

## Highlights of the Governor's Proposed FY2020 Budget

### OVERVIEW

The Governor's proposed FY2020 budget ("the budget") totals \$9.9 billion, an increase of \$358 million (M) over the enacted FY2019 budget. This includes \$4.1 billion in general revenue (\$167M more than 2019), \$3.3 billion in federal funds (\$110M more than 2019) with the balance from restricted receipts (\$30M) and other sources such as lottery revenue (\$2.3 billion). We have highlighted proposals in several areas that are important to the fiscal health of the state and its residents.

### HEALTH CARE

#### Medicaid

There are no major changes to the Medicaid program which provides comprehensive health coverage and long term services and supports for over 300,000 Rhode Islanders.

Cuts to the Medicaid budget include:

- \$5.3M (\$15.1M total funds) by freezing rates paid to hospitals,
- \$3.5M (\$7.5M in total funds) from limiting the rate increase for nursing facilities,
- \$3.6M (\$9.4M in total funds) from eliminating the upper payment limit reimbursements to community hospitals,
- \$1M (\$5.4M in total funds) from managed care organizations, and
- \$1.9M (\$5.3M in total funds) from shifting certain payments to Federally Qualified Health Centers from OHHS to the managed care organizations.

The budget also anticipates a savings of \$4.2M in general revenue from improving care coordination for Medicaid/Medicare enrollees who are not enrolled in a managed care plan and need long term services to remain in their homes.

#### Eligibility for the Co-pay Program for Seniors

The budget proposes to increase the eligibility limit from 200% FPL (\$24,980) to 250% (\$31,225) for the co-pay program for seniors who are ineligible for Medicaid. The co-pay program offers individuals age 65 and older who need help with activities of daily living the opportunity to purchase services that allow them to live safely at home. Services include: health care and personal care; adult day services; personal emergency alert/response systems; technology and medical equipment and home modifications. Participants pay a co-payment for the services they receive. The budget includes \$1.2M (general revenue and state funds) for eligibility expansion.

#### Transportation for Seniors

The budget includes an additional \$1.8M in general revenue funds to support transportation for individuals age 60+ who are not eligible for Medicaid. Transportation is provided to medical appointments, adult day and meal sites, for dialysis and cancer treatment, at a cost to the rider of \$2 per trip.

#### Free Bus pass for Seniors and People with Disabilities

The budget appropriates \$5M from the Highway Maintenance Account to RIPTA to maintain the free bus pass program.

### **Wages for Workers Supporting Adults with Intellectual and Developmental Disabilities**

The budget includes \$3M (general revenue) additional funding for a wage increase for workers supporting individuals with Intellectual and Developmental Disabilities. General revenue funds will be matched with federal Medicaid dollars.

### **Independent Provider Model**

The budget includes a total of \$800,000 (\$200,000 general revenue) to support the implementation of the Independent Provider model enacted by the General Assembly last year. The IP model allows seniors and people with disabilities who need home care services to hire a provider from a registry of trained workers. The IP model adds an alternative to hiring a home care worker through an agency.

### **Individual Mandate and the Reinsurance Program**

The budget proposes to implement an individual mandate, requiring people who do not have adequate health insurance coverage to pay a penalty when they file their taxes. The penalty formula is the same as the recently ended federal penalty under the Affordable Care Act. For individuals with income above the tax filing threshold (\$12,000 for an individual and \$25,300 for a family), the penalty would be \$695 per adult and \$347.50 per child (up to \$2,085 for a family), or 2.5% of income, whichever is higher. The mandate would go into effect in January 2020.

Funds collected from the penalty would be used to pay for a reinsurance program intended to moderate the cost of health insurance premiums in the individual insurance market, particularly for purchasers who are not eligible for federal tax credits (income above 400% FPL) under the Affordable Care Act. A reinsurance program creates a fund to protect insurers from high cost enrollees by reducing both the claims the insurer may need to pay and claim volatility. This in turn allows insurers to reduce their rates.

### **HealthSource RI (HSRI)**

The budget includes \$10.2M in funds for the state's health insurance exchange through which 30,000 Rhode Islanders purchase health insurance and access tax credits to help pay the monthly premium. HSRI is also the eligibility portal for children, families, and adults who are applying for Medicaid coverage. Funding includes \$2.8M from general revenues and the balance in restricted receipts from a 3.5 percent health insurance premium assessment.

## **EARLY LEARNING AND K-12**

### **Pre-K Program**

The budget includes \$3.2M for 4-year-old Pre-K programs to expand access and \$400,000 to hire 4 FTEs at RIDE to oversee the universal Pre-K initiative.

### **Child Care Assistance Program (CCAP)**

Building on the implementation of tiered reimbursement rates for infant and toddler providers enacted in the FY19 budget, the FY20 budget includes \$700,000 for tiered reimbursement for providers of pre-schoolers. The family child care providers are also added to the tiered rate structure for a cost of \$150,000. The budget increases the CCAP resource limit (amount a family can have in liquid assets and still qualify) from \$10,000 to \$1M, as required by the federal Child Care Development Block Grant.

### **K-12**

The budget includes \$19.7M to fund the 9th year of the school funding formula and \$10M additional funds for charter schools. It also adds \$2.3M in funds for English Language learners, bringing the total investment to \$5M.

## EDUCATION AND WORKFORCE FOR ADULTS

### Higher Education

The RI Promise Program would receive an additional \$13M in new funds to expand the program. The program would be available to RI College students in their junior and senior years. It would also be available to adults age 25+ to attend CCRI. Currently, the program is only available to students who enroll in CCRI in the semester after they graduate high school or after attaining their GED (if they were 19 years old when granted the degree).

The budget includes \$225,000 to support the SNAP Education and Training program at CCRI. Students enrolled in certain training programs will be eligible to have transportation, books, supplies and other non-tuition costs covered through the program. Federal funds will match the state investment. A pilot state work study program (\$10,000) is also proposed in the budget to enable around 40 students to maintain their SNAP benefits while attending CCRI.

The budget proposes to expand eligibility for the Child Care Assistance Program to parents either attending a full-time post-secondary school or training program or working and attending school part-time. Under current rules, CCAP is available only for parents who are working or participating in a short-term training program at least 20 hours/week. The budget appropriates \$200,000 for this change.

### Adult Education

Funding for the adult education system, administered by the RI Department of Education, remains the same as for the current year.

### Real Jobs Rhode Island

The budget proposes to increase funds for the Real Jobs RI program by \$1.2M from the Job Development Fund (JDF) by applying the JDF assessment to large non-profit employers.

## SUPPORT FOR WORKERS AND FAMILIES

### Minimum Wage

The budget proposes to increase the minimum wage from \$10.50 to \$11.10/hr. effective January 2020. The minimum wage in Massachusetts is \$12.00/hr. and will increase by 75 cents each year until it reaches \$15.00 in 2023. Connecticut's minimum wage is \$10.10/hr.

### RI Works Program

The budget proposes to simplify the time limit for participants in the RI Works program by repealing the 24-month periodic time limit and maintaining the 48-month lifetime limit. The RI Works Program, the state's welfare program for low-income families, provides a monthly benefit to families with young children (\$554/month for a family of 3) and is the primary workforce readiness program for parents in these families.

Many of the parents have barriers to employment, including limited literacy and/or English proficiency, behavioral health challenges, and homelessness—and the 24-month time limit is insufficient to prepare parents for the workforce. Eliminating the 24-month time limit (one of the strictest in the country) would improve outcomes for families and simplify the program for workers, reducing administrative costs.

### Family Home Visiting

The budget includes \$650,000 in general revenue (to be matched by federal Medicaid funds) for the evidenced-based family home visiting programs administered by the RI Department of Health (DOH).

## **School Breakfast**

The budget includes \$55,000 from general revenue to expand the number of schools offering free breakfast after the school day has started and to expand the number of schools participating in the Community Eligibility Provision of the national school nutrition programs. This provision requires eligible schools to offer free lunch and/or breakfast to all enrolled students and receive a formula-based reimbursement, rather than be reimbursed on a per meal basis for eligible students.

## **AFFORDABLE HOUSING**

There are no new general revenue funds in the budget for affordable rental housing. Approximately \$10M for development and preservation of affordable housing will be available in 2020 through RI Housing from the General Obligation Bond approved by voters in 2016. This is the same amount made available last year. In the last round of applications, RI Housing received requests for over three times the available amount. The budget also transfers funds from Rhode Island Housing to the general fund - \$2.5M to close the FY2019 budget deficit and \$1.5M to balance the FY2020 budget request.

## **REVENUE CHANGES**

The FY2020 Budget does not include any changes to the rates for broad-based taxes, including the income tax, sales tax and corporate tax. The budget proposes around \$252M in new revenue from a variety of sources, including new assessments, expanding services and products subject to the sales tax, collecting sales tax from on-line sellers, expanding revenue from gaming, and legalizing marijuana.

## **Medicaid Assessment**

The largest new revenue source would be realized from implementing an assessment on for-profit employers with 300+ employees for each employee enrolled in Medicaid. The assessment would be 10% of the employee's wages, capped at \$1,500 per employee/year. The assessment would not apply to employees with disabilities, employees enrolled in RIteShare, or if the employee's children are only enrolled in Medicaid. Employees with income less than 138% FPL (\$17,236 for an individual) are eligible for Medicaid. Medicaid eligibility for a family of 3 is \$29,300 for a parent and \$55,275 for the children. The assessment is expected to raise \$15.6M.

## **Marijuana**

Legalizing marijuana for adult use and expanding the current medical marijuana program is expected to generate \$4.9M and \$1.6M respectively. A new Office of Cannabis Regulation at the Department of Business Regulation would be established to protect public health, maintain public safety and prevent youth access. The office would be staffed by 17 FTEs with \$5.6M from restricted receipts. Funding is also provided to the Rhode Island Executive Office of Health and Human Services, Department of Health, Public Safety, and the Department of Revenue to support the work of the new Office.

## **Sales Tax**

The budget anticipates collection of an additional \$11.5M from requiring remote sellers to collect and remit to the state the sales and use tax due for on-line purchases. The state was receiving taxes from companies that voluntarily collected the payment (e.g., Amazon) and a Supreme Court decision in 2018 permitted states to require collection of the tax.

The budget also expands the sales tax to new services and products:

- \$6.2M expected from taxing commercial building services including janitorial, extermination, landscaping, and other services;
- \$1.4M from taxing interior design and lobbying services;

- \$2.6M from taxing online streaming or subscription services including videos, music, books, and ringtones;
- \$800,000 from a new 10% excise tax on firearms and ammunition;
- \$600,000 from taxing commercial hunting and trapping retreats, shooting ranges and memberships to shooting clubs;
- \$3.1M from increasing the cigarette tax by 25 cents, to \$4.50/pack;
- \$1M from increasing the tax on cigars and e-cigarettes; and
- \$4.4M from increasing the hotel tax from 5% to 6%.

## **Gaming**

Gaming revenues would increase by close to \$4M: \$3M from expanding sports betting to include play using a computer or mobile device and \$900,000 from permitting traditional lottery games to be played via a mobile app.

## **Fees, Efficiencies and Transfers**

An increase in fees charged by the Department of Environmental Management is expected to generate \$1.5M, including beach fees (\$700,000), campground fees (\$700,000), and recreational fees (\$100,000).

The budget anticipates \$750,000 in revenue from improving tax collection by the Department of Revenue, and \$10M in additional savings to be identified by a new “efficiency commission” at the Department of Administration.

The proposed FY2020 budget relies on one-time transfer of funds from quasi-public agencies, including \$1.5M from RI Housing, \$1.5M from the RI Student Loan Authority, and \$4M from the RI Infrastructure Bank. It repeals the requirement, enacted in 2017, that if the budget includes one-time transfers it must also include alternatives for those transfers.

## **Changes to Revenue Sharing with Cities and Towns**

The budget proposes two changes to revenue sharing with the cities and towns: a change to the PILOT (Payment in Lieu of Taxes) program, through which the state pays localities for property taxes not collected from hospitals and colleges and a revision to the phase out of the car tax.

PILOT funds would be reduced by \$5.3M and localities would be authorized to tax “non-mission essential” property owned by the hospitals and colleges, such as a café run by an outside vendor. Providence receives 73% of the PILOT funds and Cranston 12%.

The change to the phase out of the car tax would yield \$16.3M for the state in 2020. Instead of paying the expected \$84.3M due under the 5-year phase out formula adopted by the General Assembly in 2017, the formula changes would result in a payment of \$68M to cities and towns. The formula change would decrease the valuation of the car, reduce the exempt value, and increase the tax rate. The full phase out of the tax in 2024 will cost the state \$234M.