



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

02-01-10

Department of Administration  
BUDGET OFFICE  
One Capitol Hill  
Providence, R.I. 02908-5886

*GBA 8  
New Article*

**Memorandum**

**To:** The Honorable Steven M. Costantino  
Chairman, House Finance Committee

The Honorable Daniel DaPonte  
Chairman, Senate Finance Committee

**From:** Rosemary Booth Gallogly  
Executive Director/State Budget Officer *R. Gallogly*

**Date:** February 1, 2010

**Subject:** Amendments to FY 2010 Supplemental Appropriations  
Act (10-H-7105)

The Governor requests several amendments to the FY 2010 Supplemental Appropriations Act, which was submitted to the General Assembly on December 15, 2009. Many of the changes are the result of increased funding provided by the U.S. Government from the passage of the American Recovery and Reinvestment Act (ARRA) of 2009. The amendments requested include changes to Section 1 of Article 1; corrections to Article 9, Relating to Education Aid, and Article 19, Relating to ARRA Bonds; and the addition of two new articles entitled "Relating to Industrial Recreational Building Authority" and "Relating to Medicaid Reform Act." The correction to Article 19 requires two words to be underlined. The underlining was apparently lost in the transfer of the budget articles into the legislative system. The new article entitled "Relating to Industrial Recreational Building Authority" restores the debt authorization authority for the Industrial Recreational Building Authority from \$20.0 million to the original \$80.0 million amount. The new article entitled "Relating to Medicaid Reform Act" requests General Assembly approval for amendments to the Global Consumer Choice Compact Waiver.

The amendments to appropriations in Article 1 requested are described below. Also described are the corrections to Article 9, Article 19, and explanations of the new articles. Detail on the changes by natural account will be provided to the House and Senate Fiscal Advisors as part of the FY 2011 Budget database.

If you have any questions concerning these amendments, please feel free to contact me.

TDD#: 277-1227



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*MIRANDA  
Newman*

**To:** File

**From:** Rosemary Booth Gallogly *RB Gallogly*  
Executive Director/Budget Officer

**Date:** January 9, 2010

**Subject:** New Article - Relating to RI Industrial Recreational Building Authority

Summary

This article amends the public law which was passed effective July 1, 2008 which limited the authority to insure principal balances up to \$80 million by changing it to \$20 million. This section will restore that authority to the \$80 million level in order to accommodate the forecasted needs.

Explanation of Sections

Section 1

This section amends the public law which was passed effective July 1, 2008 which limited the authority of the State to fund IRBA insurance of principal balances up to \$80 million by changing it to \$20 million. This section will restore that authority to the \$80 million level in order to accommodate the forecasted needs.

Section 2

This section sets the effective date of this article. This article will take effect upon passage.

Other Information

The RI Industrial Recreational Building Authority was created for the following purpose:

§ 42-34-2 Purpose. – (a) It is declared that a state-wide need exists for industrial buildings and the expansion, rehabilitation, renovation, and reconstruction of existing industrial buildings and additional machinery and equipment to provide enlarged opportunities for gainful employment by the people of Rhode Island and to thus insure the preservation and betterment of the economy of the state and its inhabitants. It is also declared that it is in the interest of the public welfare and purpose to promote the expansion and diversification of industry to increase employment, prevent or reduce

unemployment, and to provide a larger taxable base for the economy of the state of Rhode Island, and to generally promote economic development in Rhode Island. Therefore, the Rhode Island industrial building authority is created to encourage the making of mortgage loans for the purpose of furthering industrial expansion in the state, and, thus, improve the welfare of the public for the foregoing reasons and, by the stimulation of a larger flow of private investment funds from banks, building and loan associations, credit unions, savings and loan associations, insurance companies, and other financial institutions, including pension, retirement and profit-sharing funds, meet the need of new industrial plant expansion, the expansion, rehabilitation and renovation of existing industrial plants, and the acquisition of new machinery and equipment.

(b) It is further declared that there is a need for the abatement or control of pollution of the environment of the state which is necessary to protect the health and welfare of the inhabitants of the state, and in particular the abatement or control of pollution by industries now operating in the state or which may in the future operate in the state. The Rhode Island industrial authority shall also exist to encourage the making of mortgage loans to enable such industries to abate or control pollution.

(c) It is further declared that a state-wide need exists for new recreational buildings, facilities, developments, and improvements to preserve the health and welfare of the people and to better the economy of the state. It is also declared that it is in the interest of the public welfare and purpose to promote the expansion and diversification of our recreational facilities, to increase employment, and to provide a wider tax base. Therefore, the Rhode Island industrial-recreational authority is created to encourage the making of mortgage loans for the purpose of furthering recreational expansion in the state, and, thus, improve the welfare of the public for the foregoing reasons and, by the stimulation of a larger flow of private investment funds from banks, building and loan associations, credit unions, savings and loan associations, insurance companies, and other financial institutions, including pension, retirement and profit-sharing funds, meet the need of recreational plant expansion.

### **Mortgage Insurance Program**

RIEDC offers mortgage insurance through the Rhode Island Industrial - Recreational Building Authority (IRBA). The maximum amount a business can borrow through this program is \$5 million. The loan covers up to 90 percent on real estate, 80 percent of machinery and equipment, and 75 percent of tourist-travel recreation projects. Funds can be used for new building acquisitions, additions and rehabilitation of existing buildings and for new or used machinery and equipment. This program offers borrowers debt insurance on tax-free bonds, taxable bonds and conventional mortgages.

<b>Program</b>	
<b>Rhode Island Industrial/Recreational Building Authority Bond / Mortgage Insurance</b>	
Eligible Applicants	Manufacturing, processing, office, wholesale, retail and travel-tourist facilities
Dollar Limit Per Project	Maximum: \$5 million Minimum: \$100,000
Limit, Percent of project cost	Real Estate: 90% Machinery & Equipment: 80% Tourist-Travel: 75%
Approved Use of Funds	New building acquisition or, additions/rehabilitation of existing buildings. New or used machinery & equipment.
Interest Rates	Bond issues – fixed or floating Mortgages – floating
Term of Repayment	Normal terms for real estate: Maximum 25 years Machinery & Equipment: Maximum 20 years
Form of Financing	Debt insurance on tax-free bonds, taxable bonds and conventional mortgages. Ap Fee: \$250 Commitment Fee: 1% Insurance Premiums: 1-3%, on average annual outstanding principal balance.

### **Financial Summary**

At June 30, 2009 and 2008, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout RI. Principal balances insured at June 30, 2009 and 2008 were \$13,481,455 and \$10,946,868. During 2009, Neurotech received an insurance guarantee of \$4.0 million for its facility in Highland Park.

### **Reason for Request to Restore \$80 million Authorization to Fund Guarantee Level**

A review of the history of the IRBA bond program reveals demand for the program is cyclical. In strong economic times, demand for the program wanes as traditional financing is available, almost plentiful, elsewhere. However, demand increases during slower economic times as banks tighten credit and look for credit enhancements to reduce their risk. The unprecedented issues in banking and financial markets in the current economic downturn have caused lenders to be even more cautious than at any point in recent history. The IRBA guarantee program provides an enhancement to entice the banks to lend and also provides for much reduced rates to borrowers, allowing them the necessary financing to expand and hire new employees.

IRBA currently has outstanding guarantees of approximately \$13.4 million. There is one company that has recently been approved for a \$5.0 million guarantee for a new facility in the Quonset Industrial Park that will create 40 new jobs. This brings the total funds committed under the IRBA program to approximately 18.4 million. RIEDC is currently working with two attraction opportunities creating over 270 new jobs. The move to Rhode Island and the creation of these jobs will require \$10 million in IRBA guaranteed

financing. There are also companies within Rhode Island, that despite the down economy are expanding. RIEDC is currently working with three companies who currently employ more than 500 Rhode Islanders who are looking to expand their facilities and operations, creating over 135 new jobs. These expansion projects will require an additional \$9.7 million in IRBA guarantees. These are five projects that will create over 400 new jobs in the state, but will require IRBA guarantees of \$19.7 million which would bring the total committed under the IRBA program to approximately \$38.1 million within the next few months.

Under the American Recovery and Reinvestment Act of 2009, the Federal government has created a new tax-exempt facility bond known as Recovery Zone Facility Bonds. The advantage to this program over conventional tax-exempt bond financing is the new Recovery Zone Facility Bonds contain a rate subsidy that will reduce the effective interest rate paid by the borrower. Under this program, Rhode Island has been assigned a cap of approximately \$150 million in tax exempt bonds that can be issued to Rhode Island companies to construct or improve their facilities. It is expected that some of these bonds may also require credit enhancement from the IRBA program. The RIEDC estimates that approximately 20% of these bonds, or \$30 million, will require an IRBA guarantee to move forward.

The remaining \$11.9 million in IRBA guarantee authority requested is for future requests for IRBA guarantees. Given the current economic environment and the vast increase in requests over the past several months, the RIEDC believes that the current demand for this program will only increase over the next few years as the economy improves. The IRBA guarantee program provides the necessary incentive for lenders to finance the growth of businesses in a down economy and is a valuable tool in providing capital as Rhode Island companies begin to expand as our state, regional and national economies begin their recoveries.

IRBA is governed by a board appointed by the Governor and confirmed by the Senate.

**NEW ARTICLE**

**RELATING TO INDUSTRIAL RECREATIONAL BUILDING AUTHORITY**

SECTION 1. Section 5 of Article 1 in Chapter 100 of the Public Laws of 2008 is hereby amended to read as follows:

SECTION 5. (a) Extension of previous authorizations. The general assembly hereby extends by for an additional seven years the authorization granted to the Rhode Island Industrial Recreational Building Authority provided by Chapter 91 of the Public Laws of 1958, and Chapter 537, Section 3, of the Public Laws of 1987.

(b) Extinguishment of previous authorization. The general assembly hereby extinguishes as of June 30, 2008 the authority to issue the following debt authorization pursuant to the provisions of Section 35-8-25 of the general laws.

<u>Purpose</u>	<u>Statutory Reference</u>	<u>Authority</u>	<u>Amount to be Extinguished</u>
Rhode Island Industrial Recreation Building Authority	Chapter 537 P.L. 1987	\$80,000,000	<del>\$60,000,000</del> \$0

SECTION 2. This article shall take effect upon passage.