools we have are sufficient.

HOW DO ECONOMIC DEVELOPMENT INCENTIVES WORK?

Typically, economic development incentive programs promise future tax benefits for a business for committing to specific goals and for the achievement of these goals, such as the creation of jobs or the relocation of a business. In some cases, an incentive operates automatically, going to any business meeting the legal requirements and making a claim. The hope is that tax credits or other tax incentives will serve as mechanisms for producing jobs, economic activity, and state revenues, to the benefit of Rhode Island and Rhode Islanders. In general, tax credits are not actually issued or disbursed at the time of approval, but in later years. Ideally, the incentives result in new jobs and activity and do not simply direct money to efforts which would have taken place anyway.

Let us take a look at one example of an incentive program in Rhode Island. In 2015, the Governor proposed and the **General Assembly** enacted the **Rebuild Rhode Island Tax Credit** (RIGL §42-64.20), with responsibility of program administration (including development of rules, program promotion, and approval of applications) assigned to the **Rhode Island Commerce Corporation**. The program provides tax credits to developers facing a gap in the financing of commercial, multi-family residential, or mixed-use buildings with project costs of at least $5 million. The credits, covering the financing gap but no more than 30% of the project cost and no more than $15 million total, become available to a developer only upon completion of the project and then are disbursed over five years; the program also refunds to developers monies paid in sales tax on purchases of certain equipment, materials, and other supplies.

Between January 2016 and March 2019, the Commerce Corporation approved $111.7 million (from a pool of $210 million) in credits for 35 projects with total project costs of $2.2 billion. As of the end of State Fiscal Year 2019, $1,114,534, one percent of committed credits, had been disbursed.[1]

Once a program is up and running, the Division of Taxation keeps records of tax credits and other incentives issued under these programs. In part using data from the **Division of Taxation** and the **Rhode Island Commerce Corporation**, the **Office of Revenue Analysis** produces reports to assess the success of these programs. In an iterative process, these assessments should be used by the Governor and General Assembly and the public to determine whether each economic development incentive program ought to be continued as is, modified for improvement, or closed out (see Figure 2).

How are tax credits and other tax incentives funded? After all, a credit means not having to pay something, so do such incentives require funding at all? Although credits might seem like they are different from direct expenditures or allocations, they are not. In terms of the state budget, both are kinds of spending, requiring a commitment of state government revenues. When the state issues a credit, it means it is not collecting taxes ordinarily owed, and these funds are called Foregone Revenue. The revenues not collected could have paid for other budget items, including public services. The major

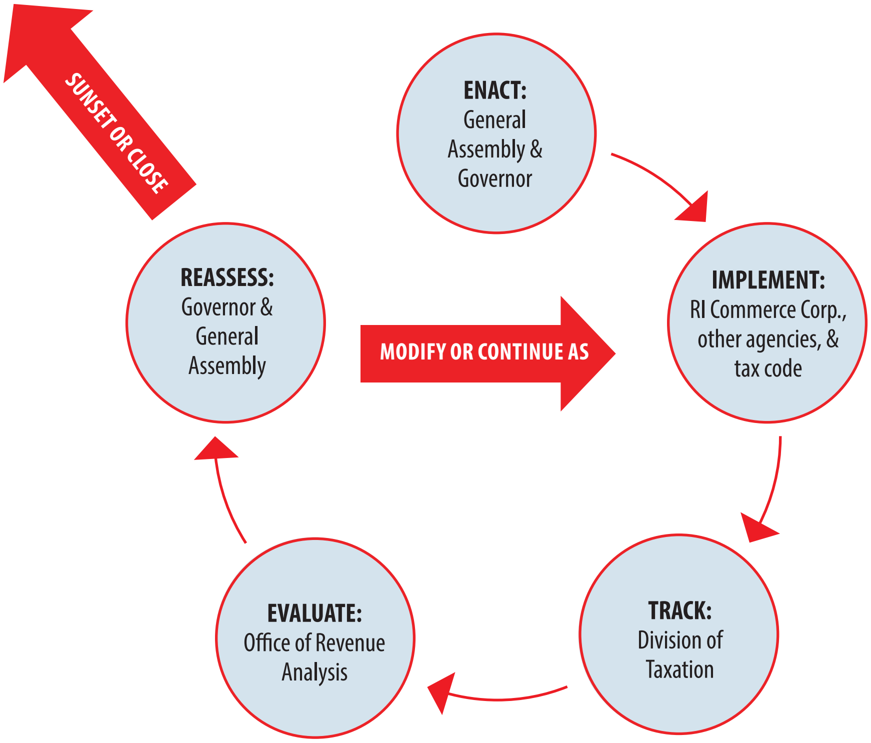


FIGURE 2

difference is that the Governor and General Assembly must affirmatively pass a budget each year to authorize direct expenditures, whereas tax credits can be authorized and put in place and then have budget impacts for years to come, without regular reconsideration or reauthorization. A central purpose of this research brief is to review how we report on and evaluate economic development programs, so that we can better carry out this part of the cycle of funding, the assessment (and the reassessment) of incentives.

THE REPORTS

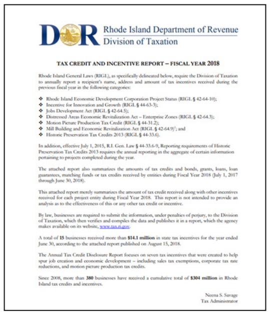
Armed with this basic understanding of how economic development incentive programs are designed to work, what do the currently regularly produced reports tell us about the programs? We provide report summaries here, with additional detail provided in Table 1 of the Appendix.

REPORTS WITH BASIC INFORMATION

Rhode Island's Division of Taxation, part of the Department of Revenue, prepares annually the two reports featured in the left-hand column of Figure 1 on page 1. These reports provide the names, addresses, and amounts of tax credit received by Rhode Island corporations.

The **Tax Credit and Incentive Report (TCIR)**, produced annually since 2008, presents information on the following seven programs, of which only the first three remain ongoing in SFY2019:

- Jobs Development Act (RIGL §42-64.5; ongoing but closed to new applicants as of July 2015)
- Motion Picture Production Tax Credit (RIGL §44-31.2)
- Historic Preservation Tax Credits (RIGL §44-33.6)
- Rhode Island Economic Development Corporation Project Status (RIGL §42-64-10; no claims)
- Incentive for Innovation and Growth (RIGL §44-63-3; repealed in 2016)
- Distressed Areas Economic Revitalization Act – Enterprise Zones (RIGL §42-64.3; no new credits issued after June 2015)
- Mill Building and Economic Revitalization Act (RIGL §42-64.9; repealed in 2009)

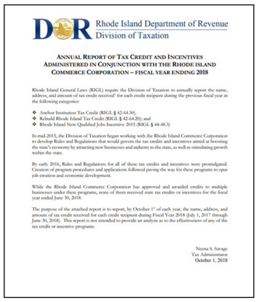

Rhode Island Department of Revenue
Division of Taxation

TAX CREDIT AND INCENTIVE REPORT – FISCAL YEAR 2018

In SFY2019, the state disbursed $24.8 million in tax incentives to 15 businesses. Over the entire 12 years of these reports, Rhode Island has issued $328 million to 395 businesses.

The **Annual Report of Tax Credits and Incentives Administered in Conjunction with the Rhode Island Commerce Corporation (TCIR-CC)**, produced annually since 2016, presents information on the following three programs, all part of a suite of programs enacted into law in 2015[2]:

- Anchor Institution Tax Credit (RIGL §42-64.30)
- Rebuild Rhode Island Tax Credit (RIGL §42-64.20)
- Rhode Island New Qualified Jobs Incentive 2015 (RIGL §44-48.3)

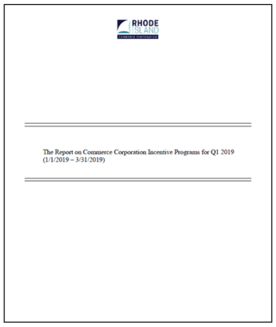

Rhode Island Department of Revenue
Division of Taxation

ANNUAL REPORT OF TAX CREDIT AND INCENTIVES ADMINISTERED IN CONJUNCTION WITH THE RHODE ISLAND COMMERCE CORPORATION – FISCAL YEAR ENDING 2018

In SFY2019, the state provided $1.15 million in tax incentives, including sales tax rebates, to three businesses. Over the entire four years of reports, these were the first disbursements. Whereas the SFY2018 and SFY2019 documents reported only on the amounts of credits issued, the SFY2016 and SFY2017 reports also presented the incentive amounts approved but not yet paid out: $44.1 million for 17 projects in the former and (cumulatively) $85.3 million for 30 projects in the latter report. Although statute might not have required such reporting in the **TCIR-CC,** these numbers are of great value, and they are included in the Commerce Corporation report discussed in the following section. We need to know not only about the amounts of incentives actually disbursed, but also the amounts approved but not yet distributed and collected.

The **Report on Commerce Corporation Incentive Programs (CCIP)**, according to statute, was to be produced annually beginning in 2015 and then quarterly beginning in 2019. This report allows the General Assembly to oversee the programs placed under the supervision of the Commerce Corporation. Reports for SFY2016, SFY2017, and Q1, Q2, and Q3 of SFY2019 have been posted at the website of the Rhode Island Commerce Corporation, which produces these reports on the following programs:

- Anchor Institution Tax Credit (sunset Dec. 2018)
- Tax Increment Financing
- First Wave Closing Fund
- High School, College, and Employer Partnerships
- Industry Cluster Grants
- Innovation Vouchers & Network Matching Grants
- Main Street Rhode Island Streetscape Improvement
- Rebuild Rhode Island
- Qualified Jobs Incentive
- Tax Stabilization Incentive
- Small Business Assistance Program
- Wavemaker Fellowship
- I-195 Redevelopment Project


RHODE ISLAND

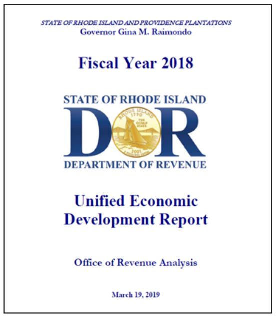
The Report on Commerce Corporation Incentive Programs for Q1 2019 (1/1/2019 – 3/31/2019)

The report has two sections, with the first providing information about recipients of tax incentives in spreadsheet format, with one row per recipient and grouped by program. The details vary by program, each listing containing some of the following: recipient name; recipient address; estimated tax credit amount; tax credit amounts disbursed; project cost; use of funds; committed job creation; eligibility term; project location; RICC board approval date; industry; and project description. The strength of this part of the report is the inclusion of financial data for incentives approved but not distributed. The weakness is that the data appear to be cumulative only and not broken out by year, making it difficult to chart growth or other changes; this also means that the current four dozen pages of rows of data will only grow with each new report. Although totals are provided by program, there is no attempt to contextualize or systematize the information.

The second section of the report covers some program assessment in the form of two- to three-page Economic Impact Analyses of individual recipients of the Rebuild RI, First Wave, Tax Increment Financing, and Qualified Jobs programs. The New York City-based consulting firm Appleseed conducts these analyses, of which there are 11 in the SFY2019 edition of the **CCIP**. These assessments are estimates of future fiscal impact and not retrospective evaluations of program performance.

REPORT WITH SOME ANALYSIS

Beginning with SFY2011, the **Unified Economic Development Report (UED)**[3] has been produced annually by the Office of Revenue Analysis, part of Rhode Island's Department of Revenue. The **UED** covers the following incentive programs::


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Governor Gina M. Raimondo

Fiscal Year 2018

STATE OF RHODE ISLAND
DOR
DEPARTMENT OF REVENUE

Unified Economic Development Report

Office of Revenue Analysis

March 19, 2019

- Jobs Development Act (RIGL §42-64.5; ongoing but closed to new applicants as of July 2015)
- Motion Picture Production Tax Credit (RIGL §44-31.2)
- Incentive for Innovation and Growth (RIGL §44-63-3; repealed in 2016)
- Rhode Island Economic Development Corporation Project Status (RIGL §42-64-20; no claims)
- Distressed Areas Economic Revitalization Act – Enterprise Zones (RIGL §42-64.3; no new credits issued after June 2015)

Although all of these programs are covered in the **TCIR**, that report from the Division of Taxation provides only basic data, whereas the Office of Revenue Analysis makes use of the **TCIR** to conduct analyses as well. Part I of the **UED** reports the aggregate amounts of tax credits or other tax benefits by geographical area within the state for each program, as well as the following:

BY PROGRAM

- recipient name
- recipient address
- tax credit amount
- summaries of full-time and part-time jobs created or retained
- employee benefits offered
- degree to which job creation and retention and wage and benefit goals met
- cost to the State and the approving agency
- extent to which any employees/recipients of the tax credits have received RIte Care or RIte Share benefits

BY RECIPIENT

- recipient name
- recipient address
- tax credit amount
- summaries of full-time and part-time jobs created or retained
- employee benefits offered
- degree to which job creation and retention and wage and benefit goals met

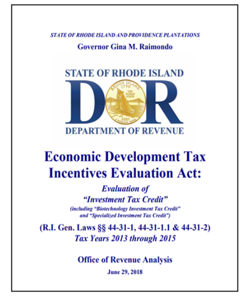
Using data from the first section of the report and supplementing these data with additional information from the Rhode Island Commerce Corporation and the Division of Taxation, as well as from historical national and regional economic data, the second part of the **UED** provides Cost-Benefit analyses of the incentive programs.

Using the Regional Economic Models, Incorporated (REMI) PI+ software platform and its 70-sector model of the Rhode Island economy, the **UED** looks at employment, state revenues, and gross domestic product (GDP) in evaluating "the net economic and fiscal impacts" of the economic development incentives. The report describes REMI PI+ as possessing "dynamic capabilities" which allows one to estimate the impacts of…shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry." The Office of Revenue Analysis also consulted with REMI to create a "'counterfactual' approach that analyzes the impact on the state's economy if the tax incentive in question had not been in effect."

The cost-benefit analyses consider a number of scenarios. First, there is a question of how the state pays for the incentive while maintaining a balanced budget: by cutting an equal amount of funding for other purposes or by raising additional funds? Secondly, there is a question of the degree to which the incentive triggers the economic benefits; although the reality will generally fall somewhere in the middle, the **UED** analyses contrast what it calls Marginal and Leveraged assumptions: the latter assumes that a company would not have committed to new economic development without the incentive, thereby making all of the jobs and revenue produced a consequence of the incentive, whereas the former assumes that a company would have engaged in close to the same amount of economic activity and job creation regardless, thereby making the increased economic benefit marginal.

The different scenarios can produce wildly varying results, from an overall loss of jobs and of significant GDP and state revenues to massive revenue and GDP increases and impressive job growth. Despite the challenges in determining with any precision the likely impact of economic development incentive programs, the SFY2018 report contributes some helpful observations: the Motion Picture Production Tax Credit incentive dollars go heavily towards employment costs, some or possibly much of which goes to folks from out of state, including big-name stars; and the Jobs Development Act credits tends to go to large companies unlikely to pick up and move their operations over the number of jobs involved should the companies not receive the incentive payments. Such information suggests that one ought not to adopt the rosiest estimates presented by the models.

REPORT WITH IN-DEPTH ANALYSIS AND RECOMMENDATIONS


STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
Governor Gina M. Raimondo

STATE OF RHODE ISLAND
DOR
DEPARTMENT OF REVENUE

Economic Development Tax Incentives Evaluation Act:
Evaluation of
"Investment Tax Credit"
(including "Biotechnology Investment Tax Credit" and "Specialized Investment Tax Credit")
(R.I. Gen. Laws §§ 44-31-1, 44-31-1.1 & 44-31-2)
Tax Years 2013 through 2015

Office of Revenue Analysis
June 29, 2018

The right-hand column of Figure 1 on page 1 features the one set of reports providing deeper analyses of the costs and benefits of ax incentive programs; these reports also offer advice on how both the programs and the reporting on programs could be improved and provides recommendations of the General Assembly and the Governor on each program's future. These more in-depth reports help determine whether the benefits resulting from the allocation of public dollars justify their costs.

The **Economic Development Tax Incentives Evaluation Act of 2013 (Evaluation Act,** or **EA**) called for "the systematic and comprehensive analysis of economic development tax incentives." (RIGL § 44-48.2-2.4). The **Evaluation Act** directed the Office of Revenue Analysis to analyze all tax incentive programs, of which there were 16 when the legislation was enacted. The new suite of incentives enacted in 2015 were added to the list. Between March and July of 2018, the Office of Revenue Analysis (ORA) released 12 reports. Analyses on the five newer programs are scheduled to be released in 2020 (see Table 3 in the Appendix for the list of programs and publication schedule). Where data prove available, the ORA provides full evaluations; where data are lacking or where a program has few or no recipients, the ORA produces briefer reports. The legislation requires the production of an analysis for each program every three years.

By statute and in practice the full **EA** reports provide, in part, the following important items:

- baseline assessment, including number of existing jobs and state revenue generated prior to impact of incentive
- a five-year projection of possible impact on state revenue
- estimate of number of jobs produced directly by incentive
- cost-benefit analysis comparing amount of incentive (foregone revenue) against tax revenue generated
- estimate of extent to which incentive benefits stayed in-state or went out of state
- recommendations to change statutes to improve data collection and thereby analyses of economic impact
- recommendations as to possible benefit in "clarify[ing] or modify[ing] the tax incentive's goals and intended purpose"
- recommendation on continuation, modification, or termination of each incentive and reasoning behind recommendation, along with estimate of impact on state's economy of implementing recommendation

The **Evaluation Act** reports provide valuable historical information and comparisons with other states, as well as projections of foregone revenue and **breakeven** analyses, using Regional Economic Models, Incorporated (REMI) software. Such analyses explore an array of possibilities to help make recommendations. For example, a breakeven analysis looks at the additional revenues associated with an incentive program and asks what percentage of these revenues (from none to 100%) would need to have been a direct result of the program for the taxpayer investment to have been made back. Such sophisticated modeling software is critical to exploring the range of possible impacts of incentive programs on employment, revenues, and the economy. In many cases, the world of possible scenarios will include those showing a loss on the investment and those showing a positive return on the investment. And it is possible for an incentive program to have, for instance, a positive return on GDP and employment, yet a negative return for revenues. In some cases, such as that of the Motion Picture Production Tax Credit, the ORA report concludes that under all possible scenarios — even where an unlikely 100% of additional revenues could be attributed to the program — the revenues never prove adequate to cover the value of the credits.

SUMMARY

Taken together, what do the five reports from Figure 1 on page 1 provide us? And what do they not provide us?

- The **TCIR** and **TCIR-CC** present the same basic data for two different sets of programs.
- Only the **CCIP** presents data about incentive funds committed though not yet dispersed, and these data are cumulative instead of being broken out by year.
- The **UED** usefully distinguishes between economic development incentive programs and recipients of the incentives; in some cases, a single business benefits from more than one program.
- Only the **UED** provides geographically-based data, although these data are minimal.
- No reports break out data along dimensions of the race, ethnicity, or sex of business owners or new employees.
- Most reports include programs that have been repealed and/or no longer provide any incentive funds.
- The **EA** reports offer sophisticated and useful assessments of incentive programs.

Clearly, the reports offer much valuable information and some analysis but do not do so in the most efficient and thorough way. Furthermore, it is important to know how the information, analyses, and insights of the reports themselves are being used.

RECOMMENDATIONS

To continue the positive movement arising out of the **Economic Development Tax Incentives Evaluation Act of 2013** and to build upon our existing reports, we make the following three recommendations:

1 Streamline Reporting on Economic Development Incentive Programs.

In the effort to streamline reporting on Economic Development Incentive programs, we recommend restructuring the existing reports described above into two pieces: one annual and one quarterly report presenting data and information; and one set of reports providing in-depth analyses.

Tracking Data and Information

To begin, **we recommend consolidating into a single, annual report the data and information portions of three of the four reports categorized** (in Figure 1 on page 1) **as Basic Information and Some Analysis**. To do this would dispense with overlapping reports and thereby centralize data for easier use. The consolidated report would wholly replace the **TCIR, TCIR-CC,** and **UED**. The **CCIP** should continue to be published **quarterly** by the Commerce Corporation.

Furthermore, we urge that the reports include the following elements (see Table 2 in the Appendix for additional detail):

- The consolidated report ought to continue to **distinguish between incentive programs and incentive recipients,** providing aggregate data in addition to program-level and recipient-level data.
- We recommend that this consolidated report cover the following five areas: **basic information**, such as recipient names and addresses; data on the number and statuses of **applications**; recipient-level and program-level data on **employment; retrospective financial information** about the incentives; and **prospective financial information** about future state government obligations.
- **Geographic** data, now included only in the **UED**, should be included but broken out beyond a single table with five geographical areas. In particular, we need more information about where money is being spent and jobs created. Are the economic development incentive programs generating jobs in the areas most in need of them? Data on the zip code or census tract level would be of great value.
- We call for the inclusion and **breakout of data by race, ethnicity, gender,** and possibly other meaningful dimensions. Are tax credits and other incentives reaching businesses owned by people of color? Are new jobs going proportionately to members of Rhode Island's growing Hispanic/Latinx population? Are women as entrepreneurs and workers benefitting from these efforts?
- The new, streamlined report should cover all of the programs covered by the **TCIR, TCIR-CC,** and **UED** reports, as well as the suite of programs initiated in 2015 and any newly enacted incentive programs. It should also cover any existing and appropriate programs not yet included in these reports; one such program would be the Musical and Theatrical Production Tax Credit.
- The streamlined report should contain an historical appendix to provide information — including dates of enactment, dates of repeal or sunsetting, and aggregate financial data — for all incentive programs no longer active.
- The Commerce Corporation should continue to produce the **CCIP** (including the Economic Impact Analyses), though with the additional breakout of data by year rather than cumulatively only.
- Necessary statutory changes should be made to achieve this consolidation and streamlining of reports.
- The Division of Taxation, already the lead on two of the four reports, ought to remain the lead agency for collecting and reporting on incentive programs and recipients. Other agencies would be expected to continue to cooperate by providing data to the Division of Taxation.

Conducting In-Depth Analyses

We further recommend that analyses of all programs become centralized under the auspices of the Evaluation Act. The consolidated data and information report will provide the foundation and source materials for these analyses, over which the Office of Revenue Analysis should retain responsibility.

The report elements called for in the **Evaluation Act** statute and their implementation by the Office of Revenue Analysis cover all critical assessment issues. Although we organize the items somewhat differently than they are presented in the statute, we recommend continuing with the **EA**'s basic framework (see Table 4 in the Appendix for additional detail). The central concerns of the evaluation reports should include the following: **assessments of employment and fiscal impacts, including baseline and follow-up assessments; recommendations on improving the analyses;** and **recommendations on program status**, including statements on the continuation, modification, and closure of incentive programs.

The Commerce Corporation and any other agencies involved in approving or regulating economic development incentives should continue to follow the **EA's** directive that "All departments, offices, boards, and agencies of the state shall cooperate with the chief of the office of revenue analysis and shall provide to the office of revenue analysis any records, information (documentary and otherwise), data, and data analysis as may be necessary to complete the report."

As some of the elements in Table 4 of the Appendix suggest and as ORA has noted in some of its reports, it might prove necessary for the General Assembly to modify statutes to improve analyses. In addition, although ORA and the Division of Taxation both operate within the Department of Revenue, ORA's analyses would likely be enhanced with greater sharing of data between the two DOR agencies. Although some concerns about taxpayer privacy have been voiced, even about reporting aggregated data, public officials should clarify what statute allows; if necessary, statutory language ought to be revised. We need to respect taxpayer privacy while making program evaluation possible and more effective.

2 Track More Closely Tax Credits Promised Though Not Yet Disbursed

Economic development incentive programs often commit state government to provide tax credits or other tax incentives for a number of years going forward. In good part, this is to ensure that incentive goals are met prior to the distribution of funds and that they continue to be met. As we learned above, the Rebuild Rhode Island Tax Credit program alone has obligated the state to provide more than $100 million in future credits, with yet another $100 million to be awarded and distributed on top of that. Although not all programs deal with such large amounts, Rhode Island's economic development incentive programs, taken together, have committed hundreds of millions of dollars in future state spending. Should harder fiscal times arrive, the state will remain obligated for these expenditures, making the funding of other priorities all the more difficult.

Until now only the Commerce Corporation's **CCIP** provides any data in this regard. **We recommend that the consolidated data and information report include data — by both incentive program and incentive recipient, individually and in aggregate — for all funds committed and distributed, by State Fiscal Year (and possibly also by Tax Year), historically and going forward**. A critical addition here is the recommended inclusion, above and in Table 2 of the Appendix, of **Prospective Financial Information** in the consolidated data and information report.

Furthermore, **we recommend that the Evaluation Act reports include this information, with projections of the state bud-get implications of committed yet undistributed funds**. Ideally, either the Division of Taxation or the Office of Revenue Analysis would use these data to present in a single table the anticipated program-level and aggregate expenditure commitments for outgoing years.

For people to understand how these outstanding obligations might affect future state revenues and spending, we need access to reliable data as to the amounts of funds assigned or awarded though not yet distributed. In terms of tracking revenue expenditures and foregone revenue, such information is critical, especially as in some cases tax credits can be cashed out at 90% of the value and/or sold or transferred from the original recipient to someone else. Also, as Rhode

Islanders learned with *38 Studios* and Mainers learned more recently with its *Great Northern Paper fiasco*, states sometimes commit millions or tens of millions of dollars in revenues to what become failed projects.[4] Policymakers and the public need good information — what has been awarded, what has been disbursed, what future revenues have been committed, and whether we are getting our money's worth — so that they can know better what they are getting into.

3 Build upon the Evaluation Act to ensure that the analyses produced are reviewed so policy makers and the public can make informed decisions about continuing, modifying, or closing out incentive programs.

According to the enabling statute of the **Economic Development Tax Incentives Evaluation Act of 2013**, the legislative findings and purpose of the Act includes the following provision: "In order to **improve state government's effectiveness in serving the residents of this state**, the legislature finds it necessary to provide for the systematic and comprehensive analysis of economic development tax incentives and **for those analyses to be incorporated into the budget and policy-making processes.**" (RIGL § 44-48.2-2.4, emphasis added).

A second provision, presented later in the Act, points specifically to the Governor's preparation of the annual budget: "**For each evaluated tax incentive, the governor's budget submission shall include a recommendation** as to whether the tax incentive should be continued, modified, or terminated." (RIGL § 44-48.2-6, emphasis added).

The Governor's SFY2020 budget (released in January 2019) did not include any recommendations on the 12 incentive programs evaluated by the Office of Revenue Analysis in the seven reports it issued in 2018. In line with Rhode Island General Laws, the Governor should include recommendations on the continuation or modification of each economic development incentive program.

The Rhode Island House and Senate Finance Committees have access to these reports and may hear relevant testimony when a particular incentive program comes up for expansion or extension, but there is no set, formal process for these committees to make these Evaluation Act analyses part of budget deliberations. **We recommend that the General Assembly hold hearings upon the release of each new Evaluation Act report**, and a special hearing or hearings should be set up to review the already published reports. As is practice, hearings should include the opportunity for public testimony on the part of Rhode Island residents. We also recommend that any incentive programs not currently covered by the **Evaluation Act** but otherwise appropriate ought to be added; for example, the Musical and Theatrical Productions Tax Credit, a companion program to the Motion Picture Production Tax Credit, should likewise receive regular assessment.

We need to build upon the already valuable **Evaluation Act** reports to ensure that the analyses produced are reviewed so policy makers and the public can make informed decisions about continuing, modifying, or, when appropriate, closing out incentive programs. We need an accessible off-ramp for the latter possibility. We want annual budgeting and policymaking to take into account the Office of Revenue Analysis assessments and evaluations of Rhode Island's economic development incentive programs. Hundreds of millions of dollars in revenues remain at stake.

CONCLUSION

The bottom-line question is a straightforward one: D*o Economic Development Incentives work? Or, which programs work, and which do not? The follow-up question is likewise straightforward: How much money is Rhode Island committing to these programs? And, how much has been committed and not yet paid out?*

Our question in this research brief has been this one: **Do the existing set of economic development incentive program reports provide legislators and the public with the information and analyses necessary to answer such essential questions?**

Our review demonstrates that the current set of economic development incentive program reports provides valuable, yet overlapping and incomplete data and analyses. **We have a strong foundation, and now it is time to streamline, enhance, and better utilize reports and evaluations of Rhode Island's economic development incentive programs. We need to expand and build upon the existing foundation and ensure that our elected and appointed officials make productive use of the valuable assessments produced by the Rhode Island Department of Revenue's Office of Revenue Analysis.** With the approaching expiration of a number of economic development incentive programs, the need is even more urgent and timely.

ENDNOTES

[1] Annual Report of Tax Credits and Incentives Administered in Conjunction with the Rhode Island Commerce Corporation – Fiscal Year Ending 2019 http://www.tax.ri.gov/reports/Commerce%20Credit%20Disclosure%20Reports/October%20Report/FYE2019_Oct1Rpt.pdf

[2] For FY2016 and FY2017, the TCIR-CC also included Rhode Island Tax Increment Financing (RIGL §42- 64.21) and the Stay Invested in RI Wavemaker Fellowship (RIGL §42-64.26).

[3] In addition to this report, the Office of Revenue Analysis produces the biennial Tax Expenditures Report. This document presents basic information as well as some interstate comparative analysis. Although the report does provide some quite useful data and analysis for some economic development incentive programs, information not available elsewhere, we do not include the Tax Expenditures Report in our survey because its scope is far broader than the world of economic development incentive programs. It includes all Rhode Island tax expenditures, amounting to more $2 billion each year. These reports can be found at the Department of Revenue's website.

[4] For a quick summary of some of the central issues in the 38 Studios affair, see https://www.providencejournal.com/news/20170819/38-studios. For a more in-depth investigation, see https://www.nytimes.com/2013/04/21/business/curt-schilling-rhode-island-and-the-fall-of-38-studios.html. For the story of Great Northern Paper, see this two-part investigation in the Portland Press Herald: https://www.pressherald.com/2015/04/19/payday-at-the-mill/ and https://www.pressherald.com/2015/04/26/shrewd-financiers-exploit-unsophisticated-maine-legislators-on-taxpayers-dime/. In brief, taxpayers in Maine were left paying $16 million to out-of-state investors in the wake of a 2012 economic development incentive deal for a company that laid off its employees and closed its doors in 2014. Though legal, the deal used $8.2 million in investments to make it look like a $40 million project, with guaranteed tax credits of 39%. The state owed that 39% even though $31.8 million of the transaction were part of a one-day loan, with one company subsidiary loaning money to another subsidiary and getting paid back right away.

APPENDIX

Table 1: Current Reports

<table>
<tr><th>Report Name</th><th>Agency Producing Report</th><th>Report Frequency</th><th>Incentive Programs Covered</th><th>Scope of Report</th></tr>
<tr><td>Tax Credit and Incentive Report</td><td>Division of Taxation of the RI Department of Revenue</td><td>annually for SFY2008 to present</td><td>- Jobs Development Act
- Motion Picture Production
- Historic Preservation
- Project Status (discontinued)
- Incentive for Innovation and Growth (discontinued)
- Enterprise Zones (discontinued)
- Mill Building and Economic Revitalization Act (discontinued)</td><td>Recipient info:
- recipient name
- recipient address
- tax credit amount received previous fiscal year</td></tr>
<tr><td>Annual Report of Tax Credit and Incentives Administered in Conjunction with the Rhode Island Commerce Corporation</td><td>Division of Taxation of the RI Department of Revenue</td><td>annually for SFY2016 to present</td><td>For programs enacted in 2015:
- Anchor Institution
- Rebuild Rhode Island
- Qualified Jobs Incentive
- Tax Increment Financing
- Wavemaker Fellowship</td><td>Recipient info:
- recipient name
- recipient address
- tax credit amount received previous fiscal year</td></tr>
<tr><td>Report on Commerce Corporation Incentive Programs</td><td>Rhode Island Commerce Corporation</td><td>for SFY2016, SFY2017, and Q1 of SFY2019</td><td>- Tax Increment Financing
- First Wave Closing Fund
- High School, College, and Employer Partnerships
- Industry Cluster Grants
- Innovation Vouchers & Network Matching Grants
- Main Street Rhode Island Streetscape Improvement
- Rebuild Rhode Island
- Qualified Jobs Incentive
- Tax Stabilization Incentive
- Small Business Assistance Program
- Wavemaker Fellowship
- I-195 Redevelopment Project</td><td>Some of the following, varying by program:
- recipient name
- recipient address
- estimated tax credit amount
- tax credit amounts disbursed
- project cost
- use of funds
- committed job creation
- eligibility term
- project location
- RICC board approval date
- industry
- project description</td></tr>
<tr><td>Unified Economic Development Report</td><td>Office of Revenue Analysis of the RI Department of Revenue</td><td>annually for SFY2014 to present</td><td colspan="2">- Jobs Development Act
- Motion Picture Production
- Project Status (discontinued)
- Incentive for Innovation and Growth (discontinued)
- Enterprise Zones (discontinued)</td></tr>
<tr><th colspan="5">Scope of Report</th></tr>
<tr><td>Recipient info:
- recipient name
- recipient address
- tax credit amount
- summaries of full-time and part-time jobs created or retained
- employee benefits offered
- degree to which job creation and retention and wage and benefit goals met</td><td>Program info:
- stated purpose, if available
-aggregate dollar amounts
- total number of jobs created or retained
- degree to which job creation and retention and wage and benefit goals met
- cost to the State and the approving agency
- extent to which any employees/recipients of the tax credits have received RIte Care or RIte Share benefits</td><td>Program analysis:
- projected new revenues
- cost to the state for forgone revenues
- any measurable goals established by the granting authority
- other metrics that can be measured, along with a baseline assessment of the legislation’s original intent</td><td colspan="2">Location info:
- amounts of tax credits or other tax benefits by geographical area within the state</td></tr>
</table>

Table 2: Items for the Proposed Consolidated Data and Information Report

Type of Information	For each incentive recipient	For each incentive program
BASIC INFO	recipient names	legal source for incentive program
		statutory and programmatic goals and intent
	recipient addresses	type of incentive offered (e.g., credit, deduction, rate reduction)
		identification of all statutory reporting requirements
APPLICATION/ STATUS INFO	which approvals, if any, were required and granted	whether incentive is (1) triggered automatically by recipient eligibility or (2) requires application or (3) requires application and formal approval by the Rhode Island Commerce Corporation or another agency sub-agency (e.g., Rhode Island Film and Television Office)
		count of applicants and count of applicants approved or denied incentive
EMPLOYMENT INFO	total number of jobs created or retained, broken out by full-time and part-time status	total number of jobs created or retained, broken out by full-time and part-time status
	degree to which job creation and retention and wage and benefit goals and requirements were met	degree to which job creation and retention and wage and benefit goals and requirements were met
	employee benefits offered	job numbers broken out by race, ethnicity, and sex
RETROSPECTIVE FINANCIAL INFO	aggregate dollar amounts requested (and broken out by incentive program)	aggregate dollar amounts requested
	aggregate dollar amounts denied (and broken out by incentive program)	aggregate dollar amounts denied
	aggregate dollar amounts granted or approved (and broken out by incentive program)	aggregate dollar amounts granted or approved
	aggregate dollar amounts claimed and distributed (and broken out by incentive program)	aggregate dollar amounts claimed and distributed
	amounts of state funds received from other sources	all aggregate dollar amounts broken out by race, ethnicity, and sex
PROSPECTIVE FINANCIAL INFO	aggregate dollar amounts granted or approved but not yet claimed and distributed (and broken out by incentive program)	aggregate dollar amounts granted or approved but not yet claimed and distributed
		five-year projection of potential impact on state's revenue stream

Table 3: Programs Covered by the Evaluation Act of 2013

Economic Development Incentive Programs covered by the Economic Development TaxIncentives Evaluation Act of 2013 and dates of reports released by the Office of Revenue Analysis
• Motion Picture Production Tax Credit (March 16, 2018) • Jobs Development Act (May 14, 2018) • Incentives for Innovation and Growth Credit (June 5, 2018) • Jobs Training Tax Credit (June 5, 2018) • Jobs Growth Act Tax Credit (June 5, 2018) • Small Business Capital Investment Modification/Deduction Tax Credit (June 5, 2018) • Small Business Capital Investment Wage Credit (June 5, 2018) • Distressed Areas Economic Revitalization Act (2 programs addressed in one report) o Enterprise Zone Wage Tax Credit (June 29, 2018) o Enterprise Zone Resident Business Owner Tax Modification (June 29, 2018) • Investment Tax Credit Incentive (2 programs addressed in one report) o Biotechnology Investment Tax Credit (June 29, 2018) o Specialized Investment Tax Credit (June 29, 2018) • Research and Development Tax Incentive (3 programs addressed in one report) o New R&D Facilities Deduction (June 29, 2018) o R&D Property Credit (June 29, 2018) o R&D Expense Credit (June 29, 2018) • Welfare Bonus Tax Credit Incentive (June 29, 2018) • Tax Exemption: Writers, Composers, and Artists (July 26, 2018) • Rebuild RI Tax Credit (expected in 2020) • Qualified Jobs Incentive Act (expected in 2020) • Anchor Institution Tax Credit (expected in 2020) • RI Tax Increment Financing (expected in 2020) • Stay Invested in Rhode Island Wavemaker Fellowship (expected in 2020)

Table 4: Enhanced List of Items for the Evaluation Act Reports

For each incentive program (or set of closely related programs)		
ASSESSMENT OF EMPLOYMENT AND FISCAL IMPACTS	Conduct a Baseline Assessment—Considering the situation before the incentive is put into effect…	…how many jobs did each recipient company employ?
		…how much in direct taxes did each recipient company pay?
		…how much in direct taxes did each recipient company's employees pay?
	Conduct a Follow-Up Assessment — Considering the situation since the incentive was put into effect, and considering what the situation might have been without the incentive (with the incentive funds invested in other ways)…	…how many new jobs did each recipient company create?
		…what are the estimates of how many new jobs each recipient company created as a direct result of the incentive?
		…what are the estimates of how many new jobs were created on balance, considering those each recipient company created as a direct result of the incentive as compared with how many jobs would likely have been created otherwise?
		…how much in additional direct taxes did each recipient company pay?
		…how much in additional direct taxes did each recipient company's employees pay?
		…what are the estimates of how much in revenues were generated or foregone on balance, considering the cost of the credits or other incentives and the new direct tax revenue as compared with direct tax revenue expected to be generated otherwise?
		…what are the estimates of how much in the state's Gross Domestic Product were generated (or declined) on balance, considering economic activity caused by the incentive program as compared with economic activity expected to occur otherwise?
	Placing an incentive program in context…	…and using in part information about tax incentives granted but not yet claimed or disbursed, what is (in the words of the Evaluation Act statute) the "five-year (5) projection of the potential impact on the state's revenue stream from carry forwards allowed" under such tax incentive?
		…what are the estimates of how much of each incentive program's benefits went out of state as compared with remained in state?
		…how does each Rhode Island incentive program compare with similar programs in other states, particularly those in New England? Have similar programs been discontinued in other states and, if so, why?
RECOMMENDATIONS ON IMPROVING ANALYSES	Could the analysis be improved by…	…changing anything about data collection?
		…clearly stating the goals/purposes of an incentive program, especially if the program's goals/purposes are unclear or unstated altogether?
RECOMMENDATIONS ON PROGRAM STATUS	In the judgment of the CEO of the Commerce Corp. (and/or representatives of other relevant agencies)…	…are the programs goals/purposes, as defined by statute or otherwise, being met?
		…what, if any, obstacles exist for realizing these goals/purposes?
	After considering all the above information and assessments…	…what is the ORA's actionable recommendations regarding the program's future? Should it be continued as is, modified, or closed out?
		…what would be the expected impact on the state's economy of following the above recommendations?