

Highlights of the 2019 General Assembly Session: 2020 Enacted Budget and Legislation

OVERVIEW

The 2020 budget (“the budget”) for the fiscal year beginning July 1, 2019 totals \$9.971 billion:

Expenditures by Revenue Type	FY2020 Budgeted Amounts	FY2020 Budgeted Percentages
General Revenues	\$4,077,594,991	40.9%
Federal Funds	\$3,325,364,065	33.4%
Other Funds	\$2,256,279,162	22.6%
Restricted Receipts	\$311,382,120	3.1%
Total	\$9,970,620,338	100.0%

General Revenues include personal income taxes, corporate income taxes, sales taxes, and use fees. Federal Funds include, among other things, matching funds for Medicaid expenses. Other Funds include lottery proceeds, and Restricted Receipts direct collected fees to specific projects or departments.

The enacted budget is \$40.6 million higher than the \$9.93 billion budget proposed by the Governor in January. Lawmakers had an additional \$2.2 million to work with as a result of slightly greater revenue projections identified by the May Revenue Estimating Conference.

The budget amends state law to tighten General Assembly oversight of agency expenditures, including requiring agencies to file monthly spending reports if quarterly reports show expenditures in excess of appropriated amounts. The amendment also prohibits payments for additional staff, contracts, or purchases for any department anticipated to overspend its annual appropriation “unless necessitated by immediate health and safety reasons.” This new requirement will need to be monitored to determine the actual impact when there are unforeseen increases in the number of children, families, people with disabilities, and others who rely on services from various state agencies.

Enacted legislation and the annual budget together reveal our state government’s priorities and values. The following sections describe some of these budgetary and legislative priorities in matters of Healthcare, Early Learning and K-12, Education and Workforce for Adults, Support for Workers and Families, Affordable Housing, Revenue Changes, and Economic Development.

HEALTH CARE

Medicaid

No cuts to eligibility or benefits: There are no eligibility or benefit changes for Medicaid which provides comprehensive health coverage and long-term services and supports for over 300,000 Rhode Islanders. This includes around 162,000 children and parents, 9,000 children with special health care needs, 3,000 children in foster care, 74,000 adults, and 54,000 seniors and people with disabilities.

Increase Rlte Share Enrollment: The Executive Office of Health and Human Services (EOHHS) will conduct an outreach initiative to enroll into Rlte Share 2,000 Medicaid recipients who have access to affordable, comprehensive coverage from their employer. Under Rlte Share, the employee enrolls in the employer coverage and the state pays his/her monthly premium. The person has a Medicaid card to pay for services that commercial insurance does not cover, including medical transportation, interpreter services, and dental care. However, the recipient is responsible for co-payments. The state saves money (expected savings are \$1.1M general revenue) by paying the premium for employer coverage instead of paying to enroll the individual in a managed care plan and employers are contributing to coverage of their workers.

Provider Payments: Some of the cuts to Medicaid providers proposed by the Governor were adopted in the final budget including: limiting the rate increase for hospice (\$2.6M general revenue/\$5.5M all funds); reducing payments to managed care organizations (\$1.9M general revenue/\$5.3M all funds); and limiting the nursing home cost of living adjustment rate to 1 percent (\$3.5M general revenue/\$7.5M all funds). Cuts to hospitals were rejected and the budget added \$14.3M general revenue (\$40.4M all funds) for a rate increase, and \$1.2M general revenue (\$2.6M all funds) for Disproportionate Share Hospital payments (uncompensated care).

Improve access to home-based long term care services: The budget adopts the Governor's proposed savings of \$2.0M general revenue (\$4.2M all funds) from improving care coordination for Medicaid/Medicare enrollees who are not enrolled in managed care plans and need long term services to remain in their homes.

Annual Medicaid Reporting: The budget requires EOHHS, in its annual Medicaid report, to break out administrative costs and to disaggregate expenditures for mandatory and optional coverage populations and for mandatory and optional services. Misunderstanding of these terms can threaten coverage for populations or services. Mandatory and optional refer not to whether a service is necessary or important but rather to its status under Center for Medicare and Medicaid Services (CMS) laws: mandatory populations and services must be covered by states, whereas states retain the discretion to offer optional services as well as the discretion to provide coverage to optional populations. So-called optional services include prescription and dental coverage, and optional populations include the medically needy (generally older or disabled individuals with income above 100% FPL) and children with disabilities covered under Katie Beckett. The annual Medicaid report is published in June documenting expenditures and services from the prior state fiscal year.

Office of Healthy Aging

The Department of Elderly Affairs is renamed the Office of Healthy Aging. The office will continue to reside in the Department of Human Services (DHS), but for administrative purposes only. The Director of the Office is appointed by and reports directly to the Governor, with the advice and consent of the Senate.

Eligibility for the Co-Pay Program for Seniors

The budget does not include the Governor's budget proposal 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. This co-pay program offers individuals ages 65 and older who need help with activities of daily living the opportunity to purchase services that allow them to live safely at home. Such 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. This measure would have required \$582,000 general revenue and been matched by \$731,000 in federal Medicaid funds.

Transportation for Seniors

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

Respite Care

The budget adopts the Governor's proposal to increase general revenue funding for the respite care program by \$185,000, bringing the total state investment to \$325,000. There is a wait-list of 114 caregivers.

Wages for Workers Supporting Adults with Intellectual and Developmental Disabilities

The budget includes \$4.5M in additional general revenue for wage increases for workers providing direct care support to individuals with Intellectual and Developmental Disabilities; this allocation is 50% more than the request for \$3.0M in the Governor's budget. General revenue funds will bring in \$5.0M in federal Medicaid dollars. Average wages are expected to increase from \$12.27/hour to \$13.09/hour.

Independent Provider Model

The budget includes a total of \$800,000 (\$200,000 general revenue) to support the implementation of the Independent Provider (IP) 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

As part of securing "health market stability," the budget establishes an individual mandate, requiring people who do not have adequate health insurance coverage to pay a "shared responsibility payment 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 will be \$695 per adult and \$347.50 per child (up to \$2,085 for a family), or 2.5 percent of income, whichever is higher. The mandate will go into effect in January 2020.

The General Assembly failed to pass legislation to enshrine the consumer protections in the Affordable Care Act (including no pre-existing condition exclusion, coverage of certain healthcare services, no co-pays for preventive care) in state law, although the bill passed the Senate. Advocates urged passage of consumer protections as a necessary corollary to enacting the mandate and penalty. If people are going to be penalized for not having insurance, the insurance needs to be comprehensive and affordable.

Funds collected from the penalty will 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 claim volatility and the claims the insurer may need to pay. This in turn allows insurers to reduce their rates.

HealthSource RI (HSRI)

The budget includes \$10.2M in funds for HSRI, 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 \$750,000 in restricted receipts from a 3.5 percent health insurance premium assessment, which is newly delinked from the federal assessment amount.

EARLY LEARNING & K-12

Pre-K Program

With total funding of \$14.9M for Pre-K programs, the budget maintains the current Pre-K slots (previously supported by federal funds) and includes \$2.9M to increase the number of slots. It is anticipated that the additional funds will allow for the following: increased capacity, from 18 to 20 students, in the current state-run classrooms; the opening of 10 new classrooms; and extension of the school day for 100 Head Start students. Funding will increase the number of Pre-K seats by 270, from the current 1,080 to 1,350. The budget did not

adopt the Governor's proposal for greater expansion of universal Pre-K.

Child Care Assistance Program (CCAP)

The FY2019 budget introduced and implemented tiered reimbursement rates for infant and toddler providers, but the FY2020 budget does not include the requested \$738,000 to increase rates for preschool children. The budget does, however, allocate \$150,000 to add family child care providers to the tiered rate structure, which bases payment differentials on quality.

The budget limits the CCAP "child support cooperation requirement" to just the child receiving CCAP assistance, instead of to all children in the family. A parent is required to assist in establishing a child support order against a non-custodial parent of a child receiving CCAP and can claim 'good cause' not to cooperate in the case of domestic violence. The budget increases the CCAP resource limit (amount a family can have in liquid assets and still qualify) from \$10,000 to \$1.0M, as required by the federal Child Care Development Block Grant and already implemented by the Rhode Island Department of Human Services (DHS).

The budget rejects a proposed \$200,000 to expand CCAP to parents enrolled full-time in degree programs or eligible certificate programs. Currently parents attending a short-term training program or working 20 hours per week can qualify for CCAP.

K-12

The budget includes \$31.2M to fund fully the 9th year of the school funding formula, encompassing funding for both regular public schools and charter schools.

The budget also adds \$2.3M in funds for English Language learners, bringing the total investment to \$5.0M. The budget provides \$250,000 for literacy/dyslexia training and support and \$50,000 (in addition to the original \$345,000) for Child Opportunity Zones (COZ), which provide families with assistance accessing education, health, and social services to help children succeed. The budget does not include the \$590,000 recommended by the Governor for mental health services in schools. Three school districts (Pawtucket, Providence, and Woonsocket) are receiving federal grants totaling \$2.4M for such services.

EDUCATION & WORKFORCE FOR ADULTS

Higher Education

The General Assembly turned down the Governor's proposal to dedicate \$13.0M to expand the RI Promise Program to Rhode Island College students in their junior and senior years and to adults ages 25+ to attend the Community College of Rhode Island (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). Legislators also cut \$900,000 from the program due to experience from its first two years in operation.

The General Assembly likewise rejected the Governor's budget proposal to allocate \$225,000 to support the SNAP Education and Training program at CCRI. Students enrolled in certain training programs would have been eligible to have transportation, books, supplies, and other non-tuition costs covered through the program. Federal SNAP funds would have matched the state investment. A pilot state work-study program costing \$10,000 and enabling close to 40 students to maintain their SNAP benefits while attending CCRI was also proposed and rejected.

Adult Education

Funding for the adult education system, administered by the Rhode Island Department of Education (RIDE), remains essentially the same as the current year, at approximately \$9.3M. A Senate-passed bill to move authority over adult education from RIDE to the Governor's Workforce Board (GWB) was not enacted by the

General Assembly.

The Office of the Postsecondary Commissioner (OPC) will be co-located with RIDE, saving an estimated \$1.0M in general revenue expenditures due to the sharing of administrative costs.

Real Jobs Rhode Island (Real Jobs RI)

The budget rejects a plan to extend the Job Development Fund (JDF) assessment to large, non-profit employers, such as hospitals, to provide more than \$1.0M in additional funding for the Real Jobs RI program. The JDF collects monies through a 0.21 percent assessment on the taxable wages an employer pays to workers and uses these monies to fund Real Jobs RI, adult education, and other programs supporting workforce development. The Governor's proposal would have extended this assessment to the larger non-profit enterprises, those with 1,000 or more employees.

SUPPORT FOR WORKERS & FAMILIES

Minimum Wage

The Governor's budget proposed to increase the minimum wage from \$10.50 to \$11.10/hour effective January 2020. The final budget did not include this increase and a bill passed by the Senate to increase the minimum wage to \$11.50/hour effective January 2020, was not enacted by the General Assembly. The minimum wage in Massachusetts is \$12.00/hour and will increase by 75 cents each year until it reaches \$15.00 in 2023. Connecticut's minimum wage is \$10.10/hour and will increase to \$11.00 in October 2019 and to \$15.00 by 2023.

Earned Income Tax Credit (EITC)

Despite numerous legislative proposals the General Assembly failed to enact an increase to the EITC, currently 15 percent of the federal credit. One of the proposals, to increase the credit to 20 percent, passed the Senate but not the House. The credit has national and state bipartisan support and is widely considered a successful way to lift families out of poverty. Rhode Island's credit now falls well behind those provided by its New England peers, with Connecticut at 23 percent, Massachusetts at 30 percent, and Vermont at 36 percent.

Temporary Caregiver Insurance Program (TCI)

Although the Senate approved the proposal, the General Assembly failed to enact improvements to the TCI program, which provides wage replacement and job protections for workers who need to take time off from work to bond with a new child or care for a loved one. The improvements would have increased the amount of wage replacement and expanded TCI from four to six weeks in 2021 and to eight weeks in 2022.

Fair Pay

The General Assembly also failed to enact legislation, passed by the Senate, that would have achieved the following: expanded the state's anti-discrimination laws to protect against wage differentials based on gender, race, ethnicity, religion, or sexual orientation; made it easier for workers to sue for unequal pay; and ban employers from asking prospective hires their salary history.

RI Works Program

The budget adopts the Governor's proposal to repeal the RI Works 24-month periodic time limit, while retaining the 48-month lifetime limit. This streamlines the program (Rhode Island was one of only 8 states with two time limits) and improves opportunities for parents to gain the skills they need to obtain well-paying jobs. The RI Works Program provides a monthly benefit to families with young children (\$554/month for a family of three) and is the primary workforce readiness program for parents in these families.

Family Home Visiting

The budget rejects the Governor's proposal to spend \$650,000 in general revenue for the evidence-based family home visiting programs administered by the Rhode Island Department of Health (DOH). The \$650,000

would have drawn a match from federal Medicaid funds.

School Breakfast

Although the budget maintains an annual expenditure of \$270,000 for school breakfast administrative costs, it rejects the Governor's request for an additional \$55,000 from general revenues 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. The proposals would have increased participation in school meals and attracted over \$2.0M in federal funds.

AFFORDABLE HOUSING

There are no new general revenue funds in the budget for affordable rental housing. The budget also does not include the \$500,000 proposed by the Governor to fund Pay for Success, a permanent supportive housing initiative. The funding would have secured \$1.0M in federal grants and been employed to leverage private funding as well.

The General Assembly failed to enact legislation, passed by the Senate, prohibiting landlords from discriminating against potential renters based on their source of income. This would have improved access to affordable housing for renters who use Section 8 vouchers, or receive SSI or other federal benefits.

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 Governor's budget proposed an increase in revenue from various sources totaling \$248.7M. The budget enacted by the General Assembly accepted some of the proposals and modified or rejected others, resulting in total increased revenues of \$225.4M, \$23.3M less than proposed in the Governor's budget.

Medicaid Assessment

The largest of the rejected new revenue sources—expected to raise \$15.6M—would have been realized from implementing an assessment, on for-profit employers with 300+ employees, for most employees enrolled in Medicaid. The assessment would have amounted to 10 percent of an employee's wages, capped at \$1,500 per employee per year.

Marijuana

The Governor's budget proposed legalizing marijuana for adult use and expanding the current medical marijuana program, expecting to generate \$4.9M and \$1.6M respectively. A new Office of Cannabis Regulation at the Department of Business Regulation would have been established to protect public health, maintain public safety, and prevent youth access. The General Assembly rejected the legalization of recreational marijuana for adults, but expanded medical marijuana by allowing for six new dispensaries on top of the existing three. Instead of \$6.5M in new general revenues, the final budget will raise \$3M.

Sales, Use, Excise Taxes, and Fees

The budget adopted some of the Governor's proposed sales tax expansions, including on-line purchases, which is anticipated to realize an additional \$11.5M. The state was receiving taxes from companies that voluntarily collected the payment (e.g., Amazon) and collection is now mandatory. The budget also adopted the proposal to tax digital downloads through online streaming or subscription services for videos, music, books, and ringtones with expected revenue of \$2.6M. The budget rejected the Governor's proposals to collect an additional \$11.8M in new general revenue by applying the sales tax to commercial building services including janitorial, extermination and landscaping (\$10.1M) and to interior design services, hunting and

shooting ranges, and lobbying. The General Assembly added a sales tax exemption for feminine hygiene products at a cost of \$617,211.

The budget rejected the proposed increase to the cigarette tax by 25 cents, to \$4.50/pack (\$3.1M) and an increase of the hotel tax from 5 percent to 6 percent (\$4.4M).

The budget accepts proposals in the Governor's budget to increase some fees: \$2.1M by increasing the Beverage Container Fee from 4 cents to 8 cents per case; \$502,000 from permit fees on Oversized and Overweight Vehicles; and \$1.8M through increases in licensing fees for debt collectors and mortgage loan originators.

Gaming

The budget includes new gaming revenue of \$2.8M from expanding sports betting to include play using a computer or mobile device and permitting traditional lottery games to be played via a mobile app.

Changes to Revenue Sharing with Cities and Towns

The Governor's budget proposed two changes to reduce 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 non-profit hospitals and colleges; and a revision to the phase out of the car tax.

The budget rejected both proposals, restoring \$5.3M to bring the PILOT program expenditure to \$46.1M and \$16.3M toward the six-year car tax phase out. Total cost of the phase out for FY2020 is \$94.3M.

Transfers

The Governor's proposed budget called for a one-time transfer of funds from quasi-public agencies, including \$1.5M from Rhode Island Housing, \$1.5M from the Rhode Island Student Loan Authority, and \$4.0M from the Rhode Island Infrastructure Bank. The final budget raises the total from \$7.0M to \$9.7M by accepting the Governor's proposals and also taking \$1.5M from the Commerce Corporation's First Wave Closing Fund and \$1.2M from the Quonset Development Corporation.

Personal Income Tax

House and Senate bills seeking to raise approximately \$130.0M in revenues by creating three new personal income tax brackets failed to make it out of committees. The new brackets would have affected only taxpayers with taxable income above \$320,000, and 90 percent of the additional payments would have fallen on the top 1 percent of income earners, those with average annual income of \$1.4M.

ECONOMIC DEVELOPMENT

Rebuild Rhode Island (Rebuild RI) Tax Credit

The final budget both expands and changes the Rebuild RI tax credit program. First, the budget increases the total available funding from \$150.0M to \$210.0M, though not to the \$250.0M sought by the Governor and the Commerce Corporation. Second, the part of the program providing a sales tax rebate on certain purchases will now pay the approximately \$40.0M in rebates out of the allocated funds rather than in addition to them.

Rhode Island Special Economic Development District Enabling Act

The General Assembly added to the budget a new act establishing "special economic development districts and special economic development district commissions which would have the authority to adopt a plan for the development of a special economic development district." Although framed as applying generally to possible districts of sizes of at least twenty contiguous acres, the act was directed to the I-95 district development in Providence, reclassifying it to be covered by this act. This district serves as the target location for the Fane Tower, a real estate project exempted by the FY2020 budget from the usual Rebuild RI limit; the

maximum credit for the Fane Tower will be \$25.0M.

Rhode Island Small Business Development Fund

The General Assembly also added to the budget a Small Business Development Fund, to encourage the formation of private capital investment by federally licensed investment companies in underserved small businesses. The plan is to accumulate \$65.0M in private capital into independently operated investment funds supported by up to \$42.0M in state tax credits. The funds could then invest the money in Rhode Island businesses with fewer than 250 employees or less than \$15.0M in annual net income. Although most other states featuring similar programs have not realized a strong return on investment, the Rhode Island version at least includes some important safeguards, including: specification of industries eligible for support, limitations on the amount of credits awarded to each business, no payout of credits during the first three years of the program, penalties for missed job creation and retention targets, a six-year sunset provision, and annual reporting requirements.

Motion Picture Tax Credit

The Motion Picture Tax Credit continues to receive broad support in the General Assembly despite a 2018 Rhode Island Department of Revenue analysis showing that the program has had a negative return on investment, bringing in only 27 cents for each dollar invested. The budget makes an increase in the annual limit from \$15.0M to \$20.0M and pushes off the sunset provision from July of 2024 to July of 2027.

OTHER MEASURES

Free Bus Pass for Seniors and People with Disabilities

The Governor's budget sought an appropriation of \$5.0M to RIPTA to maintain the free bus pass program for the coming fiscal year. The final budget went a step further, making the allocation an ongoing, annual one.

Driving Licenses for All

The General Assembly failed to enact legislation allowing the Department of Motor Vehicles to issue driving licenses/permits to Rhode Islanders who are unable to establish lawful presence in the United States. Acknowledged as a necessary public safety measure, as well as important for non-citizens' ability to support their families, thirteen states, including Connecticut and Vermont, as well as the District of Columbia, and Puerto Rico have enacted such laws.

Complete Count Initiative

The federal 2020 Census will prove critical for allowing Rhode Island to access appropriate federal benefits for its residents. An undercount of the population would lower the amount of resources allocated to the state. Rhode Island also faces the realistic possibility of losing one of its two seats in the United States House of Representatives and one of its four electoral votes in Presidential elections after 2020. The Governor's budget included \$274,000, with \$150,000 targeted for outreach, and the final budget adds to this \$350,000 from general revenues. With these investments, the state will be able to secure \$200,000 in federal matching funds.

State and Local Taxes (SALT)

The December 2017 Tax Cut and Jobs Act (TCJA) placed, for federal tax purposes, a \$10,000 limit on claiming State and Local Taxes (SALT) as itemized deductions. Various states, including Rhode Island, have initiated measures to enable its residents to avoid this limit. The final budget uses the "pass-through" mechanism to allow the claiming for deductions of all SALT payments while still subjecting the income itself to state taxes as previously, with no direct fiscal impact on state revenues.