Governor’s FY 2021 Budget: Articles

Staff Presentation to the House Finance Committee
February 11, 2019
Introduction

- Article 19 – Workforce Development
  - Sections 1-7, 9, & 11-14 – Apprenticeships
  - Section 8 – Minimum Wage
    - Standalone bill H 7157 heard in Labor on February 5
  - Section 10 – Job Development Fund Expansion
  - Sections 15 & 16 – Earned Income Tax Credit
Apprenticeships – current law

- Most requirements for specific trade apprenticeships in Title 5
- State Apprenticeship Program in Title 28
  - Overseen by Apprenticeship Council in DLT
    - Council adopts rules and regulations, establishes standards, formulates rules
      - Must conform with federal regulations
- DLT settles differences, supervises standards and agreements, issues certificates upon completion
“Apprenticeable occupation”
- Learned through on-the-job supervised instruction
- Clearly identified & commonly recognized throughout an industry
- Involves progressive attainment of manual, mechanical, or technical skills & knowledge with min. 2,000 hours of on-the-job learning
- Requires related instruction to supplement training
Summary

- Section 13 establishes school construction project apprenticeship requirements
- Other sections mainly repeal or update outdated language in apprenticeship laws
  - Contain mostly technical changes or replacement language for repealed language
  - Conform with federal regulations
Voters approved $250.0 million GO bond in November 2018 for school construction

- Triggered temporary enhanced state share
  - $617.1 million of projects approved since May 2019
  - $883.6 million projected to be approved in 2020

Section 13 establishes legislative findings

- Cites numerous studies which show a decrease in construction labor
- Cites studies which show that apprenticeship programs are a solution to labor shortages
Article 19, Section 13 – School Construction Requirements

- Requires projects of $5.0 million or more use apprenticeships
  - Currently apprenticeships are required on state projects over $1 million
  - Bidders must have approved apprenticeship programs and use apprentices for 10% of hours worked on the projects – measured monthly
  - Can be adjusted by contracting entity following a petition by bidder
    - If there are not enough apprentices of specific trade
    - Contractor made good faith effort but fell short
Data and reporting

- Contractors/subcontractors must collect data and submit to DOA & DLT
  - Apprentice names categorized by trade
  - Registration number & approved program for each
  - Hours worked by each apprentice
  - Similar information required for journey people
- DOA must develop procedures for using and comparing data and publish annual report
Penalties for non-compliance

- Triggers contractual penalties with user agency
- Similar penalties to current prevailing wage violations:
  - $500 per day fine to the contractor or subcontractor for not submitting data
  - Withholding payment until data submitted
Numerous technical changes/updates

- Apprenticeship requirements converted to hourly rates
  - 2,000 hours = one year
  - Sets hourly credit equivalent for high school and postsecondary training
- Makes false reporting of apprenticeship information a violation
- Updates non-discrimination language in accordance with federal law
- Repeals outdated language
Unemployment insurance taxes are 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
State has 9 tax schedules: A - I
- Each schedule has 28 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 employer’s level of reserves
Employers who pay UI taxes also subject to additional 0.21% job development assessment.

Directed to the Job Development Fund:
- Admin. expenses
- Programs
- Lost federal funds

### Examples of Rates

<table>
<thead>
<tr>
<th>Schedule - Level</th>
<th>JDF</th>
<th>UI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>H - 3</td>
<td>0.21%</td>
<td>1.29%</td>
<td>1.50%</td>
</tr>
<tr>
<td>G - 6</td>
<td>0.21%</td>
<td>1.79%</td>
<td>2.00%</td>
</tr>
<tr>
<td>G - 15</td>
<td>0.21%</td>
<td>4.19%</td>
<td>4.40%</td>
</tr>
<tr>
<td>F - 5</td>
<td>0.21%</td>
<td>1.29%</td>
<td>1.50%</td>
</tr>
<tr>
<td>F - 28</td>
<td>0.21%</td>
<td>9.19%</td>
<td>9.40%</td>
</tr>
</tbody>
</table>
Article 19, Section 10 – Job Development Fund

- Job Development Fund
  - Under current law, 0.02% of the JDF tax is dedicated to support core services
    - Unemployment insurance
    - Employment services programs
  - Remaining 0.19% is allocated at the discretion of the Governor’s Workforce Board
    - Subject to appropriation
Governor’s Workforce Board

- Policy-making body on workforce development
  - 23 members on Board, appointed by Governor
  - 18 members must be from the public
- Invests in a wide range of programs and services
  - Real Jobs RI, internships, incumbent worker training, continuing adult education
Article 19, Section 10 – Job Development Fund

- Job Development Fund
  - 2018 Assembly approved one-time adjustment to assessment for calendar year 2019
  - Increased the amount that goes to JDF
    - No more than 75% of prior year UI investment earnings
    - Usually 0.21%, 0.29% for 2019
    - Employers do not pay additional taxes
  - Total impact - $6.7 million more for the JDF
    - Mostly spent during FY 2019 for the Real Jobs program
Article 19, Section 10 – Job Development Fund

- Article 19 expands JDF to non-profits with 1,000 or more employees
  - Estimated to impact 11 or 12 employers
    - Approximately $50.40 tax per employee
  - New provision from last year’s proposal would allow DLT Director to waive assessment for in-kind contributions
    - Providing space for trainings, instructors, helping with grant writing, etc.
    - Spending estimate not lowered to reflect possibility of these contributions
Estimated new revenue - $1.4 million

- For use for Real Jobs RI
- Would supplement $12.7 million from general revenues recommended for Real Jobs in FY 2021, $7.3 million more than FY 2020
- Effective January 2021
- Governor’s budget assumes full spending during FY 2021 despite first receipts not arriving until third quarter of FY 2021
## Governor’s Workforce Board – JDF Spending through FY 2021 Rec

<table>
<thead>
<tr>
<th>Year</th>
<th>Operations</th>
<th>Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016</td>
<td>$0.9</td>
<td>$8.5</td>
<td>$9.4</td>
</tr>
<tr>
<td>FY 2017</td>
<td>3.2</td>
<td>7.9</td>
<td>11.0</td>
</tr>
<tr>
<td>FY 2018</td>
<td>4.0</td>
<td>13.6</td>
<td>17.6</td>
</tr>
<tr>
<td>FY 2019</td>
<td>3.8</td>
<td>18.5</td>
<td>22.3</td>
</tr>
<tr>
<td>FY 2020 Gov. Rev.</td>
<td>4.0</td>
<td>13.8</td>
<td>17.7</td>
</tr>
<tr>
<td>FY 2021 Gov.</td>
<td>5.2</td>
<td>12.1</td>
<td>17.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$21.1</strong></td>
<td><strong>$66.7</strong></td>
<td><strong>$87.8</strong></td>
</tr>
</tbody>
</table>

$ in millions
Article 19, Sec. 15 & 16 – Earned Income Tax Credit

- Credit against personal income taxes
  - To assist low/mod income filers
  - Must have earned income to qualify
- Credit issued at federal level
  - Income level
  - Filing status
  - Number of dependent children
## Article 19, Sec. 15 & 16 – Earned Income Tax Credit

<table>
<thead>
<tr>
<th>Federal Credit - Single Filer – Tax Year 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifying Children</td>
</tr>
<tr>
<td>Max. Income</td>
</tr>
<tr>
<td>Max. Credit</td>
</tr>
<tr>
<td>RI Credit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Federal Credit - Joint Filers – Tax Year 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifying Children</td>
</tr>
<tr>
<td>Max. Income</td>
</tr>
<tr>
<td>Max. Credit</td>
</tr>
<tr>
<td>RI Credit</td>
</tr>
</tbody>
</table>
29 states offer a credit against state income tax – including Rhode Island
- State credit = % of federal credit
22 states’ credits are refundable
- If credit is more than amount owed – difference paid to filer
2016 Assembly last changed the credit from 12.5% to 15.0%
- 100% refundable
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 19, Sec. 15 & 16 – 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>15.0%</td>
<td>Progressive 3.75% - 5.99%</td>
<td>standard deduction; personal &amp; dependent exemptions</td>
</tr>
<tr>
<td>Connecticut</td>
<td>23.0%</td>
<td>Progressive 3.0% - 6.99%</td>
<td>standard deduction; personal exemption</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>30.0%</td>
<td>Flat 5.05%</td>
<td>Personal &amp; dependent exemptions; childcare deduction; renters deduction</td>
</tr>
</tbody>
</table>

* All refundable; CT was 30% but has fluctuated in recent years; MA increased from 23% for TY 2019
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

Assembly approved as two separate changes – 2015 and 2016 session
# Article 19, Sec. 15 & 16 – Earned Income Tax Credit

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI Credit</td>
<td>10%</td>
<td>12.5%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Residents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Filers</td>
<td>81,144</td>
<td>79,800</td>
<td>79,232</td>
<td>77,671</td>
</tr>
<tr>
<td>Credits Taken</td>
<td>$18.1</td>
<td>$22.2</td>
<td>$26.5</td>
<td>$26.6</td>
</tr>
<tr>
<td>Non-Residents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># of Filers</td>
<td>7,512</td>
<td>8,605</td>
<td>7,579</td>
<td>7,699</td>
</tr>
<tr>
<td>Credits Taken</td>
<td>$0.9</td>
<td>$1.4</td>
<td>$1.4</td>
<td>$1.4</td>
</tr>
<tr>
<td>Total # of Filers</td>
<td>88,656</td>
<td>88,405</td>
<td>86,811</td>
<td>85,370</td>
</tr>
<tr>
<td>Total Credits Taken</td>
<td>$19.0</td>
<td>$23.7</td>
<td>$27.9</td>
<td>$28.0</td>
</tr>
</tbody>
</table>

$ in millions
Governor’s Proposal – Increase value of the credit by 33% over five years in 1% increments from 15% to 20%
- Beginning with tax year 2021, credit will increase to 16.0%
  - Remains 100% refundable
- Impacts about 16% of income tax filers
- Fiscal year impacts assumed to be half
  - Full impact would be realized in FY 2026
## Article 19, Sec. 15 & 16 – Earned Income Tax Credit

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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $1</td>
<td>341</td>
<td>$(0.1)</td>
<td>$(0.0)</td>
<td>$(11.21)</td>
</tr>
<tr>
<td>$1 - $24,999</td>
<td>57,061</td>
<td>(21.1)</td>
<td>(1.3)</td>
<td>(23.44)</td>
</tr>
<tr>
<td>$25,000 - $49,999</td>
<td>26,458</td>
<td>(1.9)</td>
<td>(0.5)</td>
<td>(19.81)</td>
</tr>
<tr>
<td>$50,000 - $74,999</td>
<td>327</td>
<td>0.1</td>
<td>(0.0)</td>
<td>(3.86)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84,187</strong></td>
<td><strong>$(22.9)</strong></td>
<td><strong>$(1.9)</strong></td>
<td><strong>$(22.17)</strong></td>
</tr>
</tbody>
</table>

*in millions
## Article 19, Sec. 15 & 16 – Earned Income Tax Credit

<table>
<thead>
<tr>
<th></th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI Credit</td>
<td>16%</td>
<td>17%</td>
<td>18%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Impact</td>
<td>$(1.1)</td>
<td>$(3.5)</td>
<td>$(6.0)</td>
<td>$(8.7)</td>
<td>$(11.6)</td>
</tr>
</tbody>
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