

Highlights of the 2020 General Assembly Session: 2021 Enacted Budget and Legislation

OVERVIEW

The \$12.7 billion Fiscal Year 2021 budget passed by the Rhode Island General Assembly and signed into law by Governor Gina Raimondo in December 2020 avoided making harmful cuts in jobs and services, though it fell short of making important investments in Rhode Islanders in the wake of the coronavirus pandemic.

FY2021 Budget (July 1, 2020 - June 30, 2021)

Expenditures by Revenue Type	FY2020 Budgeted Amounts	FY2020 Budgeted Percentages
General Revenues	\$4,153,269,709	32.6%
Federal Funds	\$5,812,927,486	45.7%
Other Funds	\$2,441,976,054	19.2%
Restricted Receipts	\$322,268,722	2.5%
Total	\$12,730,441,971	100.0%

This budget was described as a “skinny” budget, meaning that no new measures were included vis-à-vis the FY2020 budget. That is, almost nothing proposed in January 2020 by Governor Raimondo in her recommended FY2021 budget was included in the new budget, neither efforts to increase revenue nor moves to cut spending and programs.

In normal years, the Governor proposes a budget in January, and after many hearings and negotiations, the General Assembly (GA) passes a budget in late June, on the eve of the next fiscal year, which begins on July 1. The coronavirus pandemic upended life, the economy, and the normal operations of the General Assembly. Hearings on new legislation came to a halt, and there were few bills passed and signed into law during the 2020 session. In June 2020, the GA passed and the Governor signed a supplemental budget bill for FY2020 (July 2019 – June 2020). The GA and Governor then postponed consideration of a budget for FY2021, in the hope that additional federal aid would make less challenging the revenue problems and spending decisions. Although no new federal aid package emerged before the November elections, the November Revenue Estimating Conference brought better revenue projections than projections made in the spring. After the elections, the Governor and GA leaders put together the budget for FY2021.

The FY2021 budget, like the supplemental FY2020 budget, relies upon considerable federal aid, making the overall budget considerably larger than it would be otherwise, and shifting the breakout of the budget by revenue source. Whereas the adopted FY2021 budget amounts to \$12.7 billion, the budget proposed by the Governor in January 2020 totaled \$10.2 billion. Yet, whereas the proposed budget relied upon \$4.25 billion in General Revenue (GR), the final budget uses only \$4.15 billion. Most of the difference in the overall budgets can be attributed to federal relief funds in response to the coronavirus pandemic. In some cases, these Federal Funds pay for new services, and in other cases, where related in any way to the pandemic response, replace General Revenue funds. It remains a question, going forward, whether the overall budget will return to pre-pandemic levels, and, if not, how the budget will replace Federal Funds being used now to replace eligible General Revenue expenses.

Federal coronavirus relief funds, from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and other sources, explain the increased size of the FY2021 budget and FY 2020 supplemental budget. These funds have paid for personnel and activities in health care, child care, education, and elsewhere. Significant

funds have helped pay unemployment benefits. In total, coronavirus relief funds (CRF) include \$1.25B from the CARES Act and hundreds of millions of dollars in other, targeted Federal Funds. Of the CARES Act and other funds, the FY2021 budget utilizes \$1.47 billion for resources and expenditures.

In the spring and summer of 2020, as the joint public health and economic crises of the coronavirus pandemic developed, the Economic Progress Institute and others warned of the dangers of adopting an austerity mindset in response. As the Great Recession and economists teach us, the lack of adequate investments cuts economic activity and slows recovery. The good news is that Rhode Island's FY2021 budget did not make these sorts of damaging cuts. Unfortunately, the budget did not take enough positive steps to invest more in Rhode Islanders and to stimulate the local economy and recovery. Basically, a rule was put in place to change nothing, even for small and valuable programs, and even where matching federal dollars were left on the table. The budget does not make investments that would decrease inequities based on race, ethnicity, economic status, and gender. For example, requiring private and public health plans to cover doula services, a key method of addressing disparities in maternal and infant morbidity and mortality for low-income and women of color, failed to move forward.

In March 2020, still the early days of the coronavirus pandemic, the Economic Policy Institute issued a policy brief, "COVID-19: Protecting Rhode Islanders and the State's Economy," outlining an effective response to the pandemic.¹ Echoing the themes of that policy brief, what follows are highlights of the FY2021 budget and the 2020 legislative session, organized into three groups — **Basic Needs and Vital Services, Employment and Workforce Support, and Protecting and Raising Revenue** — to show where harmful cuts could have been made but were not and where promising proposals were made yet not enacted, where backsliding was avoided and where steps forward remained untaken.

BASIC NEEDS AND VITAL SERVICES

Health Care

A number of proposals for changes in Medicaid were not included in the final budget. **Co-payments for prescriptions and hospital admissions** for individuals age 19 and older who are not disabled, elderly or pregnant were not enacted. Medicaid **rates paid to hospitals** were not frozen, resulting in additional FY2021 payments of \$20.9M, of which \$4.8M is from GR. In addition, **hospital license fee rates** were not increased from 5% to 6%, though this would have brought in an estimated \$32.3M in additional revenue.

Funding through federal Maternal and Child Health Care Block Grants continues for the **First Connections** program that provides preventive health and prenatal care for families and for the Department of Health's **family home visiting program**; however, the budget does not allocate from GR, for these programs, \$378,000 and \$650,000, respectively.

Doula services for pregnant women enrolled in RIte Care/Medicaid are not funded; this measure would have cost under \$57,000 in GR and brought in an additional \$93,000 in matching federal Medicaid funds.

Consumer protections provided in the federal Affordable Care Act (ACA) were not enshrined in state law. These include pre-existing condition protection, coverage of essential health benefits, and preventive services without a co-pay, as proposed in the Governor's budget. These also include prohibition on annual and lifetime limits and on gender rating, as proposed in legislation.

Nursing Homes

The budget did not include \$1.0M from General Revenue proposed in the Governor's budget to **repurpose vacant nursing home beds**. However, the Governor implemented a **Long Term Services and Supports (LTSS) Resiliency plan** that allocated \$25M of federal CARES Act funds to a wide-ranging set of investments to expand opportunities for seniors and people with disabilities to **remain at or return home**, including \$9M

for nursing homes to **repurpose vacant beds and build capacity to provide services to people needing specialized services**.

The **cost of living rate increases paid to nursing homes** was not lowered from 2.9% to 1.0%; this means a FY2021 rate increase of \$7.8M (\$2.1M in GR) instead of only \$2.7M.

The **Raising the Bar Campaign** sought to mandate in nursing homes a **minimum staffing standard** of 4.1 hours of resident care per day, as well as to increase wages and provide funding for training opportunities. The campaign's legislation passed in the Senate but not the House.

Rhode Island Works

The budget used coronavirus relief funds to provide a **supplemental extra month of emergency benefits to Rhode Island Works recipients**. This payment was made in December 2020. The **annual clothing allowance** for children ages 4 and older was increased from \$30 per child to \$100. This measure was implemented in August 2020 and will apply to the FY2022 budget. Children under age 4 are not eligible for the clothing allowance under current state rules.

The budget does not include two program changes proposed originally: (1) to **allow an 18-year-old to continue to be eligible for assistance as a dependent child**, so long as he/she is attending high school (the current rule permits an 18-year-old to be eligible for assistance only if she or he will graduate high school by age 19); and (2) to **exclude earned income** for up to 6 months when a Rhode Island Works 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. Current law continues as is, so that 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.

HOUSING, ENERGY, AND FOOD

Budget proposals for developing additional **affordable and workforce housing** and for **restructuring state governance over housing policy** did not come to fruition. Establishing a second tier of the **Real Estate Conveyance Tax** would have doubled the tax rate to 0.92% on the portion of a sold property's value over \$500,000. An anticipated \$3.5M of the revenue generated would have been deposited in a new housing production fund to develop 250 units of affordable and workforce housing. Affordable housing developments would have been exempt from the real estate conveyance tax. There remains some hope for advances in this area in the Housing bond question to be placed before the voters in March 2021 (see below).

Although the budget did not include any additional GR funding for the **Low Income Home Energy Assistance Program (LIHEAP)**, it does include \$5.9M in new federal funding, left over from funds appropriated, though unused, in FY2020.

Federal coronavirus relief provides \$670K to the **Rhode Island Community Food Bank** on top of \$175K in GR; the Governor had originally proposed doubling the GR allocation to \$350K.

EMPLOYMENT AND WORKFORCE SUPPORT

STATE WORKFORCE

Whereas the Great Recession brought about severe cuts to the public sector workforce in Rhode Island and across the country, **Rhode Island appears to have met the current crisis without any significant decline in public employment**. The state took advantage of the federally-supported workshare program, allowing employees to receive partial unemployment benefits and preventing greater numbers of lay-offs—

nevertheless, the FY2021 budget does not seek any notable workforce cuts compared to the FY2020 budget. Many economists have concluded that states that made public sector lay-offs in the wake of the Great Recession experienced slower recoveries than those that did not make such cuts.²

UNEMPLOYMENT BENEFITS

The budget includes \$255.2M from the state's **Trust Fund for unemployment benefits** and \$907.4M from CARES Act funding, for a total of \$1.16 billion. Federal funding provided unemployment benefits for gig workers, self-employed individuals, and others not eligible for state unemployment benefits, as well as providing increased weekly payments for all who received unemployment benefits.

MINIMUM WAGE

In March and April 2020, the General Assembly voted to **increase the minimum wage** to \$11.50/hour from \$10.50/hour, effective October 2020. The minimum wage in Massachusetts is \$13.50/hour and will increase by 75 cents each year until it reaches \$15.00 in 2023. Connecticut's minimum wage is \$12.00/hour and will increase by one dollar later this year and each year until it reaches \$15.00 in 2023.

EARNED INCOME TAX CREDIT

Rhode Island currently provides workers and working families with a 15% refundable match to the federal **Earned Income Tax Credit (EITC)**. The budget does not include a proposal in the Governor's recommended budget to increase this match 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% in FY2021 would have required \$1.1M in GR.

WORKFORCE DEVELOPMENT AND EDUCATION

The **Rhode Island Promise Scholarship program** is extended for a fifth year, to cover high school students graduating in 2021, but it was not expanded to include associate's degrees and approved certificate programs. The **Real Jobs Rhode Island** program receives an additional \$2.9M from accessible Federal Funds, though not an additional \$7.25M from GR above FY2020 funding levels. Non-profit employers with 1000+ employees are not being required to contribute to the **Job Development Fund** in order to raise \$1.4M in new funds for job training programs. The final budget includes \$3.0M from coronavirus relief funds (though not \$1.0M from GR) to provide a rate increase for **direct support professionals, frontline workers serving adults with intellectual and developmental disabilities**.

The budget provides level funding of \$9.1M for **Adult Education**, including \$3.5M from the Job Development Fund, \$2.3M in General Revenue funds, and federal WIOA and TANF dollars.

No action was taken on initial budget proposals to improve services for incarcerated individuals. An **apprenticeship program** developed by the Department of Corrections (DOC) in conjunction with the Department of Labor and Training (DLT) for 25 to 30 incarcerated individuals will not be created this year. Funding is not provided for one new FTE at DOC to coordinate with DLT in **connecting employers with inmates being released**. Nor will **discharge planning services** be moved from the community to the DOC. For K-12 education, the budget continues to fund **English language learner aid** at the FY2020 level of \$5.0M, but does not fund new bilingual classrooms or expand capacity, and does not rename English language learner aid as "multilingual learner aid."

CHILDCARE ASSISTANCE AND PRE-K

In 2018, a **tiered reimbursement rate structure was implemented for paying childcare providers**. The original FY2021 budget proposed \$1.8M General Revenue to increase rates paid to center-based childcare providers for infants and toddlers and \$2.1M in GR for pre-school aged children. The additional funds would have aligned 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. The final budget did not include

any new funding to increase reimbursement rates for any providers. However, in May 2020 the Governor temporarily increased rates by means of an executive order using Federal Funds and renewed this order a number of times. The enacted budget also includes \$620,000 in federal dollars for childcare for **children in foster care**.

Federal grant funds of \$4.2M are included in the budget for the expansion of 17 Pre-K classrooms. Yet funding is not provided to expand Pre-Kindergarten education to reach the goal of eventually getting to **Universal Pre-Kindergarten**. Currently, the state supports 78 Pre-K classrooms serving 1,420 children using early childhood education aid and federal Head Start funds. Also, a plan was not adopted to include in the **education funding formula** all Pre-K students from districts participating in the state's Pre-K program (instead of funding through the existing early childhood aid category).

To access Child Care Assistance Program (CCAP) benefits, a parent must be working or attending a short-term (maximum of 6 months) training program for a minimum of 20 hours/week. The budget does not include a proposal to allow a parent accessing CCAP to enroll or maintain **enrollment in a public higher education institution**.

PROTECTING AND RAISING REVENUE

PROTECTING REVENUE

The FY2021 budget protects much-needed revenue by **not cutting any taxes**, including personal, estate, or business taxes. The budget also uses, where appropriately related to the pandemic response, **coronavirus relief funds to replace General Revenue** to fund many programs and jobs across many state agencies.

The budget also protected revenue by not including a proposal to **extend 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. These programs provide tax breaks to encourage economic activity, however, evidence is lacking on the effectiveness of at least some of these programs. The final budget included only a six-month extension, to provide legislators with the opportunity to evaluate the programs before making decisions about longer extensions.³

The supplemental 2020 budget used \$120M in **"rainy day funds"** to close the budget gap. While normally these funds are required to be repaid in full in the subsequent budget year, the enacted FY2021 budget repays \$90M, deferring the balance of repayment to the FY2022 budget.

In two areas, however, the budget missed opportunities to preserve state revenue. First, the budget does not slow the **phasing out of the motor vehicle excise tax (the "car tax")**, stretching out the process by an additional five years as proposed by the Governor. If completed without adjustment, the end of the local car excise tax will require annual reimbursements — from the state to municipalities — of at least an estimated \$234M. For FY2021, the total reimbursement is \$123.8M, of which \$86.0M was from federal coronavirus funds.

Secondly, the state has not yet **decoupled from harmful federal tax changes** included in the CARES Act.

RAISING REVENUE

A large source of new federal revenue for Rhode Island comes from **an increase by 6.2 percentage points in the Federal Medical Assistance Percentages (FMAP) rate**. This rate increase, from 52.95% to 59.15% for Rhode Island, means that the state is responsible for less in the way of "matching" costs in paying for Medicaid expenses. Backdated to January 1, 2020, the increase brings to Rhode Island approximately \$40 million additional revenue per quarter and will continue through the end of the fiscal year. As a condition of receiving this enhanced federal match, the state is required to provide continuous Medicaid coverage for individuals

enrolled as of March 18, 2020.

The adopted FY2021 budget includes **no changes to the rates for broad-based taxes**, including the income tax, sales tax, and corporate tax. No new revenue was raised through these avenues, nor did the budget raise revenue in numerous ways proposed by the Governor in her original budget. Most notably, the budget does not legalize the sale of **adult recreational use of marijuana**. The proposal to set up state dispensaries, much like the state liquor stores in New Hampshire, had been projected to bring in revenue of \$21.8M.

The budget also does not increase the **Hotel Tax** from 5% to 6%, change **alcohol** or **tobacco taxes**, or expand the **sales tax** to include Custom Computer and Software Design Services, Courier and Messenger Services, Interior Design Services, Lobbying Services, or Hunting, Trapping, and Shooting Services. It does not increase **licensing fees** across six agencies: the Department of Motor Vehicles (DMV), the Department of Health (DOH), the Department of Environmental Management (DEM), the Department of Business Regulation (DBR), the Department of Revenue (DOR), and the Department of Public Safety (DPS). Most notably, the changes at the DMV would have included a new \$15 late penalty on renewals of expired licenses and registrations, as well as a \$100 inspection fee for reinstating suspended registrations.

A number of legislative proposals to **raise the Personal Income Tax** on taxpayers with the highest incomes never made it out of committee in the General Assembly.

TAX CREDITS FOR ECONOMIC DEVELOPMENT PROGRAMS

In addition to enacting only a limited extension of a number of economic development programs, the budget did not change funding for a variety of other business programs. The budget does not close the Urban Ventures program and replace it with a new **Minority Entrepreneurship program** with \$150K in funding for Commerce Corporation assistance, grants, and programming to support minority-owned businesses; the final budget retains the Urban Ventures program and its \$140K in funding. The previous funding level of \$1.2M continues for the **Wavemaker program** to aid STEM educators for grades 1-12 and does not include additional GR funding of \$872K to expand the program. Additional GR of \$1M is not provided to help cover project financing gaps for the **I-195 Redevelopment Zone**, or \$130K in additional operating funds for the zone's commission. And although millions of dollars in previously allocated funds remain available to the **Small Business Assistance Program**, the budget does not allocate additional GR funding designed to encourage private lending to companies employing under 200 individuals.

In early 2020, the General Assembly passed a law to modify the **Motion Picture Tax Credit program** which, research shows, is overall a money-loser for the state. The statute now allows a company to benefit from the tax credit without making Rhode Island the primary filming location, so long as at least \$10 million is spent on certified production costs within a 12-month timeframe. Prior to this change, beneficiaries had to make Rhode Island the primary filming location and were required to spend at least \$100,000 in certified production costs to receive the 30% tax credit.⁴

REVENUE SHARING WITH CITIES AND TOWNS

The state provides aid annually to the municipal and local governments across the state through four programs: Payment in Lieu of Taxes; reimbursement for lost motor vehicle excise tax revenue due to the phase-out (see above); the Distressed Communities Relief Fund; and library aid. In January 2020, the Department of Revenue estimated that these payments would total \$165.3M from General Revenue for FY2021. The adopted FY2021 budget provides a total of \$196.0M in aid to local governments, some \$25.0M more than the revised amount of \$171.0M. However, only \$59.5M of the total funds derive from General Revenue, while the remaining \$136.5M comes from coronavirus relief funds. Therefore, the **local governments are receiving more aid than anticipated**, although the state is contributing much less from General Revenue.

The final budget uses \$19.2M in General Revenue and \$31.5 in coronavirus relief funds for a total of \$50.7M for the **Payment in Lieu of Taxes (PILOT)** program, above the FY2020 funding level of \$46.1M. The PILOT monies are funds used to compensate local governments for property taxes they cannot collect from such institutions as hospitals and colleges due to their tax-exempt status. Relatedly, the budget does not adopt a proposal to **making non-exempt certain properties** (such as coffee shops) **owned by non-profit organizations**, such as colleges and hospitals, but not used for their central missions.

The budget does not cut in half, as was proposed originally, the annual \$12.4M in **Aid to Distressed Communities**. The budget funds this amount using \$2.6M from GR and \$9.8M from coronavirus relief funds, and adds in a “bonus” payment of \$1.4M from this source.

BOND PROPOSALS

Rhode Island voters will have the opportunity in March 2021 to secure funding for numerous projects by considering **seven ballot measures to borrow a total of \$400M to invest in a variety of capital projects**. In January 2020, the Governor proposed \$268M in three bond measures — for higher education, environment and recreation, and housing and infrastructure. Given the coronavirus pandemic, the housing and infrastructure portion was expanded by over \$220M, with the total reaching \$496.8M in borrowing for the three ballot measures — to be placed before voters on Election Day in November 2020. The GA did not act on these measures, and therefore they were not set before the voters. The final FY2021 budget includes a somewhat scaled-back version, at \$400M, with the housing and infrastructure question split into five parts. All seven bond questions will be placed before the voters in March 2021.

- Higher Education (\$107.3M) projects include renovations and other construction at the URI Fine Arts Center, at the RIC College Clarke Science Building, and for CCRI Academic and Student Support Services at all four campuses; the budget does not include \$10.0M originally designated for the Center for Ocean Innovation.
- Environment and Recreation (\$74.0M) projects include infrastructure and capital improvements for beaches, parks, campgrounds, clean water, coastal habitats and rivers, and recreation.
- The Housing and Infrastructure (\$65.0M) measure would fund property acquisition, new construction, and redevelopment of structures for affordable housing and community revitalization.
- Transportation State Match (\$71.7M) bonds and notes would help secure hundreds of millions of dollars in federal funding for bridge and highway projects.
- Early Childhood Infrastructure (\$15.0M) projects include the upgrading of early learning facilities and the development of new spaces for up to 1,500 children.
- Arts and Cultural Infrastructure (\$7.0M) projects funds would go to local preservation and renovation of historical sites, as well as to the Trinity Repertory Company, the Rhode Island Philharmonic, and other non-profit cultural organizations.
- The Industrial Facilities Infrastructure (\$60M) bonds would fund \$20.0M for repairs and constructions at the Port of Davisville at Quonset and \$40.0M for “site readiness” projects to make numerous locations ready for economic development by vetting the sites, securing permits, and making sure utilities are in place. The proposed legislation would also designate the Quonset Development Corporation to provide expert advice and services to municipalities for such development.

ENDNOTES

A note on sources: Much of the information for this summary comes from the helpful and far more expansive summaries produced by the House Fiscal Committee (<http://www.rilin.state.ri.us/housefiscalreport/2020/2020-H%207171%20Sub%20A%20HFC.pdf>) and the Senate Fiscal Committee (<http://www.rilin.state.ri.us/sfiscal/Budget%20Analyses/SFO%20FY2021%20Budget%20as%20Passed%20by%20HFC.pdf>).

General Revenue includes the collection of 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.

¹ See the Economic Progress Institute's "COVID-19: Protecting Rhode Islanders and the State's Economy," March 26, 2020, <http://www.economicprogressri.org/wp-content/uploads/2020/03/BUDGET-MATTERS-COVID-19-Protecting-RIsers-the-State%E2%80%99s-Economy.pdf>.

² See the section "The Cyclical Economy: Cuts vs Investments" in the Economic Progress Institute's August 2020 Economic Progress Report "Protecting Rhode Islanders and the Economy: How to Cover Rhode Island's Revenue Shortfall," <http://www.economicprogressri.org/wp-content/uploads/2020/08/ECON-PROGRESS-REPORT-How-to-Cover-RIs-Revenue-Shortfall-AUG-2020-FINAL.pdf>. See also David Cooper, "Without federal aid, many state and local governments could make the same budget cuts that hampered the last economic recovery," Economic Policy Institute's Working Economics Blog, May 27, 2020, <https://www.epi.org/blog/without-federal-aid-many-state-and-local-governments-could-make-the-same-budget-cuts-that-hampered-the-last-economic-recovery/>.

³ See the Economic Progress Institute's February 2020 report "Are Economic Development Tax Incentives Reports Facilitating Transparency and Accountability?" <http://www.economicprogressri.org/index.php/2020/02/27/economic-development-tax-incentives-reports-2020/>.

⁴ See Michael Mazerov, "First, Do No Harm: States Can Preserve Revenue by Decoupling From CARES Act Tax Breaks for Business Losses," Center on Budget and Policy Priorities, January 4, 2021, <https://www.cbpp.org/research/state-budget-and-tax/first-do-no-harm-states-can-preserve-revenue-by-decoupling-from-cares>.