

Highlights of the Governor's Proposed FY2021 Budget

OVERVIEW

The Governor's proposed FY2021 budget ("the budget") totals \$10.2 billion, an increase of \$224M over the enacted FY2020 budget. This includes \$4.2 billion in general revenue (\$170M more than 2020) and \$3.3 billion in federal funds (\$2.2M less than 2020), with the balance from restricted receipts (\$349M, \$38M more than 2020) and other sources such as lottery revenue (\$2.3 billion, \$19M more than 2020). We have highlighted proposals in several areas that are important to the fiscal health of the state and its residents.

HEALTH COVERAGE AND CARE

Medical Assistance

Co-payments: Requires Medicaid consumers age 19 and older to pay co-payments for prescriptions and hospital admission. Pregnant women, people who are disabled, seniors, and individuals living in facilities are exempt. The co-payment for hospital admission is \$3/admission. For prescriptions, the co-payment is \$1 for drugs to treat diabetes, high blood pressure, and high cholesterol. For other drugs, the co-payment is \$3.65. An individual cannot be denied services for failure to pay. The maximum amount of co-payment is 5% of countable annual income. Projected savings are \$17.8M, including \$4.8M in general revenue and the balance in federal funds.

Rite Share: Adult Medicaid recipients who have access to employer-sponsored insurance (ESI) at their jobs are required to participate in Rite Share if the Executive Office of Health and Human Services (EOHHS) determines that the ESI is comprehensive and it is less expensive for the state to pay the employee's share of the premium than enroll the employee in a Medicaid managed care plan. Workers are entitled to all Medicaid services that are not included in the ESI, such as medically-necessary transportation and interpreter services. The budget estimates savings of \$19.0M, including \$5.0M general revenue and \$14.0M in federal funds through increased enrollment in Rite Share. Employers will be required to provide information to the state so OHHS can determine whether the ESI is Rite Share eligible. Employers who fail to provide information can be fined. The budget estimates \$200,000 in revenue from fines.

Doula services: The budget authorizes OHHS to include doula services for pregnant women enrolled in Rite Care/Medicaid. The budget provides \$94,802 from general revenue and anticipates matching federal Medicaid funds.

Long Term Care

Nursing Homes: The budget includes \$1.0M from general revenue to provide an incentive for nursing homes to repurpose vacant nursing home beds for other purposes and to move residents into community settings if appropriate.

Eleanor Slater Hospital: The budget includes \$3.0M general revenue to transition residents of the hospital to community-based settings

Other Health Care Proposals

ACA Consumer Protections: The budget amends state law to enshrine many of the consumer protections provided in the federal Affordable Care Act (ACA). These include pre-existing condition protection, coverage of essential health benefits, and preventive services without a co-pay. The proposed statute does not include the ACA prohibition on annual and lifetime limits.

Family Home Visiting: The budget includes \$650,000 from general revenue for the Department of Health's family home visiting program. The state can receive federal matching Medicaid funds to bring the total to \$1.3M.

First Connections: The budget includes \$378,000 general revenue for this program that provides preventive health and prenatal care for families. The program is currently federally funded.

BASIC NEEDS

RI Works

Income exclusion for newly employed: Under current law, when a parent starts a job, an income exclusion of \$170 and half the balance is applied to gross income to determine how much of the earnings are counted against the grant. For a family of three, if monthly gross earnings exceed \$1,278, the grant is stopped. The budget proposes to exclude earned income for 6 months when a parent starts a job, unless, during that 6-month period, she reaches the 48-month time limit or gross income exceeds 185% FPL (\$3,348 for a family of 3), whichever comes first. This change would be implemented in January 2021 at a cost of \$200,000 from the federal TANF block grant.

Change definition of dependent child: Under current law, once a teen turns 18, s/he is not eligible for RI Works benefits unless s/he will graduate high school before turning 19. The budget changes the definition to allow an 18-year-old to continue to be eligible for assistance, as long as he/she is attending high school (regardless of the date of graduation). The \$40,000 cost is covered by the federal TANF block grant.

Increase the clothing allowance: The budget includes \$300,000 in TANF funds to increase the annual clothing allowance for children ages 4+ from \$30 per child to \$100. The increase would cost \$195,000. Only school-aged children are eligible for the clothing allowance under current state law.

RI Community Food Bank

The budget increases general revenue funding for the Food Bank from \$175,000 to \$350,000.

CHILD CARE ASSISTANCE PROGRAM (CCAP) AND PRE-K

CCAP to enroll or maintain enrollment in public higher education: Under current law, a parent can qualify for CCAP if she is working or attending a short-term (maximum of 6 months) training program a minimum of 20 hours/week. The budget proposes allowing a parent to access CCAP to enroll or maintain enrollment in a public higher education institution. The \$200,000 cost would be paid with general revenue funds.

CCAP rate adjustments: In 2018, a tiered reimbursement rate scheme was implemented for paying childcare providers. The FY2021 budget includes \$1.8M general revenue to increase rates paid to center-based childcare providers for infants and toddlers and \$2.1M general revenue for pre-school aged children. The additional funds would align reimbursements for first-tier infant/toddler providers with the 25th percentile of the 2018 market survey and payments for top tier preschool providers with the 75th percentile.

Early Childhood Care and Education Capital Fund: The budget proposes a \$15M bond to be on the November 2020 ballot to pay for physical improvements to and development of public or private licensed child care and education facilities. The Department of Human Services would administer the fund and award competitive grants.

Universal Pre-Kindergarten: The budget includes \$4.5M to expand the number of Pre-K slots by 750, with the goal of eventually getting to “universal Pre-K.” Currently, the state supports 78 Pre-K classrooms serving 1,420 children using early childhood education aid and federal Head Start funds. \$3.3M of these funds would go towards including in the education funding formula Pre-K students from districts participating in the state’s Pre-K program (instead of funding through existing early childhood aid category). The budget also includes \$100,000 for a new position at RIDE to oversee Pre-K.

SUPPORT FOR WORKERS AND FAMILIES

Minimum wage increase: The budget proposes to increase the minimum wage to \$11.50/hour from \$10.50/hour effective October 2020. The minimum wage in Massachusetts is \$12.75/hour and will increase by 75 cents each year until it reaches \$15.00 in 2023. Connecticut’s minimum wage is \$11.00/hour and will increase by one dollar later this year and each year until it reaches \$15.00 in 2023.

Increase in rates paid to direct support professionals serving adults with intellectual and developmental disabilities: The budget includes \$2.2M to provide a rate increase.

Earned Income Tax Credit (EITC): The budget proposes to increase the earned income tax credit by 1% each year over the next 5 years to reach 20% of the federal credit in tax year 2025. The cost for the additional 1% is \$1.1M in general revenue. The fully phased-in credit (20%) is estimated to cost \$11.6M in general revenue.

WORKFORCE DEVELOPMENT, ADULT EDUCATION, and HIGHER EDUCATION

Real Jobs RI: The budget proposes a total of \$16.4M for the Real Jobs RI program, including \$12.7M from general revenue, \$2.3M from federal grants, and \$1.4M from the Job Development Fund.

Job Development Fund: Requires non-profit employers with 1000+ employees to contribute to the JDF, to raise \$1.4M in new funds. However, these employers would also be allowed to show that they met their assessment amount through an in-kind contribution in lieu of monetary payment.

Funds for Adult Education: Funding for adult education remains flat at \$9.1M for programs and administrative costs at RIDE, including \$3.5M in Job Development Funds, \$1M in federal TANF funds, \$2.3M in federal WIOA funds, and \$2.3M general revenue funds.

RI Promise Scholarship and Expansion: The budget includes \$7.2M from general revenue to support the RI Promise Scholarship at the Community College of Rhode Island (CCRI) and removes the sunset provision. The budget also proposes to expand eligibility for the Promise program to include enrollment in a certificate program, provided that the certificate has labor market value as defined by the Office of Postsecondary Commissioner. Upon completion of the certificate, the student could remain eligible for the Promise program to pursue an associate's degree.

Incarcerated Individuals: The budget includes \$200,000 to create an apprenticeship program for incarcerated individuals developed by the Department of Corrections (DOC) in conjunction with the Department of Labor and Training (DLT). This includes a new full-time equivalent (FTE) position to oversee the program, which is anticipated to serve between 25 and 30 individuals.

The budget includes \$100,000 for a new FTE at DOC to coordinate with DLT in connecting employers with inmates being released. DLT would also have an FTE for the program.

The budget also proposes to move discharge planning services from the community to DOC at a cost of \$600,000 for 7 new positions. To offset costs, the contract with the community provider entered into in 2019 would be ended.

HOUSING

The budget proposes a \$25 million bond for affordable housing to be submitted to voters on the November 2020 ballot. The budget also proposes to establish a second tier of the Real Estate Conveyance Tax that would double the tax rate to .92% on the portion of a property's value over \$500,000. This additional tax is anticipated to generate \$8 - \$10M annually. This revenue would be deposited in a new housing production fund to develop 250-300 units of affordable housing. Affordable housing developments would be exempt from the real estate conveyance tax. There is also a technical amendment to the real estate conveyance tax to address a 'double taxation' issue when affordable housing developments transfer real estate between internal legal entities.

TAX CREDITS FOR ECONOMIC DEVELOPMENT

Compared to the enacted FY2020 budget, the proposed FY2021 budget provides the greatest increase—in both absolute dollars and percentage growth—to the Executive Office of Commerce. From general revenue, the Executive Office and its subsidiary, the Commerce Corporation, would receive \$44.2M in place of last year's \$28.2M, a jump of 57.1% (from all funds, the amount grows from \$56.8M to \$80.5M, or 36.0%). Many of the fiscal and related programmatic changes are presented here:

Sunsetting of Programs: The budget calls for extending the sunset dates—from December 31, 2020, to December 31, 2023—of 12 economic development programs coordinated and managed by the Rhode Island Commerce Corporation. The programs proposed to be extended are:

- Rebuild RI Tax Credit (RIGL §42-64.20)
- RI Tax Increment Financing (RIGL §42-64.21)
- Stay Invested in RI Wavemaker Fellowship (RIGL §42-64.26)
- Rhode Island Qualified Jobs Incentive Act of 2015 (RIGL §44-48.3)
- Tax Stabilization Initiative (RIGL §42-64.22)
- First Wave Closing Fund Act (RIGL §42-64.23)
- I-195 Redevelopment Project Fund Act (RIGL §42-64.24)
- Main Street Rhode Island Streetscape Improvement Fund (RIGL §42-64.27)
- Innovation Initiative (RIGL §42-64.28)
- Industry Cluster Grants (RIGL §42-64.29)
- High School, College, and Employer Partnerships (RIGL §42-64.31)
- Air Service Development Fund (RIGL §42-64.32)

Other proposed changes related to economic development include:

Minority Entrepreneurship: \$150K in funding for Commerce Corporation assistance, grants, and programming.

Rebuild RI Tax Credit: The budget calls for increasing the total cap on this multi-year program from \$210M to \$250M, as well as for providing \$22.5M in general revenue to fund commitments in FY2020. The House Fiscal Office estimates that \$140M of credits had been committed as of the midpoint of FY2020 and that the \$22.5M would figure as part of \$82.2M in redeemed credits.

Wavemaker: \$872K in new funding (total program funding of \$2.1M) for expansion to aid STEM educators for grades 1-12.

I-195 Redevelopment Zone: \$1.0M in new funding to help cover project financing gaps, \$1.0M for park maintenance, and \$130K in operating funds for the zone's commission.

Small Business Assistance Program: \$250K in new funding (total program funding of \$750K) for encouraging private lending to companies employing under 200 individuals.

REVENUE CHANGES

The FY2021 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 \$113.7M in new revenue from a variety of sources, including new assessments, expanding services and products subject to the sales tax, increasing the hotel tax, and legalizing marijuana.

Adult Use Marijuana Legalization (\$21.8M): The Governor's proposal would set up state dispensaries, much like the state liquor stores in New Hampshire, to sell marijuana products for adult recreational use. The new revenue would come some from licensing fees (\$699K) but mostly from the state portion from sales of marijuana (\$21.1M).

Alcohol & Tobacco Taxes (\$10.7M):

Alcohol—\$9.1M by reintroducing sales tax (\$14.4M) while also lowering excise taxes (\$5.3M).

Tobacco—\$2.0M through combination of increased taxes on cigarette (\$4.3M), e-cigarette (\$0.3M), and cigar (\$0.7M) purchases and decreased revenue (\$3.7M) by raising the minimum age for purchasing tobacco products from 18 to 21.

Transfers (\$16.1M): Sometimes called "scoops," these funds from quasi-public agencies are redirected to the general revenue fund: \$5.0M from *RI Resource Recovery*; \$5.0M from *RI Infrastructure Bank*; \$2.0M from *RI Student Loan Authority*; \$2.0M from *Narragansett Bay Commission*; \$1.1M from *RI Housing*; and \$1.0M from *RI Health and Educational Building Corporation*.

Hotel Tax (\$4.7M): Increasing Hotel Tax from 5% to 6%.

Sales Taxes on Services (\$14.1M):

Custom Computer and Software Design Services—\$7.9M.

Courier/Messenger Services—\$4.1M.

Interior Design Services—\$0.6M.

Lobbying Services—\$0.7M.

Hunting/Trapping/Shooting Services—\$0.8M.

DMV and Other Department Fees (\$6.7M):

The budget proposes a number of increases in licensing fees across six agencies: \$3.7M at the Department of Motor Vehicles (DMV); \$1.1M at the Department of Health (DOH); \$0.9M at the Department of Environmental Management (DEM); \$0.6M at the Department of Business Regulation (DBR); \$0.4M at the Department of Revenue (DOR); and under \$0.1M at the Department of Public Safety (DPS). Most notably, the changes at DMV would include a new \$15 late penalty on renewals of expired licenses and registrations, as well as a \$100 inspection fee for reinstating suspended registrations.

REVENUE SHARING WITH CITIES AND TOWNS

Car Tax Phase Out: The Governor's FY2021 budget proposes slowing the phasing out of the car tax, spending \$11.8M less in general revenue funding this year than called for under current law. FY2021 is scheduled to be the fourth of six years before the full elimination of the tax in FY2024; the budget proposal would stretch out the process by five years. When complete, the end of the local car excise tax will require annual reimbursements—from the state to the municipalities—of at least an estimated \$234M.

PILOT: The FY2021 budget recommends funding the Payment in Lieu of Taxes (PILOT) program with \$46.1M, the same amount as in the enacted FY2020 budget (and an estimated \$1.5M short of estimated full funding of the program). The PILOT monies are state funds used to compensate local governments for property taxes they cannot collect from such institutions such as hospitals and colleges due to their tax-exempt status. The budget seeks to make non-exempt certain properties (such as coffee shops) owned by these organizations but not used for their central missions.

Aid to Distressed Communities: The budget would provide \$6.2M in aid, cutting the current allocation in half.

BOND PROPOSALS

In order to fund several priorities, the FY2021 budget seeks to secure additional funds through bond measures subject to approval or rejection by the state's voters. The Governor requests placing, on the November 2020 ballot, general obligation bonds in the amount of \$268.8M for the following:

Housing/Infrastructure (\$87.5M) projects include the following, as well as ones for the cultural arts, historic preservation, and the Port of Davisville:

Affordable Housing—\$25.0M for constructing new building and redeveloping existing ones.

Early Learning—\$15.0M to upgrade early learning facilities (see CHILD CARE section above).

Site Readiness—\$21.5M, to supplement \$1M in general revenue, in order provide funding to prepare municipal and other sites for development. The proposed legislation would also set up a new site readiness committee within the Commerce Corporation and empower the corporation to negotiate contracts with municipalities and provide assistance to them.

Education (\$117.3M) projects include renovations and other construction at the URI Fine Arts Center, the RIC College of Science and Technology Renovation, CCRI Academic and Student Support Services, and the Centers for Ocean Technology.

Environment (\$64.0M) projects include infrastructure and capital improvements for beaches, parks, campgrounds, clean water, coastal habitats and rivers, and recreation.