

Departmental Testimony

October 29, 2008

Historical Preservation & Heritage Commission– Edward Sanderson, Executive Director – Historic Tax Credits

TRUST FUND: The FY2009 Budget Act established a trust fund to pay anticipated Historic Tax Credits redeemed over the next thirteen years. The fund will be used to reimburse the General Fund for Historic Tax Credit redemptions, in order to stabilize budget projections and streamline the annual impacts of Historic Tax Credits. The amount authorized to borrow for the Historic Preservation Tax Credit Trust Fund was \$356.2 million. The cost included \$299.9 million in bonds to establish the Trust Fund, along with \$4.2 million in financing, and \$50.6 million deposited in a debt service reserve fund at an interest rate not to exceed 5.92%.

In July 2008 the Division of Taxation issued a report on the contracts that have been signed with developers. The qualified rehabilitation expenses on those contracts totaled \$1,057.3 million with expected tax credits totaling \$266.6 million.

A report presented by Historic Preservation indicates that since 2002 completed projects total 190. These projects represent total project costs of \$931.8 million, with final rehabilitation expenses of \$752.0 million, equaling \$225.6 million in tax credits.

RI Film and Television Office – Steven Fineburg, Executive Director – Motion Picture Tax Credits

TAX CREDIT: Provides a tax credit of 25.0% of the state certified production costs incurred that are directly attributable to activity within the state provided that the primary locations are within the State of Rhode Island and the total production budget is at least \$300,000. The tax credit is transferable from the motion picture production company to other individuals or companies. The 2008 General Assembly imposed a \$15.0 million cap on these credits claimed in any one future fiscal year.

There was discussion about when a credit is earned and its longevity. For example: Motion picture company “A” films in RI in 2007. Post production is done in CA and takes until 2009. The RI production costs are filed with the RI Film and Television Office, and the credits issued in 2009. Does the three year life of the credit start in 2007 or 2009? This is important because some of the productions listed in the RI Film and Television Office’s report go back to 2006 and have not filed yet for their credits.

RI General Law (RIGL) 44-31.2-5 reads: “The credit shall be earned in the taxable year in which production in Rhode Island is completed, as determined by the film office in final certification pursuant to subsection 44-31.2-6(c). ... The credit shall not exceed the total production budget and shall be allowed against the tax for the taxable period in which the credit is earned and can be carried forward for not more

than three (3) succeeding tax years.” Mr. Fineburg testified that the credit is earned, and the three year life of the credit starts, when the production in RI is completed, which in the example above is 2007.

RIGL 44-31.2-9 seems to contradict this position. It reads in part: “The carry forward period for credit that is transferred or sold begins on the date on which the credit was originally granted by the film office.” In the example above this seems to say that the three year longevity starts when granted in 2009.

The report presented indicates that since 2005 the total number of projects who have made application for credits is 32. The estimated RI production costs total \$247.1 million with estimated credits of \$61.0 million. Of the 32 applicants, 22 projects have filed final production costs of \$180.5 million with \$45.1 million in credits issued. It appears that 3 to 4 projects who made applications might never file for their credits.

As mentioned above, a cap on the amount of these credits that can be issued in any one year was adopted by the General Assembly in 2008. RIGL 44-31.2-5 (e) reads: “No more than fifteen million dollars (\$15,000,000) may be issued for any tax year beginning after December 31, 2007.”

The following information was taken from the report presented.

Motion Picture Production Costs and Credits

Year	Applications				Approvals			
	Projects	Estimated		Estimated Tax Credits	Projects	Final		Final Tax Credits
		Productions	Costs			Production	Costs	
2005	3	\$ 30.3	\$ 7.6	3	\$ 30.3	\$ 7.6		
2006	12	\$ 102.7	\$ 24.9	10	\$ 90.6	\$ 22.6		
2007	7	\$ 55.3	\$ 13.8	5	\$ 43.7	\$ 10.9		
2008	10	\$ 58.8	\$ 14.7	2	\$ 15.8	\$ 4.0		

It does not appear that the \$15.0 million annual cap will be reached in 2008.

RI Lottery, Department of Revenue – Gerald S. Aubin, Executive Director, Daniel Sarro, Finance Administrator; & Sandra Lee, Comptroller – Lottery Proceeds.

Lottery proceeds are reported in three categories – Games, Monitors and Video Lottery. The Games include Power Ball, Wild Money, The Numbers, and Instant Games. Monitor games include Keno and Rhody Poker. Video Lottery includes sales at both the Lincoln and Newport Facilities.

As can be seen below sales for the Games and Monitors are running behind the same time period last year by -3.3% and -7.0% respectively. One of the reasons for the drop off in Games sales was a large jackpot during these three months in FY2008. On August 25, 2007 (FY2008) a large Power Ball jackpot worth \$314.3 million boosted sales. There was not a similar large jackpot in FY2009. The Lottery has transferred \$14.6 million to the State’s General Fund when the revenue from Games and Monitors is added together.

Video Lottery sales are running ahead of last year by 12.7%. The State's share is not based on sales. The State's share is based on total Net Terminal Income (NTI). Next to the Video Lottery sales data displayed below is the NTI data for roughly the same time frame. This indicates an increase of only 0.4%. For this time period, the Lottery has transferred \$73.9 million to the State's General Fund.

SALES-- July to September		FY2008	FY2009	Compare	Percent
Games Total					
Total	\$	41.7	\$ 40.4	\$ (1.4)	-3.3%
TRANSFER TO STATE			\$ 10.6		
Monitor Total					
Total	\$	19.60	\$ 18.22	\$ (1.4)	-7.0%
TRANSFER TO STATE			\$ 4.0		
NET TERMINAL INCOME-- Weekending 7/ 5/ 08 to 9/ 27/ 08					
Video Lottery Total		FY2008	FY2009	Compare	Percent
Total	\$	518.4	\$ 584.4	\$ 66.1	12.7%
TRANSFER TO STATE			\$ 73.9		
Lottery Total					
Total	\$	579.6	\$ 642.9	\$ 63.3	10.9%
TRANSFER TO STATE			\$ 88.4		