
Revenues Changes

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The Governor recommends \$18.3 million and \$113.7 million more general revenues than estimated at the November 2019 Revenue Estimating Conference for FY 2020 and FY 2021, respectively.

Recommended General Revenues Changes	FY 2020	FY 2021
Taxes		
Earned Income Tax Credit	\$ -	\$ (1,132,538)
Medicaid Spending Proposals	(389,194)	(1,191,223)
Reciprocal Payment Offset Program	-	4,920,000
Alcohol Tax Changes	-	9,139,665
Sales Tax Expansion	-	14,103,785
Tobacco Regulation Changes	-	1,624,483
Controlling Interest Transfer Tax	-	(36,722)
Gross Contingency Fee Revenue	2,078,222	1,809,278
Total Taxes	\$ 1,689,028	\$ 29,236,729
Departmental Revenues		
Hospital Licensing Fee at 6.0 Percent	\$ -	\$ 32,308,294
Hotel Tax 1 Percent Increase	-	4,734,220
Adult Use Marijuana	-	699,000
Fire Marshal Fees	-	554,802
Pesticide Alternate Brand Names Fee	-	334,800
DEM Expedited Permitting Fees	-	599,212
DMV Fees	-	3,722,125
Cigarette and e-Cigarette Dealer Licensing Fee	-	402,500
Reciprocal Payment Offset Program	-	80,000
Interstate Medical Licensing	-	(59,331)
Request for Public Health Data Fees	-	438,900
Fee Exemption Removal for EMS Licensees	-	333,600
Shellfish Docks Program	-	366,138
Division of Sheriffs Training Academy Fee	-	13,000
DUI/Refused Breathalyzer Fee	-	220,016
RIte Share Noncompliance Penalties	-	165,675
Workplace Tax Compliance	-	4,245,742
Veterans' Home Payments to Restricted Receipts	-	(4,452,366)
Attorney General Settlements	-	1,700,000
Total Departmental Revenues	\$ -	\$ 46,406,327
Other Revenues		
Adult Use Marijuana	\$ -	\$ 21,121,786
Admin. Fee on Pass-Through Taxes	-	799,333
Infrastructure Bank	8,895,000	5,000,000
Rhode Island Housing	-	1,093,375
Resource Recovery Corporation	5,000,000	5,000,000
RI Health & Educational Building Corporation	-	1,000,000
Rhode Island Student Loan Authority	-	2,000,000
Narragansett Bay Commission	-	2,000,000
Unexpended Bond Funds	257,000	-
BHDDH Asset Forfeiture Funds	500,000	-
OSPAR Fund	1,000,000	-
Underground Storage Tank Trust Fund	1,000,000	-
Total Other Revenues	\$ 16,652,000	\$ 38,014,494
Total General Revenues Changes	\$ 18,341,028	\$ 113,657,550

The previous table shows the Governor’s recommended changes. The items are explained in the pages that follow.

Taxes. The Governor’s budget includes \$1.7 million more in tax revenues for FY 2020. The recommendation for FY 2021 assumes new tax revenues of \$29.2 million, of which \$14.1 million is from expanding application of the sales tax.

- **Earned Income Tax Credit.** The Governor’s budget assumes \$1.1 million less revenue for FY 2021 from increasing the refundable Rhode Island earned income tax credit by one percentage point increments each tax year for five years until it reaches 20.0 percent of the federal credit. Fully phased in, the annual lost revenue to the state would be \$11.6 million. Under current law, the state credit is 15.0 percent of the federal credit.

- **Medicaid Spending Proposals.** The Governor’s FY 2021 budget contains a series of proposals to reduce Medicaid expenditures delivered through managed care plans and nursing facilities for savings of \$1.2 million. There are also two proposals that increase revenue to the managed care plans. Those entities are taxed on gross revenues therefore a change in taxes would also occur. The recommendation assumes that these proposals will reduce revenue from managed care organizations through the 2.0 percent provider tax by \$0.8 million. The estimated loss from the 5.5 percent nursing facilities provider tax is \$0.4 million. The FY 2020 recommendation reduces revenue by \$0.4 million from changes made to the November caseload estimate impacting the managed care plans.

- **Reciprocal Payment Offset Program.** The Governor’s budget assumes \$5.0 million in revenues from expanding the state’s participation in a federal reciprocity program to include taxes other than personal income. The state would be able to offset federal refunds for other tax debts owed to Rhode Island and would in return allow state refunds to be offset for federal debt. This would be similar to the current reciprocity program the state participates in for personal income taxes. The budget also assumes \$0.1 million in additional staffing expenses related to this proposal.

- **Alcohol Tax Changes.** The Governor’s budget assumes \$9.1 million in revenues from restructuring alcohol taxes. It would reduce the alcohol excise tax on high proof spirits by \$1.65 per gallon to \$3.75 and on wine by \$0.80 per gallon to \$0.60, reducing collections by \$5.3 million. The proposal would also eliminate the sales tax exemption on wine and spirits sold by Class A licensees and impose the 7.0 percent sales tax, effective October 1, 2020 for an increase of \$14.4 million for FY 2021. This reverses a change made by the 2013 Assembly at which time the annualized impact was estimated to be \$4.8 million growing over time with inflation.

- **Sales Tax Expansion.** The Governor’s budget assumes \$14.1 million in new revenues from the proposed expansion of the state’s 7.0 percent sales tax to include additional services. Distinct items are noted separately below. Additionally, the budget assumes \$0.9 million of implementation costs.

Sales Tax Expansion	FY 2021	Effective Date
Lobbying Services	\$ 692,982	October 1, 2020
Computer Systems Design	7,894,178	October 1, 2020
Fishing, Hunting, Trapping, & Shooting Services	818,036	October 1, 2020
Couriers and Messengers	4,070,500	January 1, 2021
Interior Design Services	628,089	January 1, 2021
Total Revenues	\$ 14,103,785	
Staffing (4.0 FTE)	\$ 268,660	
Operations	600,000	
Total Expenses	\$ 868,660	
Net Impact	\$ 13,235,125	

Sales Tax on Lobbying Services. The Governor’s budget assumes \$0.7 million in revenues associated with the expansion of the state sales tax to include lobbying services within the state, effective October 1, 2020.

Sales Tax on Computer Systems Design. The Governor’s budget assumes \$7.9 million in revenues associated with the expansion of the state’s sales tax to include computer systems design and related services, effective October 1, 2020.

Sales Tax on Fishing, Hunting, Trapping, and Shooting Services. The Governor’s budget assumes \$0.8 million in revenues associated with the expansion of the state sales tax to include fishing, hunting, game preserves, archery, shooting ranges, and rod and gun clubs, effective October 1, 2020.

Sales Tax on Couriers and Messengers. The Governor’s budget assumes \$4.1 million in revenues from expanding application of the state sales tax to couriers and messengers, effective January 1, 2021.

Sales Tax on Interior Design Services. The Governor’s budget assumes \$0.6 million in revenues associated with the expansion of the state sales tax to include interior design services within the state, effective January 1, 2021.

- **Tobacco Regulation Changes.** The Governor’s budget assumes \$2.0 million in revenues related to tobacco, including \$1.6 million in taxes and \$0.4 million from increased license fees. Specific proposals are described below. The budget also includes \$0.2 million for staffing related to the e-cigarette component.

Tobacco Regulation Changes	FY 2021
Taxes	
Federal Minimum Age	\$ (3,688,063)
Cigarette Per Pack Increase	4,323,753
Other Tobacco Products Increase	988,793
<i>Taxes Subtotal</i>	<i>\$ 1,624,483</i>
Departmental Receipts	
Cigarette & e-Cigarette Dealer Licensing Fee	\$ 402,500
Total Revenues	\$ 2,026,983
e-Cigarette Staffing	\$ 178,260
Net Revenues	\$ 1,848,723

Federal Minimum Age. The Governor’s budget assumes a loss of \$3.7 million from the recent federal action to raise the minimum age of the sale of tobacco products from 18 to 21. This change is assumed to take effect by the beginning of FY 2021.

Cigarette Per Pack Increase. The Governor’s budget assumes \$4.3 million in revenues from a proposal to increase the cigarette tax by \$0.35, to \$4.60 per 20-pack, effective August 1, 2020. The Office of Revenue Analysis estimates a final retail price per pack of \$10.41, which is \$0.02 cents less than in Massachusetts and \$0.03 cents higher than in Connecticut. The recommendation assumes \$3.3 million from the excise tax increase and \$1.0 million from the floor tax applied to inventory held as August 1, 2020, and an associated loss of \$13,938 from sales tax collections. The tax was last raised \$0.50, effective August 1, 2017.

Other Tobacco Products Increase. The Governor’s budget assumes \$1.0 million in revenues associated with proposed legislation to impose an excise tax on electronic nicotine delivery systems and raise the per cigar tax. It assumes a permanent ban on flavored e-liquid nicotine products. The recommendation includes \$0.3 million from the proposal to impose an 80.0 percent wholesale tax on electronic nicotine delivery systems, effective September 1, 2020. Electronic nicotine delivery systems include electronic implements for the delivery of nicotine or other substance, or e-liquid, or other components.

The recommendation includes \$0.7 million from the proposal to raise the per cigar tax cap from \$0.50 to \$0.80, effective August 1, 2020. Under current law, cigars are taxed at 80.0 percent, capped at \$0.50. The cap was originally established by the 2006 Assembly with a 40.0 percent tax rate; the 2009 Assembly raised the rate to 80.0 percent.

Cigarette and e-Cigarette Dealer Licensing Fees. The Governor's budget includes \$0.4 million in new revenues from several changes to the state's cigarette licensing fees including increasing the dealer's application fees from \$25 to \$75, subjecting manufacturers to the \$1,000 license fee for importers and certain distributors, increasing the licensing and renewal fees for all entities from \$100 to \$400. It also merges e-cigarette entities and products into this license now subject to this fee. The fee has been unchanged for over 25 years.

- ***Controlling Interest Transfer Tax.*** The budget assumes a general revenue loss of \$36,722 from exempting the controlling interest transfer of affordable housing developments from the real estate conveyance tax.

- ***Gross Contingency Fee Revenue.*** The 2016 Appropriations Act permitted the Division of Taxation to contract with a third party for the review of tax data and collection of taxes, interest, penalties, or a reduction in claimed refunds. Contractors are paid on a contingency fee basis, for services rendered, as a percentage of the actual amount of revenues collected, which were previously accounted for as expenditure credits. The state auditor reclassified the expenditure credits as expenses within the Department's FY 2019 budget, and showed the gross revenues collected. The Governor's recommended budget makes a similar adjustment for FY 2020 and FY 2021 to reflect this. This includes a recognition of \$2.1 million in payments as both revenues and expenditures for FY 2020 and \$1.8 million for FY 2021 to account for this change in accounting practice.

Departmental Revenues. The Governor recommends additional revenues of \$46.4 million from departmental receipts for FY 2021.

- ***Hospital Licensing Fee at 6.0 Percent.*** This Governor recommends additional revenue of \$32.3 million from increasing the FY 2021 fee from the 5.0 percent rate to 6.0 percent, except for South County Hospital and Westerly Hospital which will pay a lower 3.78 percent fee. It includes the due date for filing returns and making the payment. Revenue from the two-tiered fee will be \$193.8 million, including \$187.0 million from community hospital payments and \$6.8 million from state payments for Eleanor Slater Hospital.

- ***Hotel Tax 1.0 Percent Increase.*** The Governor's budget assumes \$4.7 million from increasing the 5.0 percent state hotel tax to 6.0 percent, effective July 1, 2020 and retaining that extra one percent for state general revenues. This increases the final total tax on lodging to 14.0 percent comprising of the 7.0 percent sales tax, 6.0 percent state hotel tax, and 1.0 percent local hotel tax. The 1.0 percent local hotel tax was established in 2004.

- ***Adult Use Marijuana.*** The Governor's budget assumes \$21.8 million in new revenues from establishing an adult use marijuana program. This includes departmental receipts of \$0.7 million from licensing fees for three new industries and certain employees associated with these activities. It also includes new revenues totaling \$21.1 million splitting retail sales revenues, net of wholesale procurement costs, among the contractors, municipalities and the state. The proposed revenue split would be 29.0 percent to retail contractors, 10.0 percent to municipalities, and the state would retain the remaining 61.0 percent. The proposal assumes that retail sales begin March 2021, and revenues annualize to about \$40.0 million

- ***Fire Marshal Fees.*** The Governor’s budget assumes \$0.6 million of new revenues from increasing the plan review fees for new construction based on the cost of construction, inspection and explosive permitting fees as described below.

Plan Review and Inspection. The plan review fees for construction have five tiers based on a defined range of construction costs. The first three tiers increase by \$10, to \$35, \$45, and \$55. The top two tiers include base fee, plus an additional amount per \$1,000 or fraction thereof. For costs between \$2,000 and \$0.5 million, the increase is \$10, plus an additional \$1 per \$1,000, or \$55 plus \$7 per \$1,000. Over \$0.5 million, the increase is \$259, plus \$2.75 per \$1,000, or \$3,292 plus \$6.75 per \$1,000. It also increases the inspection fee charged by the Fire Marshal’s Office by \$150, to \$250.

Explosive Permit Fees. The Governor proposes raising the explosive permit fees for manufacturers, dealers and possessors to \$100, eliminates the range for user permit fees, substituting a flat \$50 fee, and repeals the \$25 non-refundable fee for apprentice permits.

- ***Pesticide Alternate Brand Names Fee.*** The Governor’s budget includes \$0.3 million in new revenue from requiring manufacturers and distributors of alternate brand name pesticide products to pay a \$200 pesticide registration fee, consistent with the registration requirements for name brand pesticide products.

- ***DEM Expedited Permitting Fees.*** The Governor’s budget includes \$0.6 million in new revenue from increasing permitting fees, including a seven percent increase on permits issued through the Offices of Air and Water Resources, and Waste Management, \$2,500 for a new optional case manager fee for complex high need customers, and other fee increases that will be determined through the regulatory process. The budget proposes spending a new \$0.5 million from general revenues for 5.0 new full-time equivalent engineering positions to help with permitting reviews.

- ***DMV Fees.*** The Governor’s budget assumes the use of \$3.7 million from three proposed fee increases, and the transfer of Commercial Driver’s License road testing to the Division of Motor Vehicles, noted separately below.

Certified Driving Records Fee. The Governor’s budget assumes \$0.7 million of new revenues from increasing the fee for certified driving record abstracts from \$16 to \$20 for online subscribers.

CDL Road Test Transfer. The Governor’s budget transfers Commercial Driver’s License road testing from the Community College of Rhode Island to the Division of Motor Vehicles. As such, it assumes \$0.1 million of revenues from fees collected as well as the associated expenditures that were formerly included in the Community College’s budget.

Expired License and Registration Fee. The Governor’s budget assumes \$1.1 million from implementing a \$15 late fee for late license or registration renewal after its expiration. The proposal is consistent with the Department of Revenue’s constrained request. The revenue estimate assumes approximately 101,000 transactions based on FY 2019 experience. It assumes about 10 percent fewer late transactions and an October 1, 2020 start date.

Inspection Violations. The Governor’s budget assumes \$1.8 million will be collected from a \$100 enforcement fee for inspection violations, assuming a July 1, 2020 start date. The 2018 Assembly did not concur with the Governor’s FY 2019 proposal to include \$2.6 million from collecting the \$250 reinstatement fee for registrations suspended based on expired inspections. Current law provides that no restoration fee may be required to reinstate a registration for an inspection violation, consistent with the Registry of Motor Vehicles practice prior to her recommendation. Additionally, the budget assumes \$0.2 million of implementation costs.

- ***Cigarette and e-Cigarette Dealer Licensing.*** As previously noted, the Governor’s budget includes \$0.4 million in new revenues from several changes to the state’s cigarette licensing fees and expanding it to include dealers of e-cigarette products.
- ***Interstate Medical Licensing.*** The Governor proposes legislation to require the state to join four interstate compacts for four health professions, including physicians, emergency medical personnel, psychologists, and physical therapists. Expedited licenses for these professionals would be issued by the interstate compacts. It also amends current law to repeal legislation for the current nurse licensure compact and includes revised model legislation that has been adopted by the compact. The budget assumes a loss of \$59,331 for the last quarter of FY 2021; the annualized impact is a loss of \$0.2 million. It is unclear how the loss of revenue was determined.
- ***Request for Public Health Data Fees.*** The Governor’s budget includes \$0.4 million in new revenue by allowing the Department of Health, through rules and regulation to charge a new fee for data requests. These data are currently used to monitor health status and trends in natality, morbidity and mortality. The legislation requires that approximately 50 percent of revenues be appropriated to the Department of Health to sustain its capacity to manage data systems to meet demands. The budget includes \$0.2 million more for operating expenses.
- ***Fee Exemption Removal for EMS Licensees.*** Current law exempts municipal employees and volunteer or non-profit organizations from paying the emergency medical technician license fees. The licensing fee for paramedics is \$80 biennially and \$120 every three years for emergency medical technicians. The Governor’s budget includes \$0.3 million in new revenue from removing the current exemption.
- ***Shellfish Dockside Program.*** The Governor’s budget includes \$0.4 million in new revenue by imposing licensing fees on marine shellfish processors; the fees would be established through rules and regulations. The funds would be used to support staff and operating expenses associated with providing sampling, laboratory testing and monitoring. The fees would be based on estimated expenditures for the program; the budget reflects a like amount in expenditures.
- ***Division of Sheriffs Training Academy Fee.*** The Governor’s budget includes \$13,000 in new revenues by imposing a \$50 application fee for the Division of Sheriffs.
- ***DUI/Refused Breathalyzer Fee.*** The Governor’s budget assumes \$220,016 from a new \$250,000 substance abuse education fee paid by individuals who are convicted of driving under the influence or refuse a breathalyzer test. The budget reflects a like amount in expenditures.
- ***RItE Share Noncompliance Penalties.*** The Governor’s budget assumes \$165,675 in new revenues from penalties paid by employers with at least 50 employees who do not comply with the reporting requirements identifying employees with access to employer sponsored insurance. The budget also includes \$150,711 of implementation costs for the Division of Taxation and assumes \$5.6 million in general revenue savings in the Executive Office of Health and Human Services from increased enrollment in RItE Share.
- ***Workplace Tax Compliance.*** The Governor’s budget includes \$4.2 million from increasing workplace fraud staff by adding 4.0 new full-time equivalent positions, doubling misclassification penalties, and increasing the minimum penalty for prevailing wage violations. Net of implementation costs, the budget impact would be \$3.8 million. The Governor has unsuccessfully recommended enhancing this staff in each of the last two years in order to increase collections. Misclassification penalties and fines were last increased as part of the FY 2018 budget.

- ***Veterans' Home Payments to Restricted Receipts.*** The Governor proposes shifting the monthly assessment paid by veterans residing at the Rhode Island Veterans' Home totaling \$4.5 million that currently are deposited as general revenues to restricted receipts. There would also be a corresponding shift of expenses. It should also be noted that the Governor proposes to increase the assessment from 80 percent of their net income to 100 percent, adjusted for certain deductions. The proposal would also increase the monthly personal needs allowance of \$150 to \$300. Adjusting for this cost, the estimated net revenue from all sources is \$0.9 million.
- ***Attorney General Settlements.*** The Governor includes \$1.7 million in new revenue from settlement agreements entered into by the Office of the Attorney General. This is associated with a proposal to add four new positions to support the effort to pursue multistate settlements for a net impact of \$1.3 million. It is unclear how this estimate was derived and what the assumptions are on timing of such settlements.

Other Revenues

- ***Adult Use Marijuana.*** As previously noted, the Governor's budget assumes \$21.8 million in new revenues from establishing an adult use marijuana program. This includes new revenues totaling \$21.1 million splitting retail sales revenues, net of wholesale procurement costs, among the contractors, municipalities and the state, as well as \$0.7 million from licensing fees for three new industries and certain employees associated with these activities. The proposed revenue split would be 29.0 percent to retail contractors, 10.0 percent to municipalities, and the state would retain the remaining 61.0 percent, to be deposited as general revenues. The proposal assumes that retail sales begin March 2021, and revenues annualize to about \$40.0 million.
- ***Administrative Fee on Pass-Through Taxes.*** The Governor's budget assumes \$0.8 million in new revenues retaining a 2.0 percent administrative fee from pass-through taxes collected on behalf of, and distributed to municipalities, including the Real Estate Conveyance Tax. The budget assumes a July 1, 2020 start date and appears to only assume application to the meals and beverage and hotel taxes.
- ***Infrastructure Bank.*** The Governor proposes that the Rhode Island Infrastructure Bank transfer \$5.0 million to state general revenues by June 30, 2021. The Governor also proposes to transfer \$8.9 million of bond premiums issued to the Bank for the Municipal Road and Bridge Fund to state general revenues in FY 2020. The enacted budget also includes a \$4.0 million transfer from Infrastructure Bank sources by June 30, 2020.
- ***Rhode Island Housing.*** The Governor proposes that Rhode Island Housing transfer \$1.1 million to state general revenues by June 30, 2021. Furthermore, Rhode Island Housing is directed to use up to half of the existing funding held in reserve for Department of Behavioral Healthcare, Developmental Disabilities and Hospitals' programs to support the creation or preservation of lower cost housing options for individuals with behavioral healthcare needs or developmental disabilities rather than in-patient services. The enacted budget also includes \$1.5 million to state general revenues by June 30, 2020.
- ***Resource Recovery Corporation.*** The Governor proposes that the Rhode Island Resource Recovery Corporation transfer \$5.0 million to state general revenues by June 30, 2020 and another \$5.0 million to state general revenues by June 30, 2021.
- ***RI Health and Educational Building Corporation.*** The Governor proposes that the Rhode Island Health and Educational Building Corporation transfer \$1.0 million to state general revenues by June 30, 2021.
- ***Rhode Island Student Loan Authority.*** The Governor proposes that the Rhode Island Student Loan Authority transfer \$2.0 million to state general revenues by June 30, 2021.

- ***Narragansett Bay Commission.*** The Governor proposes that the Narragansett Bay Commission transfer \$2.0 million to state general revenues by June 30, 2021.
- ***Unexpended Bond Funds.*** The Governor proposes to transfer unexpended bond funds totaling \$0.3 million from two different Department of Environmental Management issuances to state general revenues by June 30, 2020. Of the excess funds, \$0.2 million is from the Non-Point Source Pollution Control bond issued in 1990 for one final storm water management project, and \$0.1 million from the Rocky Point Bond issued in 2010 that was used to acquire Rocky Point Park. The property was purchased and the transferred funds are all that remain from the bond.
- ***BHDDH Asset Forfeiture Funds.*** The Governor’s revised budget transfers \$500,000 from the unused asset forfeiture fund balance of \$523,278 in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals.
- ***Oil Spill Prevention, Administration and Response Fund.*** The Governor recommends transferring \$1.0 million of current reserves from the Oil Spill Prevention, Administration and Response Fund to state general revenues by June 30, 2020. The fund is supported by a fee collected on barrels of petroleum products received at marine terminals from vessels originating outside the state and deposited as restricted receipts.

There is also a separate proposal that doubles the fee from five to ten cents per barrel increasing collections by an estimated \$1.9 million deposited as restricted receipts. She also proposes expanding uses of the fund to pay for climate adaptation and resiliency projects and using \$1.1 million of the new collections for these projects.

- ***Underground Storage Tank Trust Fund.*** The Governor proposes to transfer reserves of \$1.0 million from the Underground Storage Tank Trust Fund to state general revenues by June 30, 2020.
- ***Veterans’ Cemetery Fee.*** The Governor proposes increasing the fee on all non-veteran burials at the Rhode Island Veterans Memorial Cemetery. The Cemetery receives a federal plot allowance of \$796 for each veteran burial but does not for dependents. It currently collects a \$210 grave liner fee, which the Governor proposes to replace with a fee equal to the federal plot allowance. The Budget Office indicates that this is estimated to generate \$0.4 million of new revenue; however, the budget does not account for the revenues.
- ***Veterans’ Home Probate Collections.*** The Governor’s budget documents reference a proposal to collect the proceeds on open estate probates above \$15,000 for former residents of the Rhode Island Veterans’ Home. This is estimated to generate \$0.3 million in new revenue; however, the budget does not account for the revenues.
- ***Inmate Work Release.*** The Governor proposes changing the amount withheld from an inmate’s earnings for room and board from 30 percent of the gross income to 30 percent of the net income. This is expected to lead to higher program participation by inmates as they will be able to keep more of their earnings. This is estimated to generate \$18,800 in new revenues; however, the budget does not account for the revenues.