

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

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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

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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

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Job Development Fund Assessment

JDF Assessment		Purpose of the Assessment
0.21%	0.02%	Core operations of UI and Job Services programs*
	0.19%	Funds HRIC/GWB: grants, staff, operations
Temporary 0.3%		Principal and interest on state's UI loans (instead of insolvency surtax)

**Technical change relates to this portion*

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Unemployment Insurance Background

- 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

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Unemployment Insurance Background

- 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

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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

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Article 11- Job Development Fund

- \$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

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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

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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

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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.

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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

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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

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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

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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

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

- In Massachusetts, a March 2008 executive order created a task force for 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

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

- 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

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Article 16 – Task Force on 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

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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

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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

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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

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Article 19 – Executive Office of Commerce

- 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

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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

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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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