I am here today speaking on behalf of Grow Smart Rhode Island and for the 61 member Coalition for Neighborhood and Economic Renewal to urge you to oppose Governor Carcieri’s proposed caps on the state historic tax credit program and to consider alternative changes in the program that will retain its strong positive impact on economic development and neighborhood revitalization.

I know that you have enormous challenges before you and limited time to resolve them so I will make several key points and then yield the microphone to other members of our coalition with additional insights on the benefits of the tax credit program and the threats the Governor’s proposal represent to your ongoing efforts to improve Rhode Island’s business climate and economic performance.

1. **The first key point is that we have substantial evidence from credible economic research and direct case studies that the state historic tax credit program has major economic and fiscal benefits for the state and its cities and towns—and that these benefits aren’t fully taken into account in the analytical framework used to measure state expenses and revenues.**

According to a 2007 study by the well respected real estate consulting and appraisal firm Lipman, Frizzell and Mitchell of Columbia, Maryland and separate research studies by Grow Smart, the Rhode Island Historic Preservation Investment Tax Credit Program is generating thousands of new construction and permanent jobs, nearly $2.5 billion in economic activity, more than $450 million dollars in additional tax revenues over the next 20 years for state and local government combined, more than six thousand new housing opportunities-- including more than 750 subsidized affordable units-- and the cleanup of dozens of environmentally contaminated sites, often known as brownfields.

The LF&M study concludes that each $1 of state tax credit investment is leveraging $5.35 in total economic output. Additionally, the program is estimated to add $766.9 million to the tax base of local communities, and to generate over the next 20 years $297.60 million in additional property tax revenue.

But the study concludes that the tax credit program also stimulates considerable income and sales tax revenue for state government through its generation of new jobs and purchases of construction materials subject to the state sales tax.
In its fiscal impact analysis, LF&M notes that almost one quarter (24.3%) of the state’s investment is recouped even before it is incurred. That’s because, by law, the credit is not actually provided until a project is completed and receives a certificate of occupancy. LF&M forecasts that by that time, the 277 tax credit projects analyzed will have already generated during their construction periods alone state sales and income tax revenue estimated at $111.8 million. In their post construction phase, this same pool of projects is estimated to provide an additional $62 million of revenue to the state on a present value basis. So, while the program has short term costs that the state’s budget experts measure and publicize, it also produces revenues for the state that would not materialize if the program didn’t exist. Unfortunately these revenues are not taken into account at all in assessing the program’s overall impact on the state budget.

Ironically, as there are more calls to severely constrain the program, its economic development significance is growing. Whereas a majority of the early tax credit projects were residential, a recently completed Grow Smart analysis shows that the majority of still active projects are commercial or mixed use.

A separate study by Grow Smart finds that the tax credit program is also improving environmental conditions by providing the necessary financial support to eliminate contamination found on many of the historic sites being recycled into use. Based on data from the Rhode Island DEM and the Rhode Island Historical Preservation and Heritage Commission, 65% of the total investment in completed and planned projects is going into contaminated sites that are being cleaned up in the process. These environmental gains are occurring in 15 Rhode Island municipalities - urban, suburban and rural.

2. My second major point is that there are big economic risks to cutting the program dramatically because it provides a major economic stimulus for the state and one of the best countervailing forces to the emerging recession, especially in the fragile real estate sector of our economy.

Historic rehab projects tend to be more labor intensive than new construction, so we don’t accept the argument that the state would fare just as well economically if every urban mill rehab were replaced by the construction of another strip mall or big box store on farmland. We also have observed that rehab of historic commercial buildings in distressed, built up neighborhoods has greater economic ripple effects than a suburban sprawl pattern of development.

We are convinced, for example, that a severely weakened tax credit program would result in fewer jobs being created in Rhode Island and higher costs for unemployment benefits. Companies now investing tens of millions of dollars in Rhode Island projects and jobs would likely move much of their investment to one of the many other states in the country with uncapped state historic tax credit programs—Virginia, Missouri, North Carolina and Kansas being four examples.
Our latest research shows that the competition for tax credit projects among the states is intensifying, with numerous states, particularly those in the Northeast, seeking to follow Rhode Island’s lead by strengthening their historic tax credit programs. So now is certainly not the time to cede the important competitive advantage that our nationally renowned historic tax credit program provides us.

3. My third major point is that instituting annual caps on state historic tax credits as the Governor proposes is an approach that would drive out worthwhile investment and investors by creating too much uncertainty about the timing and level of state financial incentives. According to the National Trust for Historic Preservation, which monitors all state historic tax credit programs, no state tax credit program operating under an overall cap performs well. A prime example of the debilitating effect of a cap on a state historic tax credit program comes from Maryland, where a recent cap transformed that state from a national leader in historic rehab to a laggard.

For these reasons we believe that capping the Tax Credit Program is bad public policy—a move very likely to intensify and prolong the recession we are entering. The cancellation of projects that would inevitably result from imposition of a cap could cost the state thousands of construction and building trades’ jobs and the sales tax revenue derived from the purchase of material and equipment, as well as additional disbursements for unemployment benefits, thereby further eroding the already unsteady Rhode Island economy.

The retroactive cap the Governor has proposed for the current fiscal year not only has all the demerits just noted about caps in general, but also has the potential to create a financial train wreck for many promising local firms, some of whom you will be hearing from shortly. Already just the possibility of this cap is freezing much economic activity related to historic rehab projects.

The retroactive cap could also seriously tarnish Rhode Island’s image as a place to do business because it would arbitrarily change the rules of economic activity in the middle of the game. In so doing it would make Rhode Island look amateurish and unreliable and amount to putting up a sign at our borders saying “all business people enter here at your own risk!”

Aside from being damaging to our economy and image, the retroactive cap is unworkable. It ignores the fact that state historic tax credit certificates have been already issued for this fiscal year for nearly twice the credits that would be available under the Governor’s proposed $ 20 million-dollar FY ‘08 cap.

4. My fourth broad point is that natural market forces associated with the overall slowdown in the economy are accomplishing some of the stretch out in program costs that appears to be the prime motivation for the proposed cap. According to preliminary indications of updated data on the status of tax credit projects, a number of projects originally scheduled for completion this year are now anticipating completion dates of 2009 or beyond. As a result of these shifts in project pacing, the projected FY ‘09 cost to the
state of historic tax credits appears to have been reduced roughly in half—from an estimated $95.9 million to under $50 million.

5. My final point is that we’re here today not just to point out the benefits of the Tax Credit Program and the dangers of a cap on it, but to also support some reform alternatives.

A number of the members of our Coalition have developed a proposal whose highlights include reducing the tax credit prospectively from 30% to 25%, stretching out tax credit disbursements from one year to up to 3 years for projects eligible for a tax credit over $6 million, eliminating private social clubs from future eligibility for the tax credit and raising the basis for program eligibility from 50% to 100%.

We believe that these proposals represent positive adjustments to a program that’s proven its worth. They are far superior to proposed caps or other radical steps that could consign Rhode Island to economic mediocrity and underachiever status.

We are confident that you recognize that in these economically challenging times we need a State budget that promotes prosperity as well as austerity. Without that balance, we won’t have a “balanced budget” that is in the best interest of all Rhode Islanders.

We also know that you face extremely difficult choices and that all groups need to make an extra effort to increase the efficiency of their favorite programs. We’ve come here today with a proposal that will do that without undermining the tremendous economic, social and environmental benefits of the State Historic Tax Credit.

We thank you very much for your time and past support of this nationally renowned economic development and neighborhood revitalization program.