Governor’s FY 2017 Budget: Articles

Staff Presentation to the House Finance Committee
March 10, 2016
Article 13 – Making Work Pay
- Minimum Wage
- Earned Income Tax Credit

Article 16 – Making it Easier to do Business in Rhode Island
- Unemployment Insurance
- Temporary Disability Insurance
Article 13 – Minimum Wage

- Increases minimum wage from $9.60 to $10.10 per hour
  - Effective January 1, 2017
- 2015 Assembly increased from $9.00 to $9.60/hour
  - Effective January 1, 2016
- DLT reports estimated 40,000 RI workers who are paid hourly earn between $9.00 and $9.99
  - Approx. 13% of those with hourly wages
## Article 13 – Minimum Wage

<table>
<thead>
<tr>
<th>State</th>
<th>Minimum Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut*</td>
<td>$9.60</td>
</tr>
<tr>
<td>Maine</td>
<td>$7.50</td>
</tr>
<tr>
<td>Massachusetts*</td>
<td>$10.00</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$7.25</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$9.60</td>
</tr>
<tr>
<td>Vermont*</td>
<td>$9.60</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>$8.12</td>
</tr>
</tbody>
</table>

Data from United States Department of Labor as of 1/1/16

*Scheduled to go up Jan 1, 2017: MA $11, CT $10.10, VT $10
Minimum wage laws vary across the United States.

Rhode Island currently has 4th highest minimum wage (incl. DC)

- $9.60

  Tied with Vermont and Connecticut

States w/ higher minimum wage

- California and Massachusetts - $10.00
- D.C. - $10.50
Article 13 – Minimum Wage

<table>
<thead>
<tr>
<th>State Minimum Wage Cohorts</th>
<th>21</th>
<th>41%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$7.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$7.26 - $8.49</td>
<td>14</td>
<td>27%</td>
</tr>
<tr>
<td>$8.50 - $9.50</td>
<td>9</td>
<td>18%</td>
</tr>
<tr>
<td>&gt; $9.51</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>100%</td>
</tr>
</tbody>
</table>

Includes Washington D.C.
Data from United States Department of Labor as of 1/1/16
11 states index minimum wage to cost-of-living formula
7 states have two-tiers
5 states have no statutory minimum
2 states are below federal minimum
- Federal minimum of $7.25 applies
  - Last raised in 2009
Article 13 – Minimum Wage

Northeast $8.69/hour

South $7.74/hour

West $8.32/hour

Midwest $7.94/hour

U.S. Census Bureau and Dept. of Labor
Direct state budget expenditure impact relates only to the Department of Environmental Management

- Certain seasonal workers
- Estimated FY 2017 impact ~$70,000
  - Annual impact roughly twice that
  - Not included in the Governor's budget
Article 13 – Earned Income Tax Credit

- Credit against personal income taxes
  - To assist low/moderate income filers
  - Must have earned income to qualify

- Credit issued at federal level
  - Income level
  - Filing status
  - Number of dependent children
## Article 13 – Earned Income Tax Credit

### Federal Credit - Single Filer – Tax Year 2016

<table>
<thead>
<tr>
<th>No Qualifying Children</th>
<th>1 Qualifying Child</th>
<th>2 Qualifying Children</th>
<th>3+ Qualifying Children</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Max. Income</strong></td>
<td>$14,880</td>
<td>$39,296</td>
<td>$44,648</td>
</tr>
<tr>
<td><strong>Max. Credit</strong></td>
<td>$506</td>
<td>$3,373</td>
<td>$5,572</td>
</tr>
</tbody>
</table>

### Federal Credit - Joint Filers – Tax Year 2016

<table>
<thead>
<tr>
<th>No Qualifying Children</th>
<th>1 Qualifying Child</th>
<th>2 Qualifying Children</th>
<th>3+ Qualifying Children</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Max. Income</strong></td>
<td>$20,330</td>
<td>$44,651</td>
<td>$49,794</td>
</tr>
<tr>
<td><strong>Max. Credit</strong></td>
<td>$506</td>
<td>$3,373</td>
<td>$5,572</td>
</tr>
</tbody>
</table>
26 states offer a credit against state income tax – including Rhode Island
  - State credit = % of federal credit
23 states’ credits are refundable – including Rhode Island
  - If credit is more than amount owed – difference paid to filer
Comparison of credit impact between states is difficult

Percent of federal credit & refundability not only factors

- Marginal tax rates – tiered system more progressive than flat rate; ranges of income within brackets
- Deductions and exemptions
- Other credits allowed
### Article 13 – Earned Income Tax Credit

<table>
<thead>
<tr>
<th>State</th>
<th>State Credit % of Federal</th>
<th>Marginal Tax Rate</th>
<th>Other Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rhode Island</td>
<td>12.5%</td>
<td>Progressive 3.75% - 5.99%</td>
<td>standard deduction; personal &amp; dependent exemptions; childcare credit</td>
</tr>
<tr>
<td>Connecticut</td>
<td>27.5%</td>
<td>Progressive 3.0% - 6.70%</td>
<td>standard deduction; personal exemption</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>23.0%</td>
<td>Flat 5.10%</td>
<td>Personal &amp; dependent exemptions; childcare deduction; renters deduction</td>
</tr>
</tbody>
</table>
2014 Assembly enhanced value of credit for tax year 2015
- 10% of federal, 100% refundable
- Was 25% of federal, 15% refundable

Governor’s FY 2016 budget proposed increasing credit over 2 years
- To 12.5% of federal credit for TY 2016
- To 15% of federal credit for TY 2017
2015 Assembly concurred with increase to 12.5% of credit for TY 2016

Governor’s FY 2017 Proposal – Increase value of the credit to 15.0% of federal
  ▪ Remains 100% refundable

FY 2017 Budget includes $2.7 million revenue decrease (half-year impact)
  ▪ Annualizes to $5.5 million for FY 2018
Article 16 – Unemployment Insurance

- Article 16 makes 2 changes affecting unemployment insurance taxes
  - Reduces reserve ratios
  - Expands tax rates in each schedule
  - Expected to save employers ~ $30 million in 2017
Unemployment insurance taxes paid by employers

- Federal and state component
  - Federal tax used for:
    - Administrative expenses
    - Loans to states when needed to pay benefits
    - Partially reimburse states for extended benefits
  - State tax used solely for benefits
# Article 16 – Unemployment Insurance

<table>
<thead>
<tr>
<th>2015</th>
<th>Effective Rate</th>
<th>Wage Base</th>
<th>Tax per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>0.6%</td>
<td>$7,000</td>
<td>$42</td>
</tr>
<tr>
<td>State*</td>
<td>1.69%-9.79%</td>
<td>$21,200</td>
<td>$358 - $2,075</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$22,700</td>
<td>$384 - $2,222</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$400 - $2,264</td>
</tr>
</tbody>
</table>

*Does not include Job Development Assessment of 0.21%*
Article 16 – Unemployment Insurance

- During recession, many states borrowed from federal trust fund to pay claims
- Rhode Island’s trust fund became insolvent in March 2009
- State had negative fund balances for a number of years
  - 2010 Assembly enacted 0.3% increase in Job Development Fund to pay loans
Federal loan repaid in 2015
- Federal assessment ended when loan was repaid
- Additional state assessment ended
- As of September 30, 2015, state’s trust fund reserves total $116.5 million
2011 Changes effective Jan. 1, 2012

- Increased taxable wage base
- Changed method of determining taxable wage base
  - Increased from $19,000 to 46.5% of 2010 wages and all future wages
    - Estimated to be $19,600 in CY 2012
  - Increased base by $1,500 for employers with highest negative reserve account balances
Article 16 – Unemployment Insurance

- 2011 Changes effective July 1, 2012
- Modified benefit rates & eligibility
  - Reductions to
    - % of wages used to determine benefits
    - % of wages replaced
    - Maximum weekly benefit
  - Increased earnings needed to overcome disqualifications
  - Delayed benefits by any amount received from severance pay
State has 9 tax schedules: A - I
- Each schedule has 25 tax rate groups
- Schedules based on reserve ratio of fund as of September 30 of prior year
  - Trust Fund balance divided by total wages paid during year = reserve ratio
- Individual rates based on each employers’ level of reserves
Article 16 – Unemployment Insurance

- Using Schedule I since 1992
  - Schedule I has the highest tax rates
  - Expected to stay on Schedule I until 2021
- Article 16 lowers reserve ratios
  - Allows move to Schedule H in FY 2017
    - Lower tax schedules and lower tax rates
## Article 16 – Unemployment Insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Law</th>
<th>Article 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>I</td>
<td>H</td>
</tr>
<tr>
<td>2018</td>
<td>I</td>
<td>H</td>
</tr>
<tr>
<td>2019</td>
<td>I</td>
<td>G</td>
</tr>
<tr>
<td>2020</td>
<td>I</td>
<td>G</td>
</tr>
<tr>
<td>2021</td>
<td>H</td>
<td>G</td>
</tr>
<tr>
<td>2022</td>
<td>H</td>
<td>G</td>
</tr>
<tr>
<td>2023</td>
<td>H</td>
<td>G</td>
</tr>
<tr>
<td>2024</td>
<td>H</td>
<td>F</td>
</tr>
</tbody>
</table>
Article 16 – Unemployment Insurance

Tax Schedule by Reserve Ratio

- Current Law
- Article 16
Based on RI’s experience, U.S. Dept. of Labor recommends minimum reserve ratio of 3% prior next recession
- Equates to 1 year’s benefits at average payout over highest 3 years of last 20

Article 16 would reach 2.6% in 2023
- Currently 0.25%
- Mass 0.27%; CT 0.02%

As of January 1, 2016, 32 states below federal target
Article 16 – Unemployment Insurance

- Article 16 expands tax rates
  - Adds 3 new rates within each schedule
  - Lowest rate falls below 1%
  - Adjusts other rates up to maintain overall contributions at current level
    - Employers with few layoffs will move to lower minimum rates
    - Those with frequent layoffs will move to higher rates
  - No change to 0.21% Job Dev. Assessment
## Article 16 – Unemployment Insurance

### Employer Tax Per Employee

<table>
<thead>
<tr>
<th>Employer Reserves</th>
<th>Current Law</th>
<th>Article 16</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>$403</td>
<td>$276</td>
<td>$(127)</td>
</tr>
<tr>
<td>10%</td>
<td>$700</td>
<td>$615</td>
<td>$(85)</td>
</tr>
<tr>
<td>5%</td>
<td>$827</td>
<td>$763</td>
<td>$(64)</td>
</tr>
<tr>
<td>-5%</td>
<td>$1,272</td>
<td>$1,230</td>
<td>$(42)</td>
</tr>
</tbody>
</table>
## Article 16 – Unemployment Insurance

<table>
<thead>
<tr>
<th>State</th>
<th>Wage Base</th>
<th>Minimum Rate</th>
<th>Maximum Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>$15,000</td>
<td>1.9%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Maine</td>
<td>$12,000</td>
<td>0.74%</td>
<td>6.86%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$15,000</td>
<td>0.73%</td>
<td>11.13%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$14,000</td>
<td>0.05%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>$21,200 or $22,700</td>
<td>1.69%</td>
<td>9.79%</td>
</tr>
<tr>
<td>Vermont</td>
<td>$16,400</td>
<td>1.3%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>
RI & 4 other states have a temporary disability insurance program

- Protects workers against wage loss from non-work related illness or injury
- Temporary caregiver program provides 4 weeks to care for family member
- Paid for by employees
  - 1.2% on first $66,300 or $795.60
Article 16 – TDI

- Article 16 establishes task force on temporary disability insurance fraud & program integrity
  - Director of Labor and Training - chair
  - Secretary of Health and Human Services
  - Director of Health
  - Director of Office of Management & Budget
  - Attorney General
Article 16 – TDI

- Coordinate joint efforts to combat fraud and abuse
- Foster appropriate use of the program by both claimants and healthcare providers
  - Educate about program’s intent & benefits
- Perform joint investigations into fraudulent activities
Article 16 – TDI

- Article 16 reduces length of time claimants have to apply for benefits
  - from 52 weeks to 90 days
  - Allows DLT director to extend claim filing period up to 26 weeks
    - If individual can show good medical reason for delay in filing
<table>
<thead>
<tr>
<th>State</th>
<th>Claim Reporting Deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>49 days</td>
</tr>
<tr>
<td>Hawaii</td>
<td>90 days</td>
</tr>
<tr>
<td>New Jersey</td>
<td>30 days</td>
</tr>
<tr>
<td>New York</td>
<td>30 days</td>
</tr>
<tr>
<td>Rhode Island (current law)</td>
<td>52 weeks</td>
</tr>
<tr>
<td>Aflac (private)</td>
<td>52 weeks</td>
</tr>
</tbody>
</table>
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