Governor’s FY 2015 Budget: Articles 11, 16, 18-3, 19

Staff Presentation to the House Finance Committee
February 6, 2014

Introduction

- Article 11 - Job Development Assessment
- Article 16 - Task Force on Underground Economy and Employee Misclassification
- Article 18-3 - DEM Customer Service Unit
- Article 19 - Executive Office of Commerce
Article 11 - Job Development Fund

- Allows the appropriation of funds remaining after state’s unemployment loans are repaid to be used towards new IT system for unemployment in DLT
- Current law requires all remaining funds be deposited into Trust Fund to pay benefits

Unemployment Insurance Background

- States finance unemployment benefits through taxes levied on employers
  - There are no taxes on employees in RI
  - Revenues collected from state UI taxes are managed in a trust fund, administered at the federal level
Unemployment Insurance Background

- 2010 Assembly converted the 0.3% insolvency surtax to a 0.3% tax assessment
  - Assessment can be used for benefits & interest on loans, surtax can only be used for benefits
  - Added 0.3% to the 0.21% job development fund assessment employers already paid
  - 0.3% is exempt from 10% indirect cost recovery

Job Development Fund Assessment

<table>
<thead>
<tr>
<th>JDF Assessment</th>
<th>Purpose of the Assessment</th>
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<tbody>
<tr>
<td>0.21%</td>
<td>Core operations of UI and Job Services programs*</td>
</tr>
<tr>
<td>0.02%</td>
<td></td>
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<tr>
<td>0.19%</td>
<td>Funds HRIC/GWB: grants, staff, operations</td>
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<tr>
<td>Temporary 0.3%</td>
<td>Principal and interest on state’s UI loans (instead of insolvency surtax)</td>
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*Technical change relates to this portion
For FY 2014 budget, the Gov. proposed:
- to remove strict use of funds
- transfer up to $8 million into IT account for DLT between FY 2013 and FY 2015
- The Assembly did not concur

2013 Assembly:
- Sunset the 0.3 percent assessment after UI loans are repaid
- Mandated remaining balance from 0.3 percent assessment be deposited into Trust Fund for payment of benefits
- Updated estimates indicate payoff will occur in Nov. 2014 and approx. $21 million available in FY 2015
Article 11 - Job Development Fund

- Current tax & benefit system is 24 years old
- RI is part of 3 state consortium
  - Mississippi is the lead, Maine
- Consortium awarded $90 M for new system
  - $60 million for the centralized system
  - $10 million each state’s specific program needs
- New system based on system in MS, but function in a cloud environment, online

$10.0 million federal grant provides staffing through 9/30/2014
- Equipment, contractors after that date
- No federal funds for staff as of 10/2014

$4.8 million is updated estimated cost for staffing from 10/1/2014 thru FY 2019
- $0.8 million in FY 2015
- $1.0 million annually FY 2016-19
Article 11 - Job Development Fund

- No assumed impact to the budget
- Department’s request did not include extra funding or authorization for staff for this project
- Governor did not recommend any

Article 16 – Task Force on the Underground Economy & Employee Misclassification

- Underground Economy: term used for when employers conceal activities from government licensing, regulatory and taxing authorities
- Misclassification: contracted worker instead of employee
Article 16 – Task Force on the Underground Economy & Employee Misclassification

- Affects workers, businesses and state
- Workers lack legal benefits, protections
- Businesses have unfair advantage by driving down taxes, wages, overhead
- Unpaid taxes, licensing fees, etc.

Article 16 – Task Force on the Underground Economy & Employee Misclassification

- Chaired by Labor & Training Director
  - Director of Business Regulation
  - Public Safety Commissioner
  - Attorney General
  - Tax Administrator
  - Director of workforce regulation and safety division in DLT
Article 16 – Task Force on the Underground Economy & Employee Misclassification

- **Stated Duties:**
  - Foster voluntary compliance by educating business owners and employees
  - Conduct joint, targeted investigations and enforcement actions against violators
  - Protect health, safety and benefit rights of workers
  - Restore competitive equality for law abiding businesses

- **Article 16 – Task Force on the Underground Economy & Employee Misclassification**

  - Members are required to share info among members in a timely manner
  - Establish protocols for advising or referring to other agencies matters of potential investigative interest

  - Article does not add authority for investigation or enforcement
    - relies on existing laws
Article 16 – Task Force on the Underground Economy & Employee Misclassification

- Gov. includes $1.8 million in revenues
  - $1.0 million from income taxes
  - $0.8 million from fees and penalties
- Utilizes tax rates, fees and penalties in current state laws

- Annual Report starting March 15, 2015
  - Governor, Finance Committee Chairs

In Massachusetts, a March 2008 executive order created a task force for the same purpose
- Began in May 2008
- Collected $1.8 million in first year
  - Restitution, state taxes, UI contributions, fines and penalties
- Collected $21.0 million in fourth year
At least 25 states have created task forces for one of these purposes
Approximately 30 states have passed legislation on this topic since 2008

2008 Assembly created: Special Joint Commission to Study the Underground Economy & Employee Misclassification

The Commission:
- Had 15 members
- Focused on workers’ compensation, taxation and unemployment
- Performed comprehensive study
- June 2009 report: findings, suggestions
- Legislation was proposed in 2009 session
  - did not pass
Article 18-3 – Environmental Management Customer Service Unit

- DEM includes an Office of Customer and Technical Assistance
  - Customer service functions include receipt and initial processing of permit applications
  - Article 18 codifies requirement that DEM have a customer service unit and program
    - Specifies program components

Article 18-3 – Environmental Management Customer Service Unit

- DEM and Office of Regulatory Reform would collaborate on alternative compliance approaches plan
  - Report due to General Assembly and Governor by May 1, 2015
Article 19 – Executive Office of Commerce

- House passed 2013-H 6063, Sub. A
  - Created Executive Office of Commerce, eff. Jan. 1, 2014
  - Various programs/functions would be transferred from DBR, DLT, and DOA
  - Would also coordinate business permit processes with DEM and CRMC
  - Final legislation had fewer functions and was delayed until new administration

Executive Office of Commerce

- Oversee and serve as the lead agency of Executive Branch
- Manage the promotion of commerce and the state’s economy
- Headed by a secretary of commerce, who would also oversee the Commerce Corp.
- Effective February 1, 2015
- Article delays this to July 1, 2015
Article 19 – Executive Office of Commerce

- Executive Office to operate functions of Department of Business Regulation
  - Effective, February 1, 2015
  - Article delays this to July 1, 2015

- Required implementation plan as part of FY 2015 budget submission
- Does not include provision/plan in budget documents

Article 19 – Executive Office of Commerce

- Legislation transferred Office of Regulatory Reform and housing/comm. development functions from DOA to Executive Office
- Maintains the Office of Regulatory Reform and delays housing functions
- Ombudsman for Small Business Regulatory Reform Enforcement be appointed by ORR
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