



**Written Comments in Support of 870-RICR-30-00-8 (Rules & Regulations for the Small Business Development Fund)  
February 25, 2020**

We submit the following written comments **in support of** the proposed Rules and Regulations for the Rhode Island Small Business Development Fund (870-RICR-30-00-8).

In brief, we present three points:

- The Small Business Development Fund is modeled on similar, largely unsuccessful programs deployed in numerous states over the last 35 or so years.
- Rhode Island and its taxpayers would be better off without this program, yet given that this program was enacted in 2019, we need the strongest set of rules and regulations to guard against the sorts of harms caused by similar programs in other states.
- The proposed final rules and regulations appear to accomplish the goal of putting in place adequately strong and protective rules and regulations.

Although pitched as a great way to support small businesses, the Small Business Development Fund is not a new program, and we have more than three decades of experience upon which to rely to make an evaluation of this sort of program. The Certified Capital Companies, or CAPCO, program began in the 1980s and has gone through some name changes since (for example, as New Market Tax Credits or Rural Job Tax Credits). What has remained unchanged has been the basic framework. There are three main companies (Advantage Capital, Enhanced Capital, and Stonehenge Capital) that go around the country shopping the program and lobbying for it in state after state. They change the program name and respond to critiques by claiming that the program has improved, but the basic mechanisms and results remain the same: a program with few safeguards, poor results, and lots of taxpayer money lost and going out of state.

Instead of using taxpayer funds more directly to help small businesses, as some other economic development programs do, the CAPCO or Small Business Development Fund (SBDF) program would require a multilevel arrangement where the applicant companies raise funds mostly from insurance companies and then loan money to businesses, making the safest investments and not helping many new or start-up businesses in need, and then securing the state tax credits for the insurance companies or other investors and taking a cut for management fees, and eventually exiting the program with all principal and profits on top. To be clear, the applicants are not small Rhode Island businesses. The program applicants are the large, out-of-state companies, and given the strict qualification requirements written into the law, it is unlikely any Rhode Island company would meet the criteria to qualify. Performance goals are minimal, and despite claims of safeguards, history and short timeframes suggest that there is rather little likelihood of the state ever recapturing funds, even if entitled to do so.



Furthermore, according to the program’s supporters, some \$42 million in Rhode Island taxpayer funds will leverage \$65 million in economic activity—however, \$42 million ought to be able to leverage much more, several times the amount, not a mere 50% or so more.

A number of states across the country have rejected these programs. These states include Nevada, Vermont, Iowa, both Carolinas. Other states—including Florida, Colorado, New York, and Wisconsin—with the program have turned around and (with bipartisan support) have limited or eliminated the programs after a first round.

Maine taxpayers suffered from the Great Northern Paper Mill debacle. Under a similar program, \$32 million in one-day loans were used to supplement \$8 million in funding, to make it look like a \$40 million investment, for which the state was obligated to award \$16 million in tax credits. Of the actual \$8 million, \$7 million went to pay off old loans and \$1 million went to pay management fees and related expenses. Nothing went to the creation of new jobs. The company went under not too long after, with some 200 individuals losing their jobs. The taxpayers had to pay out the \$16 million in tax credits anyway. (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/?rel=related>.)

The state of Alabama commissioned a study, in part, of its similar program ([https://www.ncsl.org/Portals/1/Documents/fiscal/evaluation\\_database/Evaluation\\_of\\_Alabama\\_CAPCO\\_Credit\\_and\\_Historic\\_Rehabilitation\\_Tax\\_Credit.pdf](https://www.ncsl.org/Portals/1/Documents/fiscal/evaluation_database/Evaluation_of_Alabama_CAPCO_Credit_and_Historic_Rehabilitation_Tax_Credit.pdf)). The January 2017 report included a report card:

Component	CAPCO Grade
<b>Efficiency:</b> a well-defined <i>return on investment</i> to the state of Alabama.	D
<b>Transparency:</b> clear benefits to taxpayers and costs to the state.	D
<b>Certainty:</b> defined impact on state budget and program beneficiaries.	C
<b>Prospective:</b> encourage future activity rather than reward previous decisions.	D
<b>Simplicity:</b> <i>easy to administer and easy to comply with.</i>	B
<b>Targeted:</b> focused and provided on a <i>discretionary</i> basis to promote new activity.	C
<b>Protection of Public Funds:</b> through caps or time limits on the use of credits.	C
<b>Leverage:</b> to encourage additional public or private resources.	B
<b>Accountability:</b> <i>performance-based incentives</i> should be built into the program.	D
<b>Evaluation:</b> to identify the extent to which incentives induced new activity.	F
<b>Ownership:</b> to ensure proper administration and to support a thorough evaluation.	D
<b>OVERALL</b>	<b>D</b>



In summary, this program is an altogether bad one for Rhode Island taxpayers, and we would be better off without it. The General Assembly ought to repeal the program. However, so long as we do have the program in law, we need the strongest set of rules and regulations possible. The emergency and now final proposed rules and regulations appear to meet this challenge.

How do they do so?

- Whereas in other states, meeting very basic criteria specified in statute legally *requires* authorization of the companies, the rules and regulations proposed here would require the companies to demonstrate in much greater detail how they would fulfill the goals of economic development.
- Additionally, the rules and regulations also place appropriate discretionary authority in the Commerce Corporation to reject applications which might be technically complete but fail to demonstrate economic benefit for Rhode Island and the taxpayers.

Although representatives from the CAPCO companies have claimed that the rules and regulations do not carry out the intent of the law, we believe that the intent of the law is to help small businesses in Rhode Island and to protect Rhode Island's taxpayers, who have an interest in their taxes not going to waste. With a weaker set of rules and regulations, the program would waste taxpayer monies with little guarantee of doing much to help small businesses. The only guarantee would be that the CAPCO companies would make money.

We at the Economic Progress Institute therefore endorse these proposed rules and regulations.