

Highlights of the FY2018 Budget

OVERVIEW

The 2018 budget for the fiscal year beginning July 1, 2017 was signed into law by the Governor on August 3, after the Senate and House came to agreement on the budget and a bill to monitor the impact of the phase out of the Motor Vehicle Tax. From July 1 through August 3, the state operated under the terms and resources of the 2017 budget which was \$304 million less than the proposed 2018 budget.

The 2018 budget totals \$9.2 billion, including \$3.8 billion in general revenue, \$3.1 billion in federal funds and \$2.1 billion in “other” funds (including the Unemployment Insurance Fund, the Temporary Disability Insurance (TDI) Fund and tuition and fees from CCRI, URI and RIC). See *Figure 1*.

Policymakers made modest investments in programs that help working families, including early learning, child care assistance, health care and raised the minimum wage over the next two years. The free bus pass program for seniors and people with disabilities was restored and the budget establishes the RI Promise Scholarship Program which provides two years of free tuition and fees for students at CCRI who enroll after graduating high school or attaining a high school equivalency diploma before age 19.

Significant tax changes include phasing out the motor vehicle tax with full elimination scheduled for 2024 (the state reimburses localities for the lost revenue), expanding the sales tax base by improving collection of sales and use tax from on-line and catalogue sales and increasing taxes on cigarettes and other tobacco products. Policymakers continued to provide funds for a variety of tax-related economic development initiatives (although one new initiative proposed by the Governor was rejected) and postponed the sun-setting of the historic tax credit for two years.

REVENUE HIGHLIGHTS

Revenue Initiatives

The enacted budget includes a number of revenue initiatives included in the Governor’s proposed budget as well as additional changes to account for lower-than anticipated revenue collections assumed by the May 2017 revenue estimating conference.

The budget assumes “unspecified statewide savings” of \$25 million to be distributed among state agencies for personnel, contract services or operating costs. The Department of Corrections, Higher Education and Eleanor Slater Hospital are excluded.

Some revenue is derived from one-time sources including:

- Transfer of \$29 million in reserves from seven quasi-public agencies and the RI Renewable Energy Fund
- An estimated \$12.5 million resulting from a 75 day ‘tax amnesty’ program that waives penalties and reduces interest due for tax payers who pay delinquent accounts
- Adjustment of the phase-in schedule for transferring vehicle license and registration fees from general revenue to the State Highway Maintenance Account, resulting in \$13 million more in general revenue in FY2017 and \$9.4 million more in FY2018

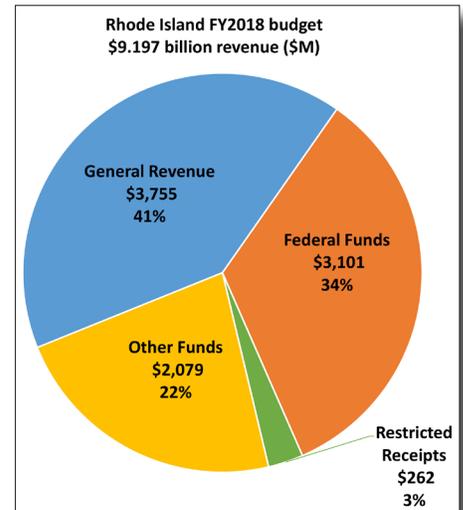


Figure 1

New sources of on-going revenue include:

- New sales and use tax revenue of \$37.3 million including \$34.7 million from remote and on-line sales and \$2.6 million from catalogue sales¹
- Increase in the cigarette excise tax by \$0.50 a pack (from \$3.75/pack to \$4.25 pack), projected to increase revenues by \$8.7 million

Phase out of the motor vehicle tax

The enacted budget sets in motion the phase out of the motor vehicle tax (MVT) with full elimination in FY2024. For FY2018, the taxable portion of each car’s retail value is reduced from 100 percent to 95 percent, the minimum portion of the car’s value exempt from taxation is increased from \$500 to \$1,000, and the rate is capped at \$60 per \$1,000 [taxable] value (consistent with Providence’s current \$60 rate; the highest rate currently charged across Rhode Island). In 2018, the age for vehicles dropped from the rolls (regardless of value) is reduced from the current 25 years to 15 years. According to Office of Revenue analysis calculations, the combined impact of changing the age limit to 15 years and increasing the exemption to \$1,000 will result in 153,000 vehicles being dropped from the rolls.

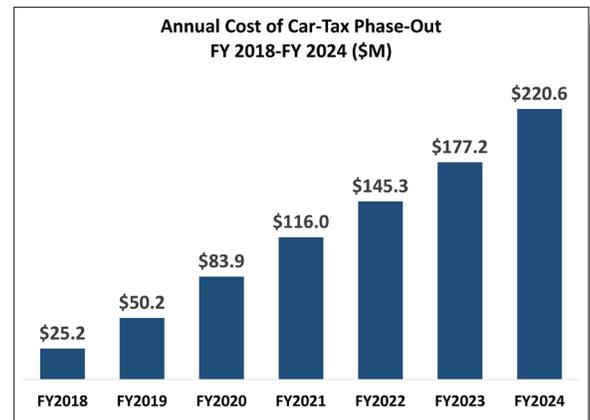


Figure 2

The budget allocates \$26 million to reimburse municipalities for reduced revenue in FY2018, in addition to the current \$10 million in state aid for the motor vehicle tax. The cost to the state increases each year until 2024 when full phase out is achieved, at a cost of \$220.6 million. See Figure 2.

As part of the agreement to end the budget stalemate, the Senate enacted a bill (which is expected to be enacted by the House when the General Assembly reconvenes in September) that requires the Director of the Department of Revenue to file annual reports with the House and Senate and provide recommendations about the ongoing phase-out of the state’s Motor Vehicle Tax, beginning January 2021 (by which time approximately half the value of the MVT will have been phased out).

Economic Development Tax Incentives

The budget includes funding for a number of economic development tax incentives, including: \$12.5 million for the Rebuild RI Tax Credit Program, \$1.8 million for the First Wave Closing Fund, \$1 million for Innovation Vouchers (half of which is reserved for small businesses), and \$500,000 to support the Air Service Development fund. The budget does not include the Governor’s request for \$5.3 million in new economic development tax credits encouraging Rhode Island firms to invest in and expand their manufacturing businesses and workforce, and rejected \$18.2 million in additional funding requests for the Executive Office of Commerce, including funds for a new Deputy Secretary of Commerce position.

While tax credits and incentives continue to be a major part of the economic development portfolio, the Office of Revenue Analysis has not completed the evaluation of the majority of existing tax credits as required by the 2013 Economic Development Tax Incentive Evaluation Act. Over twenty tax incentive programs were supposed to have been assessed by June 30, 2017 so that policy makers and the public would know whether these programs were producing the promised jobs and economic stimulus.

INVESTMENT HIGHLIGHTS

Child Care and Early Learning

The budget makes permanent the exit income limit for the Child Care Assistance Program (CCAP) which allows parents who are eligible for child care subsidies (income below 180% FPL) to continue to receive assistance until income reaches 225% FPL. As income rises, the parent’s co-payment also goes up. The budget increases support for the state Head Start

¹ Increased revenue from these sources is not the result of new taxes, but rather, new mechanisms to collect these taxes.

Program by \$390,000 (a total of \$1.2 million), and allocates an additional \$1.1 million (for a total investment of \$6.2 million) for state pre-Kindergarten to accelerate the expansion of slots for 4 year olds in Rhode Island's highest poverty communities.

However, the budget fails to allocate \$1 million in new funds sought to increase CCAP provider rates based on quality. In addition, general revenue investments in the CCAP program were reduced with \$2.8 million in state funds replaced with funds from the federal TANF block grant. The budget also saves money by delaying implementation of improvements to the CCAP program required under the federal Child Care Development Block Grant, including 3 month continued eligibility after a parent loses a job and a twelve-month certification period. The Department of Human Services is seeking a federal waiver of these changes for the current year.

Education and Workforce Training

The budget makes permanent the \$2.5 million additional funding for English language learners in the school funding formula. The budget implements the "RI Promise Scholarship" proposal, providing two years of free tuition and fees for Rhode Island high school graduates and students who attain a High School Equivalency Diploma before turning 19 to attend CCRI. The budget does not provide similar funding for students attending URI or RIC, as the Governor had proposed. The budget includes tuition increases of 7% (out-of-state) and 4% (in-state) for students at URI; 6.9% (out-of-state) and 5% (in-state) for students at RIC and 7% for students at CCRI.

Health Care – Workforce

The budget includes \$2.5 million of general revenue (\$5 million total) to provide for pay increases to home care workers (effective October 2017), and invests \$3 million general revenue (\$6.1 million total) to increase wages for direct service professionals and job coaches who work with people with intellectual and developmental disabilities.

Health Care

The enacted budget provides \$9.6 million for HealthSource Rhode Island, using \$2.6 million from general revenue and \$6.8 million from a 3.5% health insurance premium assessment.

Under the provisions of the Affordable Care Act, FY2018 is the first year for which state funds are required for the Medicaid "expansion" population. For FY2018, the budget allocates \$27.9 million in general revenue to provide coverage for around 70,000 low-income single adults. The balance of the \$504 million cost is paid with federal funds.

The assessment charged to insurers for certain services provided to children with special health care needs is increased from \$7,500 to \$12,500 per child, increasing the Children's Health Account and saving \$3.6 million in general revenue.

The General Assembly rejected many of the Governor's proposed Medicaid cuts and restores general revenue of \$19.9 million for hospitals and nursing facilities, and \$4.6 million for the integrated care initiative, among other changes.

Supports for Rhode Island workers

In place of the Governor's proposal to increase the minimum wage from \$9.60 to \$10.50 in October 2017, the enacted budget provides for an increase to \$10.10/hour on January 1, 2018, and to \$10.50 on January 1, 2019. Massachusetts's minimum wage is currently \$10.10 and Connecticut's is \$11. Rhode Island has a less generous state earned income tax credit (EITC) than our neighboring states, but there was no adjustment to the EITC proposed by the Governor or the General Assembly this year.

The budget fails to fund four new positions (FTEs) at the Department of Labor and Training's Workforce Regulation and Safety Division, which the Governor had requested to improve the Division's ability to reduce wage theft and enforce other worker protections.