

Rhode Island's Economic Competitiveness Rankings



*A Report by the Rhode Island Senate Policy Office and the
Rhode Island Public Expenditure Council*

January 15, 2013

Introduction

In its annual “Top States for Business” rankings, published on July 10, 2012, CNBC ranked Rhode Island 50th of 50 states on how appealing the state is to start or grow a business. This ranking was consistent with other recent analyses that placed Rhode Island at or near the bottom of states for economic competitiveness. Among the issues frequently cited by these rankings is an onerous regulatory environment in Rhode Island, the condition of the state’s infrastructure, and a high cost of doing business. (CNBC ranked Rhode Island 49th, 50th, and 45th in these categories, respectively). It is worth noting that Rhode Island has ranked somewhat better in other analyses, including Chief Executive magazine, which ranked the state 39th overall in their 2012 annual review. Likewise, Rhode Island was ranked 19th in the Beacon Hill Institute’s 2011 State Competitiveness Report, with the state receiving high marks for Crime & Safety, Educational Attainment, and Internet Access. Notwithstanding these exceptions, however, well-publicized poor national rankings are a cause of concern for policymakers as businesses may be reluctant to move to, or expand in, states that are perceived as unfriendly to business.

Over the past few legislative sessions, the General Assembly has passed a number of measures to improve business friendliness, lower costs, streamline regulations, and cut red tape. Among other items, these efforts included legislation that: allows simultaneous permitting and review by multiple state agencies; established an Office of Regulatory Reform; expedites the approval of business licenses and certain construction permits; reforms and brings consistency to implementation of the state fire code; and developed a web-based business application program within the Secretary of State’s office. Many of these initiatives passed in 2010, a session, which was described by a representative of the Providence Chamber of Commerce as, “probably the most significant [legislative] year in the last decade in terms of helping small businesses.” Though significant, these reforms are not yet being fully measured in national rankings.

In 2012, Rhode Island leveraged its small size as a strength and began the process of creating a single, uniform, statewide building permitting system in which cities and towns could participate for no charge. This legislation was introduced to address local building permitting processes that vary by location, completion time, administrative requirements, and cost. As a result of this initiative, businesses looking to begin construction projects in Rhode Island could soon have a new level of predictability in the form of a single building permit system that stretches across every city and town in the state.

Also in 2010, the General Assembly passed an income tax reform package, which reduced most income tax rates and was praised by the non-profit, non-partisan Tax Foundation as increasing the state’s business competitiveness, reducing compliance costs, and reducing complexity. The Foundation further commented that “Rhode Island’s positive changes were...an outlier” and that Rhode Island, along with Utah (ranked second in CNBC’s 2012 state ranking), were two exceptions to a growing trend among states to raise taxes, particularly on high-income earners.

In addition to these legislative reforms, the General Assembly has committed to strong fiscal discipline. During the 2011 session, the General Assembly took on the difficult, yet fiscally necessary, task of restructuring the state pension system. In a time of such division within state houses across the country, Rhode Island received national recognition for political leaders coming together to face difficult challenges and responsibilities. In addition, with the recession’s impact on state revenues, state government has been forced to trim its workforce and do more with less.

These recent reforms and initiatives are in addition to the state’s inherent economic strengths, including a vibrant quality of life composed of world-class dining, miles of beaches and natural beauty, and access to one of the best health care systems in the nation. Home to 13 superb public and private higher learning institutions, and situated in an ideal geographic location, Rhode Island offers immediate access to varied, high quality, higher education opportunities. Recent reforms in our K-12 education system have received national acclaim, as the state has embraced education standards that are among the highest standards in the country and matched standards of high-performing countries around the world.

Despite these strengths, barriers to vibrant and sustained economic growth continue to be identified. Many of these barriers have been highlighted by the aforementioned national business rankings. In response to these results, the Senate President requested a review of these national rankings and the factors used in their development to identify those specific items which are pulling the state’s economic competitiveness ranking down, and to offer suggestions to start the state on the path of fixing them (“moving the needle” on each item) in a positive direction. The following report is the result of collaboration between the Senate Policy Office and the Rhode Island Public Expenditure Council (RIPEC).

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Benchmarking

Identifying and measuring Rhode Island's strengths and weaknesses as they pertain to attracting and retaining businesses is the first step toward improving them. The following measures provide a snapshot of where Rhode Island stands, and will serve as a baseline for judging future performance. By providing this baseline, we can better evaluate the impact of a specific action, policy, or intervention in quantifiable terms and better inform policymaking and resource allocation.

The benchmarking methodology applied in this report was informed by the *Benchmarks for a Better Washington*, a project of the State of Washington Roundtable, and the Greater Providence Chamber of Commerce's and Rhode Island Science & Technology Advisory Council's *Benchmarking the Knowledge Economy*. The indicators are intended to be tracked, at least annually, to help inform policymakers about measures that influence Rhode Island's economic competitiveness. Guiding principles for indicators selected in this report include: measurability; accessibility through a recognized, reliable, and independent source; and comparability across all 50 states. The Senate Policy Office and RIPEC hope to release annual updates of this report to gauge the state's progress in improving or maintaining performance on each indicator.

These selected indicators will benchmark and track the state's economic vitality across five key categories that are crucial to Rhode Island's competitive position:

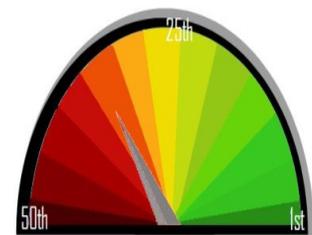
- Economy
- Workforce & Education
- Transportation & Infrastructure
- Cost of Doing Business
- Quality of Life

The indicator categories parallel those used in national business climate rankings such as CNBC's "Top States for Business," or Forbes Magazine's "The Best States for Business." Indicators in this report rely on independent data that has been deemed fundamental to an economically competitive state by national ranking bodies and site selection services. Understanding that national rankings are relative and that Rhode Island's standing also relies on the actions (or inaction) of other states; policies that improve our state's performance on these quantifiable measures should improve our standing on aggregated national rankings, such as "Best States for Business", or other, more abstract measures such as "Business Friendliness."

Following each indicator, suggested actions to "move the needle" and improve Rhode Island's standing are recommended. Some suggestions include large scale initiatives that may require funding and new or additional resources, while others recommend small changes that can be done at little to no cost to the state. Other suggestions are simply to monitor initiatives that are *already* underway in Rhode Island and that still need time to produce results. This report does not attempt to catalog the comprehensive and diverse recommendations of economic development stakeholder groups, nor does it aim to elevate one policy recommendation over others. Rather, it is meant to provide tangible data and suggestions for legislative consideration to initiate further debate. The report contains an appendix with supplemental information about suggested policy actions. The appendix is organized by the five indicator categories, and can be found on page 16.

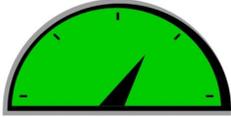
Key

As a means to illustrate Rhode Island's ranking on each specific measure, a rainbow color-coded meter is used to depict the RI rank relative to all states. For example, a ranking of 50th would fall at the extreme left of the meter in dark red; a ranking of 1st would fall at the extreme right in dark green; and a ranking of 25th appears in the center in yellow.



Economy: Increase economic planning and performance in sustainable job creation, innovation, entrepreneurship, and global business.

Per-Capita Personal Income



Per capita income is one of the most frequently relied-upon indicators of the overall state of the economy. It is calculated by taking a measure of all sources of income within the state in the aggregate and dividing it by the total population. The measure does not account for how that income is distributed within a population.

Current Data/Projections: In 2011, Rhode Island's Per-Capita Income (PCI) was \$43,875, which ranked 15th among all 50 states. Rhode Island has consistently ranked 15th since 2007. Neighboring Massachusetts ranked 2nd nationally with a PCI of \$53,471. Connecticut was ranked 1st with a PCI of \$57,902.

FY 2012 State Budget Deficits



The most recent national comparison of state budget estimates illustrates that slow economic growth, and, therefore, weak tax collections, are hampering states' ability to fund programs. Several states are struggling to meet their budgetary obligations, and, therefore, predict budget gaps in the out-years.

Current Data/Projections: As of the time of this national comparison (June 2012), approximately 30 states were anticipating a FY 2013 budget deficit. As of June 2012, Rhode Island was one of the 20 states that did not anticipate a budget gap in FY 2013.

Per Capita Real Gross Domestic Product (GDP)



State per capita real GDP is a measure of the monetary value of a state's goods and services produced in a specific time period, divided by the number of people in the state. Real GDP removes the impact of inflation. GDP is used as a key measure for determining the rate of growth in the economy.

Current Data/Projections: The Bureau of Economic Analysis measures Per Capita Real Gross Domestic Product by state and 2011 data ranged from a high per capita real GDP of \$63,159 in Delaware to a low of \$28,293 in Mississippi. Rhode Island's 2011 per capita real GDP was \$41,532, the 27th highest in the US (in chained 2005 dollars). The national average was \$42,070.

Private Sector Job Growth / Total Employment



Private sector job growth is a fundamental measure of economic health. Well-paying, stable employment is the foundation of personal economic security and community prosperity. Private sector jobs also represent a key driver of state revenue, increasing tax receipts and reducing state spending on unemployment benefits, Medicaid, and other social services.

Current Data/Projections: In November 2012 the state's unemployment rate was 10.4%, the second highest in the nation. This figure is, however, down three-tenths of a percentage point from August 2012 and is the lowest level since April 2009. In November 2012, the size of the labor force increased by 1,411 employees since October 2012, and by 2,543 employees since November 2011. The number of employed individuals increased by 1,501 from October 2012 through November 2012, and by 6,550 from November 2011 through November 2012. The number of unemployed individuals declined by 90 from October 2012 through November 2012, and declined by approximately 4,000 from November 2011 through November 2012.

Economy: Increase economic planning and performance in sustainable job creation, innovation, entrepreneurship, and global business.

Reinvent Rhode Island's Approach to Economic Development

Recent controversies have spurred conversations reforming the state's economic development structure. The RI Public Expenditure Council's (RIPEC) 2012 review of the state's approach to economic development discovered that the Rhode Island Economic Development Corporation's (EDC) mission statement was relatively narrow, but that the EDC's focus in practice was broad.

RIPEC made recommendations in six main areas: the creation of a state government presence for commerce; an analysis of business climate and legislative changes; the development of a consensus-based, strategic economic plan for Rhode Island; the reorganization and rebranding of EDC to be more customer-centric; increased research and data analysis to guide overall commerce policy; and the alignment and participation of the public and private sectors around commerce. Legislation will be needed to implement any major restructuring of the EDC.

Develop a Long-term Strategic Vision for Economic Development in Rhode Island

A long-term strategic vision is important for guiding policy and resource decisions. Long-term vision also results in long-term investments that may not bear fruit in the short-term, but position the state for continued growth and success in the future. Without a long-term vision, such investments are nearly impossible to visualize, promote, and implement.

The state should develop a broad-based, strategic statewide economic development plan through a broad coalition of stakeholders. Though the state is currently undergoing a related initiative through the Division of Statewide Planning's Sustainable Communities grant program, it is important to enact a statutory requirement that the state produce a plan regularly, so that it is not a one-time initiative. Massachusetts' economic development plan is an example of a process mandated by the legislature at the start of each gubernatorial term.

Reintroduce Job-matching Legislation

One of the outcomes of the Rhode Island Foundation's September 2012 *Make It Happen RI* forum was a recommendation that the state do a better job of connecting employers and the unemployed while providing necessary support and training, possibly by using "unemployment dollars directly to hire those who are unemployed."

Two pieces of legislation introduced and passed by the Senate – the web-based "Jobs Match" program and the "Back to Work Rhode Island" program – would help facilitate this process by better connecting employers and the unemployed and by providing on-the-job training for unemployed workers seeking new skills.

Capitalize on the Unique Historic and Artistic Assets of Rhode Island

Rhode Island's cultural and artistic heritage is an asset that should be leveraged to enhance the state's economic position through the expansion of two current programs: the Historic Preservation Investment Tax Credit and the Arts District Designation. These programs, which provide tax incentives for historic rehabilitation and promote the expansion of the arts, respectively, have the potential to revitalize the state by generating an economic return on investment.

The legislature could consider reauthorizing the historic tax credit program, using the approximately \$26 million in authorized but unused tax credits. Changes could be made to the program, such as a consistent evaluation requirement. The state has a number of arts districts that benefit from both income and sales tax incentives. The legislature could analyze the impact of expanding the sales tax component beyond these districts to a statewide initiative. However, reauthorization should be based upon a comprehensive review of the credits' effectiveness, costs and benefits.

Work with the Newly-Formed Office of Digital Excellence to Ensure that State Websites with Front-line Contact with Businesses are User-friendly and Appealing

The FY 2013 state budget established the Office of Digital Excellence within the Department of Administration to: manage all new technology infrastructure projects and upgrades for state agencies; expand and improve the quality of state technology services; promote greater access to government; and improve the State's websites to provide timely information to online users. The Office of Digital Excellence could work with the web development team at the EDC to review best practices in making Rhode Island's public web presence the best in class. The General Assembly could monitor and support these efforts.

Workforce & Education: Rhode Island should have a twenty-first century workforce that is prepared for the high-wage job opportunities required for a knowledge-based economy.

Student Achievement in Math and Science

A vibrant, competitive 21st century economy demands a workforce skilled in mathematics and science. Math and science education create critical thinkers, increase science literacy, and enable the next generation of innovators. Ten-year employment projections by the U.S. Department of Labor show that of the 20 fastest growing occupations projected for 2014, 15 require significant mathematics or science preparation.



Current Data/Projections: According to the most recent National Assessment of Education Progress (NAEP) results, 34% of Rhode Island 8th graders were proficient or better both in mathematics and science. Based on average scale score, Rhode Island students ranked 30th and 34th, respectively, on these measures.

High School Graduation Rate

There is a large body of evidence that there are clear economic and social benefits to graduating high school. For example, individuals without a high school diploma are substantially more likely to be unemployed, and those that are employed tend to earn less than their counterparts who graduated from high school.



Current Data/Projections: Rhode Island's four-year cohort graduation rate for 2011 was 77.3 percent, 31st highest nationally. By comparison, cohort graduation rates in all other New England states, with the exception of Massachusetts, ranked in the top 10 in the country. (NOTE: although rates are significantly more comparable across states than in earlier years, there are still some minor differences in how states calculate rates).

Cost of Higher Education

Rising tuition costs, which have outstripped growth in family income, and the subsequent debt burdens, are often a barrier to access to higher education. Affordable access to higher education is a key component of developing a workforce that is responsive to the needs of the 21st century economy.



Current Data/Projections: National data indicate that Rhode Island has some of the highest tuition costs in the country that, while in line with neighboring states, put higher education out of reach for many. In the 2010-2011 school year, in-state tuition at public four-year colleges/universities was \$9,250, 11th highest in the country. Total costs (including room and board) were \$19,815, or 6th highest nationally. Tuition at two-year institutions was \$3,652 for the year, 11th highest in the country.

Educational Attainment

Educational attainment is critical for the vitality of our state's economy. Census data suggests that by 2020, 52.0 percent of jobs in Rhode Island will require some form of postsecondary training beyond high school. Greater attainment of postsecondary degrees and training, results in more workers prepared for career success and stronger economic prospects for our state.



Current Data/Projections: According to 2011 Census data, 42.7 percent of the Rhode Island's working-age adults (25-64 years old) held at least a two-year degree – ranking 13th among all states. Within this 42.7 percent, 33.7 percent held a bachelor's degree or higher, 11th highest in the country and 3.5 percent higher than the national average.

Of the roughly 59 percent without at least a two year degree: 19.7 percent had at least some college but did not receive a degree, 24.9 percent had a high-school degree or equivalency, and 12.7 percent had less than a high school diploma or equivalent. Of note, while the state does well with regard to the number of individuals with associate's degrees or higher, Rhode Island also ranks 15th highest for the share of population without at least high school credentials.

Workforce & Education: Rhode Island should have a twenty-first century workforce that is prepared for the high-wage job opportunities required for a knowledge-based economy.

Monitor the Impact of 2011 Dropout Age Legislation

In terms of K-12 school completion, in 2011, the General Assembly passed legislation requiring compulsory school attendance until the age of 18, which changed the previous law that required school attendance until age 16. The General Assembly should monitor the impact of the 2011 legislation on the state's graduation rate and compare these results with national findings.

Continue to Promote and Fund Early Childhood Education and Full-day Kindergarten

In 2008, the General Assembly passed the Rhode Island Prekindergarten Education Act, which called on the Department of Elementary and Secondary Education to explore ways to provide children with access to publicly funded, high-quality prekindergarten (Pre-K) education programs. In 2012, the General Assembly passed the Full-Day Kindergarten Accessibility Act which, subject to appropriation, provides one-time, start-up funding to school districts transitioning from offering part-day kindergarten to providing universal access to full-day kindergarten beginning with the 2013-2014 school year. There are currently 19 school districts that offer universal full-day kindergarten and 16 districts that do not. Expansion of full-day kindergarten should remain a top priority and, given the demonstrated impact on student performance and future success, should receive sufficient funding for expansion as soon as fiscally possible.

Monitor the Fair and Contextualized Implementation of High School Graduation Standards

Beginning with the graduating class of 2014, students will also be required to pass a state-issued assessment with a ranking of at least "partially proficient." The state assessment is now the NECAP which tests proficiency in English Language Arts and Mathematics. Beginning in 2014, the state assessment will be the 'Partnership for Assessment of Readiness of College and Careers' (PARCC) test with assessments in the same content areas. The General Assembly should continue to monitor the fair implementation of graduation standards for all students as it impacts high school graduation rates.

Monitor Rhode Island's Implementation of Common Core State Education Standards and Next Generation Science Standards and Their Impact on Students

In 2010, Rhode Island joined 45 other states in adopting Common Core State Education Standards (CCSS), which inform teachers, principals, and parents about the skills and knowledge students need to learn at each grade level. Since the standards have been in place for only two years, the General Assembly should monitor the state's implementation of the Common Core State Standards to determine their impact on student performance. Similarly, Rhode Island is a leading state in the development of the Next Generation Science Standards, which will help ensure that Rhode Island students are held to a level on par with leading states and nations. Once the Next Generation Science Standards are in place, the General Assembly should monitor the state's implementation of the Standards, and determine their impact on student performance.

Focus on Helping Those with "Some College but No Degree" Achieve Their Degree

In terms of higher education, there is an opportunity to assist those students with some credits, but no degree. This can be done by first identifying those students who have some college, but no degree via demographic data, and then by enacting policies that could ease transfer credit options. For example, enacting "reverse transfers" at public universities allows credits obtained toward Bachelor's at a four-year college or university to be transferable to a community college toward the completion of a degree. Also, the General Assembly could review URI's 'Finish What You Started' program to see if it could be adopted throughout statewide higher education. This program includes an initiative wherein the school identifies and reaches out to former students who did not graduate and guides them through the process of completing the degree. Perhaps the former student does not realize that remaining classes can conveniently be taken at the Providence campus or on-line; or the former student is not aware of financial aid options that are still available to older students.

Making Investments in Higher Education

Reductions in state funding for higher education result in tuition increases for students and/or cuts in staff and resources at public colleges and universities. To sustain and improve the state's overall education attainment, the state could prioritize investments in higher education to keep state college affordable for Rhode Islanders.

Recent studies have found that Rhode Island spent \$155.55 per capita in state money on higher education in 2011-12, ranking the state 42nd nationwide. The same study noted that Rhode Island boosted public spending on higher education by more than any other state in FY 2012, after reducing it by double-digits during the recession. Adequate funding for higher education is essential for the development of a skilled and educated workforce ready to compete in the global economy.

Transportation & Infrastructure: Make and sustain public infrastructure investments that support regional growth initiatives .

Road Conditions

The percentage of roads in “poor” or “mediocre” condition provides a critical reading on the state's transportation infrastructure. Good road conditions result in the safe and efficient movement of people and products, an improved overall quality of life, and reduced automotive maintenance costs in the long-term.



Current Data/Projections: According to the ‘2009 Rough Roads’ report produced by the American Association of State Highway and Transportation Officials, nearly 68 percent of Rhode Island roads are rated in poor or mediocre condition— trailing only New Jersey (78%) and Hawaii (71%) for third-worst in the nation.

Structurally Deficient Bridges

Structurally deficient bridges impact commerce and quality of life and improving Rhode Island’s ranking in this category will support commerce and encourage economic growth. “Structurally Deficient” bridges require significant maintenance, rehabilitation or replacement, but are not necessarily unsafe. If unsafe conditions are identified during a physical inspection, the structure must be closed, negatively impacting transit of goods and people.



Current Data/Projections: A 2011 report by the nonprofit Transportation for America, relying on US Department of Transportation and Federal Highway Administration data, found that 21.6 percent of Rhode Island’s bridges were structurally deficient, ranking fourth-worst nationally on this measure, ahead of Pennsylvania, Oklahoma and Iowa.

Average Commute Time

Average commute time is a measure of the functional efficiency of the state's entire transportation system — one that can have a dramatic effect on quality of life, worker productivity and environmental quality. Rhode Island’s size and geography, in effect, provides a natural limit to how long our commute can be.



Current Data/Projections: According to the most recent data available by the US Census, Rhode Islanders had an average commute to work of 22.9 minutes, lower than the US average (25.2 minutes), Connecticut’s average (24.6), and Massachusetts’ average (27.3). Since 1990, average commute times have increased by more than 3 minutes in Rhode Island.

High-Speed Internet Access

Businesses, especially those in the technology and knowledge industries, look for states with high internet connectivity and a broad amount of available bandwidth. States with greater adoption of high-speed internet enable businesses to quickly share and exchange knowledge and information. Companies engaged in e-commerce, or those involved in research and development, consider broadband technology essential.



Current Data/Projections: Akamai Technologies’ ‘State of the Internet’ report is a frequently-cited source for data on global internet speed, condition, and usage. The most recent August 2012 report found that 81 percent of the Rhode Island market had internet speeds greater than 4 Mbps, and ranked third in the nation for broadband adoption. Additionally, 24 percent of the Rhode Island market had internet speeds greater than 10 Mbps, a 136 percent increase over the previous year, and ranked 4th in the nation for high broadband adoption (fifth if the District of Columbia is included).

Transportation & Infrastructure: Make and sustain public infrastructure investments that support regional growth initiatives .

Review the Recommendations of the Senate Commission on Sustainable Transportation Funding

In July 2011, the Study Commission on Sustainable Transportation Funding issued its first report and, among other recommendations, suggested: eliminating bonding as a means to provide state match for federal transportation funds; reducing debt service payments and reallocating gas tax revenue for operations and maintenance; providing additional funding for Department of Transportation operations, maintenance, and capital; and providing additional funding for local roads and the Rhode Island Public Transit Authority. The General Assembly should review and consider the Commission's final recommendations.

Provide Resources for Monitoring Systems to Address Transportation Project Cost Overruns

Among the recommendations and updates included in the state's *Transportation 2035* plan is a statement highlighting the fact that Rhode Island Department of Transportation's financial system is currently unable to track project cost overruns. The General Assembly could explore and prioritize the funding of resources for monitoring and tracking transportation project cost overruns, increasing efficiencies, and decreasing costs. Any savings realized from reduced costs overruns could be used to further repair and maintain state roads.

Ensure that the Business Community has Sufficient Input in Developing the State Transportation Plan

The *Transportation 2035* report, a long-range planning document that is part of the State Guide Plan and includes goals, policies, objectives and strategies for the state transportation system for the next two decades is drafted in collaboration with state and federal agencies as well as public participation. Providing business interests sufficient representation when drafting the state transportation plan will help ensure that the goals, policies and objectives for Rhode Island's transportation system align with the needs of the business community and encourage economic growth.

Reinvest Savings Obtained from Retiring Transportation Bond Debt in Maintaining and Upgrading Bridges and Roads

The FY 2012 budget established a Highway Maintenance Trust Fund, which will be phased-in over three years starting in 2014. This trust fund, combined with other annual contributions, will help RI to significantly reduce transportation borrowing for FY 2014 and FY 2015, and requires no new bond funding starting in FY 2016. As old bonds are paid off, the General Assembly should monitor that the state invests savings on debt service in road and bridge maintenance. The RI Department of Transportation (RIDOT) has been committed to a Fix-it-First approach to transportation investment that ensures maintenance and repair of existing infrastructure are the highest priority for spending. As the state moves toward a more sustainable funding structure and retires its transportation bond debt, the legislature should prioritize improved road conditions.

Monitor the Results of Moving Bridge Responsibilities to the Rhode Island Turnpike and Bridge Authority (RITBA)

Transferring control of the bridges to RITBA is expected to help DOT begin addressing unmet infrastructure investments, while ensuring that the costs of operating and maintaining the bridges are met by RITBA. The General Assembly should monitor the results of this transfer for cost effectiveness.

Maintain an Open and Competitive Telecommunications Market

Rhode Island's telecommunications market is one of the most open and competitive in the nation. This has led to a level of growth and investment in the state's telecommunications infrastructure, which resulted in wide deployment of high-speed broadband internet across the Rhode Island market. The state should continue to maintain an open and competitive telecommunications market which attracts new investments in advanced networks, encourages technology deployment, promotes job creation, and protects consumers.

Cost of Doing Business: Increase the ease of doing business in Rhode Island by engaging in regulatory review, realigning economic development efforts, marketing the state's assets, and increasing our cost competitiveness.

Business Tax Climate

A high-quality tax system should generate revenue sufficient to support quality state and local government operations, while minimizing economic distortions, and playing a minimal role in business location decisions. In New England, regional business tax rates take on more importance given the close proximity to our neighbors. Moreover, taxes are a cost to doing business that states can most directly and quickly impact.



Current Data/Projections: The Tax Foundation's 'State Business Tax Climate Index', examines a number of taxes to determine an overall tax system rank. In the 2013 index, Rhode Island ranked 46th overall (improving from 47th in 2010). The state ranked 50th for unemployment taxes, 46th for property taxes, and 42nd for corporate taxes. The state also ranked 25th for its sales tax system and 37th for its personal income tax system.

Regulatory Burden

Efficient government regulation should help promote economic growth and promote the public interest. Over time, however, even the most well-intentioned regulations may combine to hinder economic growth and burden businesses. The aggregate cost of this ever-growing regulatory scheme raises the cost and administrative burden on businesses.



Current Data/Projections: According to a number of analyses, Rhode Island is one of the most heavily regulated states in the nation. The 'Forbes Magazine 2012 Best States for Business' report ranked Rhode Island 50th for its Regulatory Environment. By comparison, Massachusetts and Connecticut ranked 23rd and 42nd, respectively, on this measure. The 'CNBC 2012 Top States for Business' report ranked Rhode Island 49th for business friendliness, ranking Massachusetts 29th and Connecticut 33rd for this measure.

Access to Venture Capital

Businesses, particularly start-ups in the technology and knowledge industries, need access to capital to take risks and reap rewards. Not all states are created equal when it comes to attracting capital. The availability of these funds makes a state more attractive to entrepreneurs willing to take a chance on their idea.



Current Data/Projections: The 'MoneyTree' Report is a quarterly study of venture capital investment activity in the United States and is the only industry-endorsed research of its kind. In 2011, the most recent full year for which data are available, Rhode Island ranked 18th nationally with \$38.41 venture capital dollars invested per capita. Per capita rankings for that year ranged from \$0 to \$452, and Massachusetts was in first place.

Energy Costs

Energy is a key cost of doing business. Although geographic, regional, and even international variables influence energy costs, the General Assembly has a degree of influence in stabilizing the rate of growth in energy costs, increasing energy efficiency, and, for commercial, environmental, and national security reasons, promoting reliance on cost-efficient clean and renewable energy sources.



Current Data/Projections: Based on the SBE Council's "Energy Cost Index 2012", Rhode Island's energy costs, ranked the state 43rd in the nation (seventh highest), but consistent with the overall cost in other New England states (Maine: 41st, Massachusetts: 44th, New Hampshire: 45th, Vermont: 47th and Connecticut: 49th).

Health Insurance Costs

High health insurance costs force employers to trade wage increases for maintaining health benefits, reduce coverage options for their employees, or drop health insurance coverage. Although a range of factors impact the cost of health care within a region, some states have been more successful than others in controlling insurance premium growth.



Current Data/Projections: Average private-employer family premium costs in Rhode Island were 4th highest in the nation in 2010 at \$14,812. Rhode Island's ranking was consistent with high overall system costs throughout the northeast (five of the top ten highest premium states were located in New England; two others were New York and Delaware). In the same report, Rhode Island had the fifth highest percent increase in private-employer family premiums from 2003-2010, which grew by 57 percent.

Cost of Doing Business: Increase the ease of doing business in Rhode Island by engaging in regulatory review, realigning economic development efforts, marketing the state's assets, and increasing our cost competitiveness.

Tax Issues

Options to make the state's tax system more competitive should continue to be reviewed. The state's corporate tax structure should be carefully examined in coordination with an analysis of the effectiveness, costs and benefits of economic development tax credits toward meeting their intended goals. Additionally, the General Assembly could continue to resist increases in broad-based taxes and maintain 2010 personal income tax reforms.

Review and Promote Renewable Energy and Efficiency Programs

The General Assembly has passed numerous laws in recent years designed to increase the use of renewable energy and energy efficiency. Now is an appropriate time to request a comprehensive review of these programs to ensure they are having the desired impact on growing the use of clean energy, stabilizing costs for rate payers, and creating jobs. Additionally, these programs could be promoted amongst energy users. A formal Rhode Island Economic Development Corporation-led initiative could identify and reach out to Rhode Island's largest commercial and industrial energy users to help these companies reduce their energy costs. Key to this effort are the state's successful incentives to help Rhode Island utility customers invest in energy efficiency, conservation programs, and the Renewable Energy Fund.

Analyze Areas of Need Along Rhode Island's Capital Continuum

Through various entities associated with state government, the state offers funding for different business life-cycle stages. For example, through its State Small Business Credit Initiative, the state sponsors formational, or start-up, funding through grants to accelerator programs such as BetaSpring. At the other end of the capital spectrum, the state offers loans or loan guarantees for more established companies through the small business loan fund or the Job Creation Guarantee Program. Though the state offers various finance programs for stages along businesses' life-cycle, there has not been a comprehensive analysis done to find gaps. However, a recent bid on a Rhode Island Economic Development Corporation request for proposal will include a financial resources assessment that will compare the state's public and private financing to other states'. The General Assembly could monitor the findings of this report and consider its recommendations.

Repair Rhode Island's Regulatory Reputation through Support for the Office of Regulatory Reform

Rhode Island consistently ranks poorly for its high regulatory burden in national rankings. The General Assembly should ensure that the Office of Regulatory Reform has sufficient resources to carry out its mission. The FY 2013 state budget provides \$300,000 to fund the preliminary work of developing a statewide web-accessible software system for the collection of information pertaining to the state's and municipalities' building plans, permit management, and building inspection methods. The Office of the Building Commissioner, in conjunction with the State Fire Marshall and the Office of Regulatory Reform, will use this information to create an online building permitting system. Additional funding may be needed for the ultimate implementation of this system.

Convene a Legislative Commission to Study Single State Code Uniformity

Despite an obvious overlap in jurisdiction and responsibilities, many seemingly common terms within the state's Elevator Code, Fire Code, and Building Codes have different, and sometimes conflicting, definitions, which lead to confusion, unnecessary costs and frustration in the business community. The General Assembly could form a commission to examine the building, fire, elevator and any other state code that affects the construction or permitting of a structure, to achieve consistency among the codes.

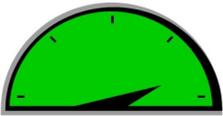
Continue Healthcare System Reforms and Leverage Federal Healthcare Reform as a Tool to Reduce Overall System Costs and Improve Outcomes

Along with the costs associated with taxes and energy, increases in health insurance premiums for employees are often identified as a major challenge for RI businesses to finance. Even self-insured businesses who are not obligated to provide insurance coverage for state-mandated benefits point to the need to bend the cost curve and address the underlying health care cost drivers. In addition, as access to health care expands under federal healthcare reforms, the availability of quality primary care will need to be enhanced. With these goals in mind, legislative action may be taken to expand opportunities for transparency of costs; enhance accountability through the expansion of innovative delivery and payment methods; and identify the means to attract the adequate and culturally competent workforce needed.

Quality of Life: Enhance work quality, healthy behavior, physical health, economic opportunity, and access to basic necessities.

Crime & Safety

There is perhaps no more basic tenant of a state's quality of life than its crime rate. Businesses and their employees desire and deserve to live and raise families in safe communities. Crime and public safety are also an indirect and often overlooked part of a state's economic appeal. The direct costs (such as incarceration, medical, and judicial expenses) and indirect costs (increased security, lost productivity) of crime can weigh heavily on a state's economy.



Current Data/Projections: A Beacon Hill Institute index ranked Rhode Island 6th best overall in security in the United States. In this report, Rhode Island's crime index (per 100,000 inhabitants) of 5.6 placed it as the 18th highest in the US. Alternatively, Rhode Island's crime rate in a CQ Press state crime ranking was the 18th highest in the United States in 2010. In 2009, the state ranked 9th highest in this ranking.

Health & Wellbeing

Access to health care facilities, a skilled health care workforce, effective public policy, and environmental conditions, all affect individual and community health. Good overall health within a state can result in lower insurance costs for businesses, increased productivity, and a more capable and effective workforce overall.



Current Data/Projections: Rhode Island ranked as the 10th healthiest state in the country in the 2011 America's Health Rankings, which creates an index across a range of health indicators from infant mortality and life expectancy to obesity rates and the prevalence of smoking. Rhode Island received high marks for its public immunization coverage, relatively low rate of uninsured citizens, and the quality and availability of primary care physicians.

Poverty Rate

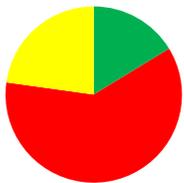
The poverty rate measures the percentage of people whose income falls below the federal poverty threshold. An increasing poverty rate indicates insufficient economic and employment opportunities, depressed economic activity, and increased reliance on state social and health benefit programs. On a personal level, poverty rates reflect thousands of Rhode Islanders struggling to provide for themselves or their family's basic needs.



Current Data/Projections: According to the United States Census, in 2011 the rate of individuals living in poverty in Rhode Island was 14.7 percent, up from 14.0 percent, the prior year. While Rhode Island's poverty rate is below the national average of 15.9 percent, only Maine had a higher poverty rate across the New England states in 2011.

State Perception & Opinion

Recent proposals for improving Rhode Island's economic development posture point to the state's internal and external perception as a challenge. These proposals recommend external reputation management, as well as efforts to improve Rhode Islanders' opinion of the state and engage them in its marketing and promotion.



Current Data/Projections: Gauging Rhode Islanders' 'opinion' of their state as a great place to live and open a business is difficult, but much of the perception we seek to capture can be found in annual surveys whether Rhode Islanders feel the state is on the 'right track' or going in the 'wrong direction'. An October 2012 survey by Brown University found 16.3 percent of those surveyed believed the state was headed on the right track, while 60.9 percent felt it was going in the wrong direction. The remaining 22.8 percent felt the situation was mixed, offered no opinion, or weren't sure.

Quality of Life: Enhance work quality, healthy behavior, physical health, economic opportunity, and access to basic necessities.

Consider Recommendations of the Senate Youth Violence Task Force to Extend Economic Opportunity to At-risk Youth and Prevent Youth Crime

The state could consider implementing the recommendations of the Senate's 2012 Youth Violence Task Force, to extend economic opportunity to at-risk youth, and combat youth violence. The Task Force's final report recommended the following: implementing an evidence-based risk assessment tool and training for use in community-based settings; supporting rigorous statewide youth career preparation, vocational, and mentoring programs to monitor and guide youth in their natural environments; supporting integrated, strengths-based community partnerships among families, stakeholders and agencies to advance youth violence prevention implementation efforts; and developing a statewide performance-based incentive and reward system for providers and agencies funded through state dollars to achieve accountability for desired outcomes. The Juvenile Detention Alternatives Initiative Steering Committee will soon release a series of recommendations for further expansion of their efforts and the General Assembly should review these recommendations.

Address the 'Benefits Cliff'

The state of Rhode Island offers assistance to help low-income families meet their basic needs, including a subsidy for child care on a sliding scale basis for families with gross income at or below 180% of the federal poverty level (FPL). If a worker in the family is offered a small raise that puts the family income even slightly over the threshold of eligibility, the family stands to lose affordable child care. A modest raise of only five dollars a week could be enough to push the family over the eligibility level and cause them to lose hundreds of dollars a month in childcare assistance. This phenomenon is often referred to as the '*benefits cliff*'.

The intent of many state assistance programs is to offer temporary support designed to help families reach their own economic self-sufficiency. Yet the benefits cliff presents a situation wherein working more hours and earning more may be against a family's financial interests or abilities. The Economic Progress Institute of Rhode Island and several states have done wide-ranging analysis of the benefits cliff, its impact on beneficiaries, its impact on state dependency, and the economy.

The General Assembly could request a comprehensive report on the impact of the benefits cliff in Rhode Island, options to mitigate the issue, and the expected costs of those options.

Support Adult Literacy Programs

It is estimated that 8 percent of Rhode Island adults lacked the basic literacy skills necessary for employment. As found by the Governor's Workforce Board's Biennial Plan, low-skilled adults are least able to access career pathways, due to limited education, work-readiness, as well as limited access to social services and career advice. Fiscal year 2012 data shows that of the total amount of workforce services delivered in the state, ten percent went to adult education programs, while eighty percent went to overall employment services. As a means to reduce poverty, and consistent with research suggesting the positive impact increasing literacy rates have on poverty, Rhode Island should prioritize investments in cost-effective adult literacy and English language programs that are held accountable to high standards.

Support Efforts by the Private Sector to Market and "Re-Brand" Rhode Island

Rhode Island needs to engage in proactive reputation management, which emphasizes the state's strengths, highlights recent efforts to improve competitiveness, and profiles Rhode Island business success stories. Chambers of Commerce, the RI Foundation, and other private partners have been working on a marketing strategy to promote Rhode Island as a place to do business. The General Assembly could cooperate with these private marketing efforts, by profiling the state's economic strengths, and its determination to overcome its weaknesses.

Furthermore, the General Assembly has taken significant steps in recent years to increase the state's perception as business friendly. Private and non-profit partners including the Rhode Island Foundation have already begun working on initiatives to highlight Rhode Island's strengths and successes. For example, The Chafee Center at Bryant University is in the process of developing a report entitled "Rhode Island Ranks High," which will demonstrate the leadership positions Rhode Island holds across many categories, including business climate, economic incentives and policies, technology and energy environment, health and safety, higher education, location, and lifestyle and entertainment. The General Assembly could support these partners in their efforts to re-brand and market the state's success and progress.

Appendix

Appendix:

Economy

Reinvent Rhode Island's Approach to Economic Development

Rhode Island's current Economic Development Corporation (EDC) is the state's lead economic development agency whose stated mission is to: "create jobs, help companies expand and develop their workforce, and identify opportunities to bring new companies into Rhode Island." Recent controversies have spurred conversations on how to reform the state's economic development structure.

Based on these shortcomings, RIPEC has categorized its multiple recommendations for reforming the state's economic development strategy into six main areas: the creation of a state government presence for commerce; an analysis of business climate and legislative changes; the development of a consensus-based, strategic economic plan for Rhode Island; the reorganization and rebranding of EDC to be more customer-centric; increased research and data analysis to guide overall commerce policy; and the alignment and participation of the public and private sectors around commerce.

In addition, the Joint Legislative Committee on Economic Development has received recommendations from various groups with expertise in the area regarding the redesign of the state's approach to economic development. Legislation will be needed to implement any major restructuring of the EDC.

Reintroduce Job-matching Legislation

In 2011 and 2012, the Senate passed legislation to develop a "Jobs Match" web-based system operated by the RI Department of Labor and Training (DLT) to link employers with prospective employees. Employers with job vacancies and unemployed persons need a comprehensive, accessible, reliable, and user-friendly mechanism through which to connect. In instances where a candidate is not fully qualified for a position, DLT could offer remediation and individualized training opportunities, and by aggregating individual skill gap data, the department could better address common gaps through broader training investments.

In 2012, the Senate passed legislation to create the "Back to Work Rhode Island" program to offer on-the-job training for unemployed workers seeking new skills and an opportunity to gain work experience. The program would be operated by DLT and would be modeled after a popular program in Georgia. Under the program, individuals receiving unemployment benefits could be matched with businesses who are seeking employees for up to six weeks of 'trial' employment at no cost to the business. Such a program would be particularly helpful to aiding the long-term unemployed overcome the hurdles that are associated with lengthy gaps in their work history.

Capitalize on the Unique Historic and Artistic Assets of Rhode Island

Historic Preservation Investment Tax Credit

The Rhode Island Historic Preservation Tax Credit was created in 2001 and awarded tax credits of up to 30 percent of the cost of rehabilitating historic buildings for commercial use. In 2008, during a period of significant budget strain, the state effectively discontinued the program. A May 2012 report by the Rhode Island Public Expenditure Council (RIPEC) indicated that, since the program's inception, the state had provided \$296.1 million in credits.

A 2007 analysis of the impact of the historic preservation tax credit program indicated that it resulted in roughly 277 construction or rehabilitation projects and that these projects were projected to generate a total of \$2.5 billion in economic activity throughout the state. This same analysis estimated total state expenditures for the program at around \$460.2 million—concluding that the state was able to produce \$5.35 of economic activity for every \$1 of state investment.

As an opportunity to generate economic activity, preserve quality of place, and create jobs in the construction sector, the state could reauthorize and restructure the historic tax credit program, utilizing approximately \$26 million in outstanding but 'frozen' tax credits since 2008.

Appendix:

Examine the Arts Districts Designation versus Creation of a “State for the Arts”

A vibrant arts community is an essential ingredient for urban renewal and a dynamic quality of life. Further, the RI Citizens for the Arts’ 2012 *Creative Industries in Rhode Island* report showed that, despite the lingering effects of the recession on most sectors of the economy, the creative sector in RI added 770 jobs (6 percent growth) and 460 new businesses (16 percent growth) between 2011 and 2012. In addition, many economists are beginning to also highlight the *indirect* economic benefit of arts promotion in developing the workforce of the future.

In 1998, the General Assembly passed legislation providing tax incentives for artists that live and work in specific areas of the state or ‘districts’. Specifically, the statute provides three different kinds of tax incentives: a sales tax exemption for works of art created by artists who live and work in the district; an income tax exemption for income derived from the sale of works created by artists who live and work in the district; and a sales tax exemption on the sale of certain types of art sold by gallery spaces located within the district. These tax incentives have helped give designated communities an economic boost. A review of the feasibility and consequences of offering one of the arts district tax benefits on a statewide basis would complement the call for RI to become a leading state for the arts.

Workforce and Education

Data Note:

The four-year adjusted cohort graduation rate is the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for the graduating class. The figure does not include students who may have otherwise obtained their high school diploma by graduating in five years, six years, or by obtaining their GED.

Monitor the Impact of 2011 Dropout Age Legislation

Legislation passed in 2011 allows for a waiver of the requirement for pupils over the age of 16 who are involved with an alternative learning plan, as defined by statute. Students would also be able to leave school prior to age 18 only if they have met some other statutorily-defined education requirement that ensures they have received sufficient education and training. Economists have found that higher legal dropout ages improve high school graduation rates, entrance to higher education, and career outcomes.

Continued Promotion and Funding of Early Childhood Education and Full-day Kindergarten

Although it is too soon for the initiatives to have an impact on high school graduation, legislation passed by the General Assembly over the last four years (2008 through 2012) promoting access to early children education and full-day kindergarten could have a profound impact on statewide graduation rates and school achievement if they are cultivated and eventually brought to scale. Studies have found that participation in intensive, high-quality early-childhood education such as prekindergarten can improve school readiness and that children who attended such programs were less likely to drop out of school, to repeat grades, and to need special education than children who had not. The studies also found that, as adults, children who had participated in high-quality early-childhood programs were less likely to commit crimes, and were more likely to be employed, and have higher earnings.

In 2008, the General Assembly passed the Rhode Island Prekindergarten Education Act. The Act called on the Department of Elementary and Secondary Education to explore ways to provide children with access to publicly funded, high-quality prekindergarten (Pre-K) education programs. As a result of the Rhode Island Department of Education’s work, the state established the Early Childhood categorical fund within the statewide education funding formula. This fund is designed to increase access to voluntary, free, high-quality pre-kindergarten programs and is distributed through a request for proposals process targeting communities in three tiers - with the first tier having the highest concentration of children at-risk for poor educational outcomes. The FY 2013 Budget provides \$1.5 million for early childhood education provided at eight sites throughout the state. This represents the first year of funding for the early childhood education fund, which is expected to be fully funded by the end of the formula transition.

Appendix:

Monitor the Fair and Contextualized Implementation of High School Graduation Standards

The movement over the past few years to national/international education standards, curriculum rigor, and high graduation requirements help ensure that graduates from Rhode Island high schools are prepared for college or are ready for immediate entry in the workforce. Current graduation requirements include the successful completion of coursework and the compilation of a student portfolio or a presentation of applied learning skills coupled with core content proficiency.

State assessments are an important and objective measure to ensure that students who graduate from any Rhode Island school have mastered the skills needed to be career and college ready. While maintaining an objective measure of student knowledge and ability is important as a means to promote a talented and trained middle-skill workforce, it is important that testing is applied in a manner that is fair to all students. For example, concerns have been raised that students with disabilities or limited English language skills could fail to graduate under the new standards, despite an otherwise demonstrated grasp of the subject matter.

Monitor Rhode Island's Implementation of Common Core State Education Standards and Their Impact on Students

These standards inform teachers, principals, and parents about the skills and knowledge students need to learn at each grade level. This roadmap ensures that all students in every community in Rhode Island will be learning the same skills and knowledge at the same time (making the transition to a new school for families who move much easier). Prior to the adoption of Common Core Standards, Rhode Island had few ways of assuring that our students were obtaining the same skills and knowledge needed to one day compete with students in other states and, indeed, around the world.

The Common Core State Standards are designed to reflect the knowledge and skills that our young people need for success in college and careers. Although they do not guarantee student comprehension, the standards ensure that Rhode Island students are held to standards on par with leading states and nations.

Monitor Continued Growth in Student Science Proficiency and Standards

Rhode Island's current science standards are outlined in the state's Grade Span Expectations and are assessed through the New England Common Assessment Program (NECAP). Since the first administration of the NECAP in 2008, statewide proficiency in science has risen 11 percent. In the most recent 2012 assessment, statewide science proficiency improved by 3.1 percent from the previous year to 34.8 percent proficient, marking the fourth consecutive year of improvement (Note: the NECAP, which is limited to New England states, is different from the afore-mentioned NAEP, which is a national assessment). These improvements are commendable, but there is much more room for growth. In addition, a significant achievement gap remains between racial, social, and economic subgroups.

Rhode Island is a leading state in the development of the Next Generation Science Standards. The Next Generation Science Standards are new K-12 science standards developed through a collaborative, state-led process with input from experts in the fields of science, engineering, and education. The goal of these standards is to promote a new vision for American science that will provide all students an internationally benchmarked science education. Similar to the Common Core State Standards, these standards are designed to ensure that students are both career and college ready upon graduation and are scheduled to be completed in 2013. As with the Common-Core State Standards, these new standards will help ensure that Rhode Island students are held to a level on par with leading states and nations.

Focus on Helping Those with Some College but No Degree Achieve Their Degree

According to a Lumina Foundation analysis of 2010 U.S. Census data, 110,614 Rhode Islanders (almost 20 percent of the state's workforce) had some college but no degree. In the immediate future, there are several low-cost steps the state can take to help this population reach the level of an Associates Degree:

Get the Data – South Dakota (SD) has begun working with private partners to find up-to-date demographic and contact information for adults with some college credits, but no degree. Among thousands of students identified in that state, more than 2,500 students were located who had dropped out of college after completing more than 90 credit hours (most Associate programs at CCRI require 60 credits). The state is using this data to reach out to those students who still reside in SD and assist them in obtaining a degree.

Appendix:

Reverse Transfer –The state could work with our institutions of higher education to develop policies concerning ‘reverse transfer’ of college credits. Traditional transfer students begin working on their Bachelors degree while at the Community College of Rhode Island and eventually transfer credits earned at CCRI to a four-year college or university where the Bachelors will be completed. ‘Reverse transfer’ works in the opposite – allowing credits obtained toward a Bachelors at a four-year college or university to be transferable to CCRI toward the completion of an Associates degree. If a student has completed the number of credits and met other requirements, the student could be awarded an Associates degree from CCRI.

‘Finish What You Started’ – The University of Rhode Island recently rolled out an initiative wherein the school identifies and reaches out to former students who did not graduate and guides them through the process of completing the degree. Perhaps the former student does not realize that remaining classes can conveniently be taken at the Providence campus or on-line; or the former student is not aware of financial aid options that are still available to older students. The state could review this program to determine if a similar model could be adopted throughout the state’s higher education system.

Beyond these three immediate recommendations, the state’s higher education system should be encouraged to continue to provide sufficient resources to programs that are most impactful in helping adult learners and former students overcome barriers to college completion. These include flexible class schedules, night and weekend class options, online and distance education, and support services such as on-campus childcare.

Transportation and Infrastructure

Review the Recommendations of the Senate Commission on Sustainable Transportation Funding

Senate Resolution 2010 S-3023 created a special legislative commission known as the “Study Commission on Sustainable Transportation Funding.” The Commission was charged with making a comprehensive examination of issues relating to the state developing and implementing new funding sources for both the Department of Transportation and the Rhode Island Public Transit Authority.

A long-standing critical issue facing the state’s transportation system has been the lack of stable and sufficient funding. Currently, there are three main sources of funding for public transit: federal funds (approximately \$220.0 million); general obligation bonds (\$40 million); and gas tax revenue (\$137.0 million). Gas tax collections are particularly unstable and have not followed a clear pattern over the past decade.

The Commission will soon release a final report with findings and recommendations intended to support the local economy and preserve the ability of thousands of Rhode Islanders who rely on public transportation to contribute to the state’s economic growth.

Ensure that Savings Obtained from Retiring Transportation Bond Debt is Reinvested in Maintaining and Upgrading Bridges and Roads

Under its previous highway funding mechanism, Rhode Island borrowed \$40.0 million every year to provide the state match for federal highway funds. Each \$40.0 million borrowed cost approximately \$3.3 million in debt service. In FY 2011, the cumulative debt service on transportation bonds was \$43.6 million.

Monitor the Results of Moving Bridge Responsibilities to the Rhode Island Turnpike and Bridge Authority

The FY 2013 Budget transfers the Sakonnet River Bridge and the Jamestown Verrazano Bridge from the Department of Transportation (DOT) to the Rhode Island Turnpike and Bridge Authority (RITBA).

Appendix:

Cost of Doing Business

Regulatory Burden Data Note:

National efforts to measure business regulations across states are tricky. For starters, regulation, by definition, is a burden, but it is up to interpretation whether that burden is justified. For example, national rankings on 'business friendliness' often penalize states with strong environmental protections or labor laws; yet, there are many that would argue such regulations are ultimately beneficial to society overall. Other rankings are vague and rely on the 'perception' of business friendliness rather than a tangible 'apples-to-apples' comparison between states. For those that do offer such comparisons, some include items such as gun-control and seatbelt laws - whose relation to the free and unencumbered operation of a business is unclear.

Review and Promote Renewable Energy and Efficiency Programs

There are many companies in RI that are energy-intensive and must consume a large amount of energy to operate. For these large energy users, the state can attempt to help offset energy costs and neutralize the impact of these costs on a company's bottom line.

Hold the Line on Changes to the State Sales Tax System

Of all the taxes measured within the Tax Foundation report, the only Rhode Island system that ranked within the top half of states was its sales tax. The state's sales tax rate (7 percent) is tied for second highest in the nation, but this does not tell the whole story as many states levy city, county, and municipal rates on top of the state rate. When factoring in these local rates, which are not assessed in Rhode Island, Rhode Island's total rate ranks 20th highest nationally. And when reviewing the overall sales tax system, particularly its comparatively small base of goods and services subject to the tax, the system is ranked 25th nationally.

Maintain 2010 Personal Income Tax Reforms

In 2010, the state of Rhode Island reformed its personal income tax system. Previously, the state had a 5-bracket income tax with a top rate of 9.9 percent. The 2010 reform eliminated a previously enacted optional flat tax system; eliminated the alternative minimum tax; reduced the number of tax credits; increased the standard deduction for most taxpayers; eliminated the option to itemize deduction; reduced the number of brackets from 5 to 3; and reduced the top tax rate from 9.9 percent to 5.99 percent. The reforms were designed to be revenue-neutral and increase progressivity, while reducing compliance costs and barriers to economic growth.

In response to these reforms, the Tax Foundation raised the state's national ranking on this measure from 43rd to 37th. The Foundation further stated that the "tax reform will greatly boost the state's competitive position."

Review Rhode Island's Corporate Tax relative to Neighboring States

Rhode Island's corporate tax structure consists of a flat rate of 9 percent on all corporate income. Taxpayers are required to pay the greater of the amount owed under the corporate tax or the minimum tax of \$500. There are complex formulas about how the income subject to the tax is calculated and items such as tax credits can impact this figure further. In 2012 the Tax Foundation's analysis among states levying corporate income taxes (three states do not): Rhode Island's overall corporate tax system was ranked 42nd (and its rate of 9 percent was sixth highest). By way of comparison with our neighbors: Massachusetts's corporate tax system (8 percent rate) was ranked 33rd and Connecticut (7.5 percent, but an actual effective rate of 9.0 percent) was ranked 35th.

Appendix:

Conduct a Comprehensive Review of Rhode Island's Economic Development Tax Incentives and Credits to Measure their Impact and Effectiveness

The State of Rhode Island spends tens of millions of dollars annually on tax incentives for economic development- providing businesses with credits, exemptions and other incentives to locate, hire, expand and invest in the state. Rhode Island could consider undertaking a review of the effectiveness of these credits. The Department of Revenue currently provides an annual tax expenditure report, but this report does not include a review of the quality and efficacy of individual tax credits. To expand the scope of this report, statutory changes may be necessary to aid and compel interdepartmental sharing of data and information regarding jobs and employee wages. A comprehensive report should include:

- the value of the tax credits claimed and carried forward;
- an assessment and projection of the potential impact on the state's revenue stream from carry forwards;
- an analysis of the economic impact of the tax credit program and whether the statutory and programmatic goals are being met, with obstacles to such goals identified;
- a cost-benefit analysis of the revenue foregone by allowing a tax credit, as compared to the economic impact of such credit;
- the cost to the state to administer the tax credit program, and a comparison between such cost and the net revenue generated to the state by each such program;
- the average and aggregate administrative and compliance cost, to taxpayers, to comply with the requirements of the tax credit program; and
- a recommendation as to whether the tax credit program should be continued, modified or repealed, the basis for such recommendation, and the expected impact of such recommendation on the state's economy.

A number of other states have conducted such a review and their experiences can help guide our state's work.

Repair Rhode Island's Regulatory Reputation

In 2010 the General Assembly established the Office of Regulatory Reform (ORR). This Office is empowered to review and streamline state regulations that impact our businesses. The Office also has the authority to intervene in regulatory or permitting matters before state agencies and municipal boards, commissions, agencies and subdivisions for the purpose of assuring efficient and consistent implementation of rules and regulations.

In addition to its daily responsibilities in developing a clear, predictable and reliable regulatory system, the ORR plays a vital role in two ongoing regulatory reform efforts. The first reflects ongoing efforts of the General Assembly and the Economic Development Corporation to make it easier to do business in RI. The second results from the 2012 General Assembly passed-legislation mandating that state agencies review and, if necessary, amend or rescind any regulations with an adverse impact on small businesses. By statute, this review was to be completed within four years, with 25% of all regulations reviewed each year. However, shortly after the bill's passage, the Governor directed all state agencies to complete the review within a year and a half. Under this directive, the first 25% is to be completed by the end of 2012. Each successive 25% is to be completed within 120 day intervals.

Statewide Permitting

In 1977 the state of Rhode Island adopted a statewide building code covering all 39 cities and towns. Although the code is consistent across the state, however, local building permitting *processes* still vary widely from town-to-town. The cost and time necessary to comply with these varied building permit requirements can be a major administrative burden on small businesses.

In 2012, the General Assembly considered legislation to develop a statewide web-accessible software system to be used by the state and municipalities to provide a uniform building plan review, permit management, and inspection system. Such a system would take the administrative burden off of struggling cities and towns while making it easier for businesses to go through the permitting process.

As a means to simplify and speed up the local and state permitting processes, particularly in the construction industry, which has witnessed disproportionate job losses since the start of the recession, sufficient resources will be necessary to implement and maintain a comprehensive, user-friendly, web-based permitting system.

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Convene a Legislative Commission to Study Single State Code Uniformity

For example, the definition for “basement” means something different in the Building Code compared to the Fire Code. Further, regulations and requirements within each code sometimes come in conflict with each other. While the fire code requires a sprinkler head in the elevator shaft for firefighter safety, for example, the elevator code disallows a sprinkler head in the elevator shaft due to possible equipment malfunction in the event of a fire. Other states have explored code uniformity and can offer lessons to help guide Rhode Island’s work in this endeavor.

Work with the Newly-Formed Office of Digital Excellence to Ensure that all State Websites with Front-line Contact with Businesses are User-friendly and Appealing

Rhode Island’s official state website, RI.gov, was recently ranked fourth for the second consecutive year in the national ‘Best of the Web’ competition by the Center for Digital Government. The Center commended the state for embracing a ‘mobile first, desktop second’ approach and noted that such a design results in a faster, better experience for users.

The Office for Digital Excellence could focus on replicating this success throughout other websites, particularly those that serve as a first point of contact between the state and prospective businesses. A recent review of economic development websites of leading states (Virginia, Texas, Utah) finds sites that are interactive, responsive, and visually-appealing, provide single-point access to multiple state agencies, and present an image of confidence and self-assurance. Websites such as these are recognized by the International Economic Development Council’s annual Excellence in Economic Development Awards.

Quality of Life

Consider Recommendations of the Senate Youth Violence Task Force to Extend Economic Opportunity to At-risk Youth and Prevent Youth Crime

Safe communities remain a top public policy priority, regardless of their impact on the state’s business appeal and Rhode Island must maintain its high ranking for public safety. As an area of specific concern, the state must stem the recent increase in youth violence, particularly within our urban communities. To that end, the state could consider implementing the recommendations of the Senate’s 2012 Youth Violence Task Force, to extend economic opportunity to at-risk youth, and combat youth violence. These recommendations resulted from numerous meetings over a four-month period with community service providers, representatives of law enforcement, national experts, and members of the public.

Youth career preparation programs are operated in community action programs (CAPs) throughout the state. The Governor’s Workforce Board includes a Youth Development Committee whose primary focus is preparing youth for career success and connecting them with the labor market. Many of the career and training resources for youth are offered through the state’s Youth-Works411 system. In addition, the Governor’s Workforce Board leverages state Job Development Funds and federal Workforce Investment Act funds to provide summer work opportunities to youth throughout the state. The General Assembly could request a unified review of the various youth career preparation programs in place throughout the state, as well as specific and measurable recommendations on how they can be expanded to serve at-risk youth.

Appendix:

Implementation of an evidence-based risk assessment tool is presently underway in Providence through investments provided by the Annie E. Casey Foundation. In 2009, Rhode Island was selected to participate in the Foundation's Juvenile Detention Alternatives Initiative (JDAI). This effort is being coordinated by Rhode Island Kids Count, and involves active participation from the Department of Children, Youth and Families, the Family Court, the Attorney General's Office, the Public Defender's Office, the Providence Police Department, the Child Advocate's Office, and many community provider agencies. As part of this effort, the state has developed a Risk Assessment Instrument (RAI) to screen for individual risk when detaining youth using reliable, standardized techniques. Absent such an objective approach, high-risk offenders might be released and low-risk offenders might be detained. With an effective RAI in place, the state can intervene early-on and prevent at-risk youth from continuing down the wrong path.

The JDAI Steering Committee will soon release a series of recommendations for further expansion of their efforts. While demanding evidence of current success, measurable definitions of future success, and defined accountability, the General Assembly should review these recommendations as an effective tool in combating youth violence and decreasing unnecessary and costly detainment whenever possible.

Create Opportunities to Highlight Success and Progress

Businesses thrive in our state, yet instances or cases of failure often receive the most attention. Some municipalities have made business-friendliness a reality, yet most are painted as inefficient and unresponsive.

The RI Foundation's October 2012 *Making it Happen* report includes Rhode Islanders' own internal perception of the state as a barrier to advancement. Asking everyone to become a salesperson for the state, as the report recommends, could include taking full advantage of opportunities to celebrate successes and progress. "Moving the needle" in a positive direction on any of the indicators listed in this report could be recognized and promoted as the measures are updated on a regular basis.

The Chafee Center at Bryant University is in the process of developing a report entitled "Rhode Island Ranks High," which will demonstrate the leadership positions Rhode Island holds across many categories, including business climate, economic incentives and policies, technology and energy environment, health and safety, higher education, location, and lifestyle and entertainment.

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