

FY2022 Budget & 2021 General Assembly Session in Review

INTRODUCTION

Rhode Island's Fiscal Year 2022 Budget—authorizing \$13.1 billion in total expenditures, including \$4.55 billion in state General Revenue—along with other legislation passed and enacted during the 2021 General Assembly session, **makes some substantial investments in Rhode Island and Rhode Islanders, while leaving on the table some important proposals.** Our review of the budget and legislative session highlights progress and shortcomings in light of the Economic Progress Institute's legislative priorities and those issues of particular relevance to low- and moderate-income Rhode Islanders.

The American Relief Plan Act (ARPA) provided significant federal funds to the states and municipalities. The 2022 budget includes close to \$1.5 billion in ARPA funds that are either sent directly to Rhode Island state agencies or localities or flow through the state for targeted purposes. There is \$1.2 billion that the state has received that has not yet been appropriated. It is likely that the General Assembly will hold a special Fall 2021 session to allocate substantial amounts of these funds for the FY 2022 budget and possibly to consider additional legislation, including the legalization of cannabis for adult recreational use.

The following three icons highlight some of the many issues addressed in the budget and legislative session. Absence of an icon generally indicates that work needs to be done on the issue or that the item simply provides information.

 One of the legislative priorities identified by EPI prior to this year's session.

 Significant progress.

 Mixed bag—some, yet inadequate, progress.

CREATING A FAIR TAX SYSTEM WITH ADEQUATE REVENUES FOR INVESTING IN RHODE ISLANDERS

 **New Tax Bracket for Top 1%:** No changes to Rhode Island's personal income tax were enacted this year. Several proposals—including the EPI-supported Revenue for RI campaign to create a new tax bracket affecting only the top 1% and their income above \$475,000—received hearings in the House and Senate, yet no committee votes. Enacting the Revenue for RI proposal now for 2022 would have resulted in new revenue in 2023—an estimated \$128 million annually—when federal relief aid begins to subside.

 **Payroll Protection Program (PPP):** By partially decoupling from the historically unusual federal tax treatment of PPP loans, the budget preserves \$47.8 million in general revenue. Under federal policy, those businesses with forgiven PPP loans are able to deduct business expenses paid with these loans while not counting as taxable the income from these loans. Rhode Island businesses will still be able to take advantage of the full federal bonus, while on the state level, those with forgiven loans will be able to deduct up to \$250,000 in forgiven loan expenses without counting the same loan funds as income. Those businesses not taking out PPP loans do not have access to the federal or state tax advantages. Although EPI supported a complete break from the federal policy and preserving the full amount of revenue (\$128.7 million), preserving \$47.8 million of much needed revenue was a positive result.

 **Earned Income Tax Credit (EITC):** The EITC provides a refundable federal and state benefit to low-income workers and phases out as a worker's wages increase. The 80,000 low-income Rhode Islanders who benefit from this tax credit program will not see their state benefits increase beyond 15% of the federal benefit, the level set in 2017. Connecticut this year increased their rate to 30.5%, and Massachusetts is at 30%.

Car Tax Phase-Out: The car tax phase-out will be fully funded for FY2022, the fifth of six years. The car tax is a local tax, not a state tax, and in order to make the local governments whole, the state must reimburse them for the lost revenue. At present, there is no plan to address ongoing state revenue challenge resulting from the nearly quarter of a billion dollars it will cost the state each year to fulfill this commitment.

Repayment of Rainy Day Fund into Rhode Island Capital Plan (RICAP) Fund: For FY2020, the General Assembly withdrew \$120 million from the state's Rainy Day Fund and by law must place into RICAP the same amount. Although the enacted FY2021 budget split payments over FY2021 and FY2022 and the Governor's original FY2022 budget proposed shifting the largest payment to FY2023, the final FY2022 budget paid the entire amount in FY2021. This means both that the Capital Plan Fund will be fully funded and that the Rainy Day Fund will be at its maximum 5% of general revenue collections.

Enhanced FMAP Reserve: The federal government's declaration of a state of emergency for COVID-19 has resulted in enhanced Medicaid payments to states through a higher Federal Medical Assistance Percentage (FMAP), bringing approximately \$39 million to Rhode Island each calendar quarter since the beginning of 2020. Although earlier this year President Biden assured governors that the state of emergency and enhanced rates would remain in effect through the end of 2021, Rhode Island's FY2022 Budget sets aside \$39M in case the federal emergency is not renewed for the last quarter of 2021.

INVESTING IN INDIVIDUALS & FAMILIES: Income and Other Supports

 **RI Works:** For the first time in 30 years there will be an increase to the monthly benefit for families participating in the Rhode Island Works program, the states 'welfare' program funded through the Temporary Assistance to Needy Families (TANF) block grant. The benefit will increase by 30%—raising the monthly benefit for a family of 3, for example, from \$554 to \$721. In addition to the benefit increase, the yearly \$100 clothing allowance is extended to infants and toddlers and to children living in RI Works families who receive SSI benefits. When a parent starts a job, they can exclude earnings for 6 months (up to 185% FPL or if the parent reaches the time limit). Also, 18-year-olds can remain on RI Works so long as they are in high school or pursuing their GED. The EPI-led Raising RI Coalition, which championed these changes, sought a higher benefit increase—to lift families out of deep poverty—and indexing the benefit to inflation. It also proposed allowing parents to attend post-secondary education for 2 years.

Payday Lending: Legislation to cap or eliminate pay day loans did not move forward. While laws in most states in the Northeast require pay day loans to be capped at 36%, Rhode Island allows these loans with an effective ARP of 261%.

Food Assistance: The budget doubles the general revenue allocation for the Rhode Island Community Food Bank from \$175,000 to \$350,000. The Food Bank is expected to receive close to \$1.3 million in additional federal relief funds to provide food aid.

INVESTING IN INDIVIDUALS & FAMILIES: Child Care



Child Care Rates:

- **Pandemic Emergency Rates:** The pandemic emergency rates that have been increased by executive order are in statute to be continued through December 31, 2021.
- **New CCAP rates:** New rates will be implemented on January 1, 2022 and are higher than the pre-pandemic rates. In some cases these new rates are higher than the pandemic rates, but in other cases they are lower.
- **Child Care Co-payment Cap:** The budget uses federal TANF block grant funds to cover the cost of lowering the maximum family CCAP contribution rate from 14% to 7% of family income.



Income Eligibility: Provisions included in the Child Care is Essential Act to increase the entry income limit from the current 180% of the federal poverty level did not move forward.

Early Educator Investment Act: This legislation—which passed the Senate but did not pass the House—would help attract and retain early childhood educators by directing the Children’s Cabinet to establish a plan to address workforce compensation, to advance strategies to improve qualifications and compensation of educators, and to coordinate efforts to improve compensation of the Early Intervention and Home Visiting workforces.

CCAP College Student Pilot: Until now, only working parents could qualify for CCAP subsidy. A new, one-year pilot program will allow low-income college students with children to qualify for CCAP while they are in school. The pilot is funded with \$200,000 of TANF dollars.

INVESTING IN INDIVIDUALS & FAMILIES: Education



Student Success: State law enshrines a long-standing executive order that provides that Rhode Island residents qualify—regardless of citizenship status—for in-state college tuition rates. This guarantee applies to those students who attended high school in Rhode Island for three consecutive years, earned a high school diploma, continue to live in Rhode Island, and have applied for lawful immigration status.

RI Promise: This need-based scholarship program to assist college students has been extended and expanded beyond the 2021 high school graduating class. It guarantees, for eligible Rhode Island students, two years of tuition-free study at the Community College of Rhode Island if they enroll in CCRI right after high-school. Statutory changes also ensure an accommodation for students with disabilities who may need a longer timer to complete their degree.

Advanced Placement (AP) Exams: The budget appropriates \$400,000 to cover the costs of AP exams to ensure low-income students are able to take these tests regardless of ability to pay.

INVESTING IN INDIVIDUALS & FAMILIES: Health Care



Rhte Care for All Children: Proposed legislation would have expanded Rhte Care comprehensive health care coverage to all income-eligible Rhode Island children regardless of immigration status. State funds would be used to cover ‘undocumented’ children as Rhode Island once did for several years and as a number of states continue to do. The legislation received committee hearings though no votes in both the House and Senate.



Perinatal Doula Services: The budget authorizes the use of Medicaid funds to pay for doula services, to help women with childbirth. And legislation requires that private insurance company pay for these services as well. Doulas are certified birthing assistants or coaches, and studies have shown that doulas result in better pregnancy outcomes for women and their newborns, including a lower rate of Caesarean births. Doulas are considered an important medical support for Black mothers especially.



Increased Maintenance of Need Allowance (MNA) for Home and Community Based Services (HCBS): Seniors and people with disabilities who need long-term care services in a nursing home or in their own home may qualify for Medicaid even with income higher than the community Medicaid limits. Once eligibility is established, the individual is required to contribute their income, less the applicable MNA, to their cost of care. Rhode Islanders receiving services at home have been required to contribute all income above the Federal Poverty Level (FPL). The current FPL and therefore MNA is \$12,880/year, leaving recipients without sufficient income to support themselves at home. The FY2022 budget increases the (MNA) from 100% FPL to three times the SSI standard—an increase to \$28,584, thereby decreasing the individual’s contribution and leaving them with greater resources. The budget includes \$2.4M general revenue to support this change, with federal matching funds available.



Expanded Eligibility for Rhode Island’s “At Home Program.”: This program, administered by the Office of Healthy Aging (OHA), subsidizes the cost of homemaker services and adult day health services for individuals who are ineligible for Medicaid. The income limit had been 200% FPL (\$25,760 for an individual). Using both general revenue and federal Medicaid funds, the budget raised the income limit to 250% FPL (\$32,200 for an individual), allowing an estimated 430 more seniors to qualify. The budget also expanded eligibility to include younger people with Alzheimer’s disease.

Health Source Rhode Island (HSRI) Funding: The budget provides \$10.8 million in funding for HSRI, including \$2.8 million from general revenue funds. The budget also includes \$14.1 million from the individual mandate assessment, funds used to support the reinsurance program.

INVESTING IN INDIVIDUALS & FAMILIES: Housing



Source of Income: Landlords can no longer discriminate against potential tenants because of how the tenants would pay their rent; this means that landlords cannot refuse to accept Section 8 housing vouchers.



Real Estate Conveyance Tax and Affordable Housing: The FY2022 budget establishes a Housing Production Fund (HPF) to build new affordable housing units and support a new municipal housing development partnership initiative focused on improving local capacity and removing barriers to affordable housing at the local level. The HPF will be funded by doubling the real estate conveyance tax on the portion of sales of residential property over \$800,000 and allocating additional funds from the tax collected on the portion of sales under \$800,000; the budget provides an initial investment of \$35.0 million in the HPF.

Pay for Success Social Impact Investments in Housing: The budget sets aside \$6.0 million in a restricted account to reimburse, if successful, expenses for a five-year pilot program to create permanent housing and provide support services for 125 homeless individuals.

Emergency Renter and Homeowner Assistance: To aide renters in FY2022, the budget allocates \$114 million of \$152 million in American Rescue Plan relief funds, as well as \$25.0 million of \$50.0 million total for homeowners harmed by the pandemic to help with mortgage payments and other expenses. The budget also includes \$34.0 million in LIHEAP federal aid to help cover energy utility costs for low-income Rhode Islanders.

INVESTING IN WORKERS, BUSINESSES, & ECONOMIC DEVELOPMENT



Minimum Wage: Rhode Island is the 8th state in the nation to require a \$15 per hour minimum wage. Rhode Island workers will see a boost to their paychecks from 11.50/hour to \$12.25 on January 1, 2022, followed by annual increases to \$13.00 in 2023, \$14.00 in 2024, and finally \$15.00 on January 1, 2025. Rhode Island now joins Massachusetts and Connecticut and many other states on this path. Nevertheless, as EPI's 2020 Rhode Island Standard of Need demonstrates, an adult worker without children and working full-time needed to earn \$14.71 per hour to cover the most basic needs in 2020. Inflation will certainly increase this amount beyond \$15.00 per hour by 2025. And for workers with children, \$15.00 per hour remains inadequate today. The path to \$15.00 per hour is great news for many low-income workers yet does not necessarily provide a living wage.

Tipped Minimum Wage: Despite the documented sexism and racism of the tipped wage, now at \$3.89/hour in Rhode Island, and despite attempts to link it to the regular minimum wage, no action was taken this session on a number of bills seeking to increase or phase out altogether the tipped minimum wage.



Fair Pay: Rhode Island's fair pay statute was updated to require a modern standard for equal pay—employers must pay workers equally for work that require comparable skill, effort, and responsibility. The law also eliminates the reliance on historical wages, provides wage range transparency for applicants and existing employees, and provides options for employees to recover back pay and damages if they have been unfairly paid.



Paid Family Leave: Workers participating in the Temporarily Caregiver Insurance program will be able to take 5 weeks of partially paid leave in 2022 and 6 weeks beginning in 2023; the current limit is 4 weeks per year. Proposals to bring Rhode Island's program more in line with other state's paid leave programs, including increasing the amount of wages an employee receives while on leave, expanding the definition of who one can take leave to care for were not expanded and allowing gig workers and self-employed individuals to participate in the program did not advance.

Partial Unemployment Insurance (UI): After being unemployed, individuals will be able to transition back to work and continue receiving some unemployment benefits. Through June 2022, so long as the person is earning less than 150% of what they would have received from full UI benefits (and UI benefits pay considerably less than what a person earned while working). The Department of Labor and Training will consider such workers to be partially employed and pay UI benefits to cover the difference between employment wages and 150% of full UI benefits.



Minimum Staffing Levels in Nursing Homes: Nursing facilities will be required to provide each resident each day 3.58 hours of direct care beginning in 2022 and 3.81 hours beginning in 2023; slightly over 2/3 of such care must be provided by certified nursing assistants. The same legislation will increase Medicaid base rates paid to such facilities and will require inflation-based wage increases for facility staff.

Adult Education: The budget includes \$9.1 million, including \$2.2 million from general revenue, \$2.1 million from the Workforce Innovation and Opportunity Act (WIOA), \$1.0 million from TANF, \$3.5 million from the Job Development Fund, and \$300,000 from other federal sources. No additional funds are provided for programs to provide foundational skills, including English Language services, digital skills and literacy to thousands of Rhode Islanders.

Inmate Post-Release Employment Assistance: The budget includes \$200,381 for the Department of Labor and Training to help connect incarcerated individuals being released with employers and employment opportunities.

Cannabis Legalization: The General Assembly delayed legalizing cannabis for adult recreational use but may continue the debate during a fall legislative session. The proposals on the table address not only the mechanics of legalization and regulation but also racial and ethnic equity issues, including the expungement and sealing of criminal records for cannabis possession, representation on advisory bodies, access to participation in the legal market, and the uses of revenue in communities harmed by the war on drugs.

Real Jobs RI: The FY2022 budget matches the FY2021 budget in appropriating \$5.4 million in general revenue to the Real Jobs RI program, rejecting the additional but lower \$3.0 million proposed by the Governor. In March 2021, the Governor's Workforce Board approved a \$2.0 million allocation for FY2021 from the Job Development Fund (JDF).

Rebuild RI: For FY2022, an additional \$30 million will be allocated to cover tax credits already approved through the Rebuild RI program; with this funding, there will be a total of \$97.2 million set aside to pay for \$192.2 million in approved credits, out of a \$210 million cap. The FY2021 supplemental budget restores \$15 million taken from the program in FY2020.

Sunsetting of Economic Development Programs: The end dates for Rebuild RI, the I-95 Redevelopment Fund, and 9 other economic development programs have been extended from June 30, 2021 to December 31, 2022. Sunset dates provide the General Assembly with the opportunity—and responsibility—to evaluate programs in order to make decisions about renewal or cancellation.

CONCLUSION

Despite some efforts that fell short, the 2021 legislative session and FY2022 budget brought some welcome achievements, with some valuable investments in people and programs and policies. There nevertheless remains plenty of room to enact even bolder legislation and spending commitments in future budgets and legislative sessions. We need more and better investments in Rhode Islanders—especially workers and lower-income Rhode Islanders—to fight poverty and to advance equity. The ongoing COVID-19 recovery, supported by substantial federal relief aid, provides many opportunities to do more than return to the old normal.

To accomplish this, we must recognize that the economy is not only business and business owners. The economy is much broader than this and includes all of us, as workers, consumers, and owners. An economy that encourages business creation and expansion is one that invests in education, workforce training, and public spaces, that helps people get out and stay out of poverty—and makes Rhode Island a wonderful place to live.