SENATE FISCAL OFFICE
REPORT

GOVERNOR'S FY2018 AND FY2017 SUPPLEMENTAL BUDGETS

2017-H-5175

ARTICLE SUMMARIES

FEBRUARY 16, 2017

State House Room 117 ■ Providence, Rhode Island 02903 ■ (401) 222-2480 ■ www.rilegislature.gov/sfiscal

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Articles

Article 1: Relating to Making Appropriations in Support of FY2018

Article 1 outlines the appropriation amounts from all fund sources for FY2018. In most cases, the appropriations are by fund source at the program level in each department or agency. The article includes the FTE position authorizations by department or agency. Other sections of the article outline the use of contingency funds; out-year appropriation changes in Rhode Island Capital Plan Fund projects; expenditure limits for internal service funds; and, disbursements of Lottery, Temporary Disability Insurance, Employment Security, and University and College Funds.

This article also:

- Authorizes debt payments for the I-195 Redevelopment District Commission loan.
- Sets the airport impact aid formula.
- Allows all unexpended balances associated with license plate reissuance to be reappropriated to FY2019.
- Requires the Public Utilities Commission to pay an annual rent of $333,420 for the office building at 89 Jefferson Boulevard in the City of Warwick, reflecting an increase of $160,380. The Commission has paid an annual rent of $173,040 since moving into the structure.
- Caps the amount the Judiciary may charge to five state agencies (Public Defender's Office, Office of the Attorney General, Department of Corrections, DCYF, and Department of Public Safety) for public courthouse occupancy costs at $1.2 million.
- Requires that Rhode Island Housing continue to provide resources to support the Neighborhood Opportunities Program; an amount, however, is not designated. The Article requires a report be provided to the Director of Administration, chair of the Housing Resources Commission, State Budget Officer, and the chairs of the House and Senate Finance Committees on the number of housing units produced and funding.
- Requires the following transfers be made to the State Controller by June 30, 2018: $6.0 million from Resource Recovery Corporation; $1.0 million from the Rhode Island Infrastructure Bank; $2.5 million from Narragansett Bay Commission; $1.2 million from Rhode Island Health and Educational Building Corporation; and, $2.6 million from the Rhode Island Turnpike and Bridge Authority.

APPROPRIATIONS

Article 1 makes appropriations from general revenues and authorizes expenditures of federal funds, restricted receipts, and other funds for the fiscal year ending June 30, 2018.

Expenditures by Source	FY2016 Final	FY2017 Enacted	FY2018 Governor	*Change to Enacted*
General Revenue	$3,547.9	$3,683.7	$3,792.7	*$109.0*
Federal Funds	2,877.4	2,957.1	3,081.8	*124.8*
Restricted Receipts	245.7	257.0	273.8	*16.8*
Other Funds	1,834.2	2,040.9	2,099.7	*58.8*
Total	**$8,505.2**	**$8,938.7**	**$9,248.1**	***$309.3***

$ in millions. Totals may vary due to rounding.

In addition, Article 1 provides for the annual appropriation of the Contingency Fund; Temporary Disability Insurance Funds (TDI); Employment Security (UI Trust Fund); University and College Funds; and, Lottery Division funds for award winnings during FY2018.

Article 1 establishes 12 specific, capped internal service accounts to permit reimbursement of costs for work or other services performed by certain departments or agencies for any other department or agency. Reimbursements may only be made up to the expenditure cap for each account, as outlined below.

Internal Service Account	FY2017 Enacted	FY2018 Governor
State Assessed Fringe Benefits	$41,699,269	$41,229,448
Administration Central Utilities	14,900,975	24,910,320
State Central Mail	6,190,285	6,838,505
State Telecommunications	3,017,521	3,244,413
State Automotive Fleet	12,543,165	12,510,602
Surplus Property	2,500	3,000
Health Insurance	251,723,462	251,804,700
Other Post-Employment Benefits	63,934,483	63,852,483
Capital Police	1,172,421	1,306,128
Corrections Central Distribution Center	7,094,183	6,784,478
Correctional Industries	7,304,210	7,581,704
Secretary of State Records Center	907,177	807,345
Total	**$410,489,651**	**$420,873,126**

FUND TRANSFERS

Rhode Island Resource Recovery Corporation: The article requires the Rhode Island Resource Recovery Corporation (RIRRC) to transfer $6.0 million to the State Controller by the end of FY2018. The tipping fee cannot be increased to cover the transfer since the rate was recently set through the administrative rules process; however, the transfer equates to a $20 increase in the municipal tip fee. According to the Corporation, the remaining alternatives include requesting a subsidy from the State or increasing commercial solid waste volume. Increasing the volume, however, will shorten the lifespan of the landfill. Taking the funds from RIRRC without increasing revenues risks pushing RIRRC into default on its bond covenants. Borrowing would be difficult since RIRRC recently issued bonds for infrastructure projects and the transfer of funds to the State undermines the Corporations financial projections.

Rhode Island Infrastructure Bank: The article requires the Rhode Island Infrastructure Bank (RIIB) to transfer $1.0 million to the State Controller by the end of FY2018. According to RIIB, since RIIB leverages its capital with private sector capital in the bond market by four to five times, transferring $1.0 million would reduce its capacity to invest in local infrastructure projects by $5.0 million and impair its ability to fully execute its new programs. According to RIIB, $5.0 million of infrastructure investment would create or support 135 jobs.

RIIB requires capital to execute new programs in Municipal Roads & Bridges, the Efficient Building Fund, and Brownfield Remediation, and is currently focused on funding FY2017 projects in advance of the Spring/Summer construction period. The State did not contribute capital to RIIB in FY2017 for Municipal Roads & Bridges despite project demand of over $10.0 million nor has RIIB received state capital to execute the new Brownfield Remediation Fund which is ready to launch. Demand from municipalities, especially schools, for energy efficient and renewable energy projects through the Efficient Building Fund has been strong and RIIB requires capital to make these environmental investments. RIIB continues to see increased demand in the Community Septic System Loan Program (CSSLP) which provides 1.0 percent, long-term loans to homeowners to remediate cesspools or damaged septic systems. The proposed transfer would have a negative impact on RIIB programs and the homeowners and municipalities that benefit from these programs.

Narragansett Bay Commission: The article requires the Narragansett Bay Commission (NBC) to transfer $2.5 million to the State Controller by the end of FY2018. According to the NBC, if transferred to the rate payer, the transfer would impact some of the State's poorest communities that are already projected to face future rate increases due do capital improvement projects. According to NBC, the rate increase necessary to generate $2.5 million is $12.36, or 2.6 percent, per year for the average single-family homeowner. NBC also expressed concerns about the impact of the transfer on the Commission's bond rating and whether such a transfer would be legal given the constraints of the Trust Indenture.

Rhode Island Health and Educational Building Corporation: The article requires the Rhode Island Health and Educational Building Corporation (RIHEBC) to transfer $1.2 million to the State Controller by the end of FY2018. RIHEBC has indicated that the transfer of these funds would severely limit its ability to continue its Financial Assistance program in any significant way. The Financial Assistance program provides fixed rate loans to institutions for equipment, facility improvements, and real estate. The maximum amount of loans per institution is $800,000 with a maximum loan term based on the useful life of the project, but in no case, will the term exceed ten (10) years. The program also provides grants to nonprofit institutions for innovative educational or technological projects, feasibility studies, and other healthcare initiatives. In addition, the program provides other assistance such as $1.0 million to fund the assessment by the School Building Authority to document the conditions of the schools and to help defray the costs associated with administering the School Building Authority Capital Fund, as well as the costs associated with financing school projects for communities.

Rhode Island Bridge and Turnpike Authority: The article requires the Rhode Island Bridge and Turnpike Authority to transfer $2.6 million to the State Controller by the end of FY2018. RIBTA indicates that the majority of its revenue is dedicated to bondholders through various indenture, including funds from current tolls and the gasoline tax. RIBTA indicates that its revenue and income forecast is made to coincide with the planned expenditures for the Newport Pell, Sakonnet, Jamestown, and Mt. Hope Bridges and their approaches (including the length of Route 138 between Newport and Jamestown). A change to this forecast would result in the alteration of construction schedules, the delay of needed repair projects, and/or the cancellation of projects. If the fund transfer were to occur, and in order to meet its existing capital plan, RIBTA indicates that its Board would likely reassess the current toll structure and potentially increase tolls.

FTE POSITION CAP AND APPROVAL

Article 1 establishes the authorized number of full-time equivalent (FTE) positions for each State department and agency. Departments and agencies may not exceed in any pay period the number of authorized FTE positions shown. Statewide, the Governor recommends a net increase of 114.8 FTE positions from the FY2017 Budget as Enacted. Following are the changes included in the Governor's proposal:

Government Function	FY2017 Enacted	FY2018 Governor	*Change to Enacted*
General Government	2,342.7	2,402.9	*60.2*
Human Services	3,619.6	3,561.6	*(58.0)*
Education	3,909.9	3,918.9	*9.0*
Public Safety	3,205.6	3,231.2	*25.6*
Natural Resources	428.0	432.0	*4.0*
Transportation	701.0	775.0	*74.0*
Subtotal	**14,206.8**	**14,321.6**	***114.8***
Higher Ed. Sponsored Research	745.8	745.8	-
Total FTE Positions	**14,952.6**	**15,067.4**	***114.8***

FTE changes include:

- **A decrease of 99.0 FTE positions in the Department of Human Services:** The Budget includes a reduction of 60.0 FTE positions due to the implementation of the new UHIP system. Additionally, there is a shift of 39.0 FTE finance positions to the Executive Office of Health and Human Services. This consolidation will allow for coordination among finance departments by centralizing staff at EOHHS

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office space; however, the financing for the FTE positions will remain in the Department of Human Services to maximize federal financing participation.

- **An increase of 90.0 FTE positions in the Office of Health and Human Services:** The Governor transfers 90.0 FTE positions from the Department of Human Services (DHS), Department of Children, Youth, and Families (DCYF), the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH), and the Department of Health (DOH) to consolidate finance staff to the Executive Office of Health and Human Services.

  The consolidation will allow for coordination among finance departments by centralizing staff at EOHHS office space. The financing for the FTE positions will remain in the respective departments to maximize federal financing participation.

- **An increase of 74.0 FTE positions for the Department of Transportation:** The Governor recommends increasing DOT's authorized level of FTEs in FY2018 to 775.0, 74.0 positions more than the FY2017 enacted level. This increase consists of the following new positions: 2.0 Assistant Administrative Officers, 14.0 Bridge Maintenance Workers, 1.0 Chief Civil Engineer for Road Design, 1.0 Civil Engineering Associate, 1.0 Highway Maintenance Operator I, 6.0 Highway Maintenance Operator II, 1.0 Planner, 1.0 Principal Civil Engineer, 3.0 Road Maintenance Supervisors, 1.0 Supervising Environmental Scientist, 2.0 Electrical Inspectors, and 1.0 Engineering Technician. These are in addition to the net 40.0 FTEs recommended to be added by the Governor in the revised FY2017 supplemental budget.

- **An increase of 50.4 FTE positions in the Department of Public Safety:** This increase consists of numerous personnel adjustments, the majority of which are attributable to the integration of the Emergency Management Agency with the DPS. This reorganization results in a total increase of a 29.0 FTE positions at DPS. Within the State Police important FTE changes include the addition of a net 3.0 FTE positions at the State Police, including the addition of 1.0 Cyber Analyst and 1.0 Computer/Cyber Forensic Analyst position that the Governor recommends be converted from a federal grant funding that is ending in FY2018. The budget also includes the addition of 2.0 civilian Senior Planning and Program Specialists to relieve uniform personnel from duties in the Planning, Research, and Accreditation Bureau in order to focus on law enforcement; and the transfer of 1.0 Data Processing System Manager to the Department of Administration's Division of Information of Technology. The Budget also includes the addition of 1.0 Assistant Explosives and Flammable Liquids Technician to assist the Fire Marshal; 5.0 Screener positions to assist Capitol Police with the security at state buildings; and 2.0 Capitol Police Officers to provide security at the Department of Health and the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals. Within Central Management, the Governor adds several new civilian positions including a 1.0 Chief of Motor Pool and Maintenance, 1.0 Project Manager I, 1.0 Director of Public Information, 1.0 Executive Assistant to the new Commissioner of Public Safety, 1.0 Director of Policy, and the transfer of 4.0 FTEs associated with human resource functions to the DOA. These are in addition to the net 6.4 FTEs, including the 1.0 Commissioner of Public Safety FTE position, recommended to be added by the Governor in the FY2017 supplemental budget.

- **A decrease of 29.0 FTE positions in the Rhode Island Emergency Management Agency:** The Budget transfers the Rhode Island Emergency Management Agency and the associated FTE positions into a re-organized Department of Public Safety, further consolidating state public safety agencies into a single entity.

- **An increase of 24.2 FTE positions in the Department Labor and Training:** There is a net increase of 24.2 FTE positions within the Department of Labor and training. The following positions are added in the FY2017 Supplemental Budget and the FY2018 Budget: 14.2 FTE positions within the Income Support Program associated with claims processing services; 1.0 FTE position associated with the Real Jobs Rhode Island workload within Workforce Development Services; 4.0 FTE positions within the

Workforce Regulation and Safety program associated with workplace fraud caseloads; 1.5 FTE positions within Central Management, including 1.0 Administrative Officer and 0.5 Legal Counsel; 1.0 Investigative Auditor and 1.0 Senior Monitoring and Evaluation Specialist to augment existing staff to create the Compliance and Integrity Unit; 1.0 Chief of Information and Public Relations to assist in meeting the demands of the Marketing and Communications Unit; 1.0 Principal Research Technician to meet the demands of the State Workforce and Education Alignment Project (SWEAP) funded by a grant from the National Skills Coalition; 1.0 Assistant Coordinator of Employment and Training Programs for the LEAP (Linking to Employment Activities Pre-release) program, which provides employment services for formerly incarcerated individuals; 1.0 Assistant Chief of Planning, a new position created to meet the demands within the Governor's Workforce Board. Additionally, in FY2018 there is a decrease of 2.5 FTE positions within the Board of Review, including 2.0 Referees and 0.5 Lawyer.

- **An increase of 16.0 FTE positions in the Department of Revenue:** The Governor includes an increase of 16.0 FTE positions. The FTE increase includes 8.0 FTE positions to reduce wait times at the Registry of Motor Vehicles, including 2.0 Motor Vehicle Appeals Officers and 6.0 Customer Service Representative I positions. The Division of Taxation adds 2.0 Taxpayer Service Specialists; 2.0 Revenue Agent I positions; 1.0 Teller; 2.0 Data Analyst I; and 1.0 Supervising Revenue Officer.

- **An increase of 10.0 FTE positions Public Higher Education:** The Budget includes 10.0 new FTE positions for the administrative staff at the newly created Nursing Education Center.

- **An increase of 9.0 FTE positions in the Department of Business Regulation:** This net increase is associated with several personnel changes that are recommended by the Governor in FY2017 and are included in FY2018 FTE totals. These positions include 1.0 Senior Management & Methods Analyst FTE position in Central Management, 3.0 Bank Examiner FTE positions in Banking Regulation, 3.0 Insurance Examiner, 1.0 Senior Insurance Examiner and 1.0 Licensing Aide position in Insurance Regulation.

- **An increase of 6.0 FTE positions in the Public Utilities Commission:** The Budget adds 1.0 Deputy Chief of Legal position, 1.0 Fiscal Management Officer, and a 1.0 Regulatory Research Specialist. These three positions are required to handle the increase work involving regulatory research and analysis, increased fiscal and financial reporting requirements, and a projected increase in administrative proceedings. In addition, the Budget adds 2.0 Administrative Assistants, one for the Division and one for the Commission, and a 1.0 Chief of Program Development position. The Administrative Assistants are required to assist Commission and Division staff with energy policies. The Chief of Program Development position is required to meet the increased demand in Energy Facilities Siting Board filings, rate modernization, and the changes to evolving energy policy.

- **An increase of 5.0 FTE positions in the Department of Administration:** The Budget merges 5.0 FTE positions from the Department of Public Safety into the information technology (1.0 FTE position) and human resource (4.0 FTE positions) service centers consolidated in the Department of Administration.

- **A decrease of 4.0 FTE positions in the Department of Health:** The Budget includes a net decrease of 4.0 FTE positions. The FTE increases include 3.0 FTE positions to reflect the lead consolidation effort; 1.0 FTE Health Program Administrator to address the backlog of Department regulation; 1.0 FTE Nursing Care Evaluator to inspect health care facilities; and 1.0 FTE Public Health Promotion Specialist to investigate complaints against medical professionals. The FTE reductions include 1.0 FTE to reflect the consolidation of the heads of the Center for Professional Boards and Commissioner and the Center for Professional Licensing into one position; 2.0 FTE positions are transferred to the Office of the Health Insurance Commissioner as part of the consolidation of the utilization review process; Additionally, there is a shift of 7.0 FTE positions to reflect the centralization of finance and human services functions. This consolidation will allow for coordination among finance departments by centralizing staff at EOHHS office space; however, the financing for the FTE positions will remain in the Department of Health to maximize federal financing participation.

- **An increase of 4.0 FTE positions at the Department of Environmental Management:** The Budget includes 4.0 new FTE positions including: 1.0 FTE position transferred from the Historical Preservation and Heritage Commission for the management of the Eisenhower House; 1.0 FTE position for a new merchandising program, and 2.0 FTE positions for Environmental Scientists to work on reducing storm water and other pollution into waterways.
- **An increase of 3.0 FTE positions in the Department of Corrections:** The Governor includes an increase of 3.0 FTE positions associated with mental health services. This increase includes 2.0 Clinical Social Workers and 1.0 Administrative Assistant.
- **An increase of 1.0 FTE position in the Executive Office of Commerce:** The increase reflects the addition of 1.0 Assistant Administrator, Financial Management FTE position within the Central Management program.
- **A decrease of 1.0 FTE position in the Office of the General Treasurer:** The Budget includes a decrease of 1.0 FTE position reflecting the elimination of the 1.0 Director of Member Services position for the CollegeBoundSaver Program, which was not funded in the enacted budget.
- **An increase of 1.0 FTE position in the Office of the Child Advocate:** The Budget include 1.0 case management coordinator position in FY2018. The additional FTE position is expected to increase general revenue expenditures by $23,306 in FY2018. The additional case management coordinator will support the Victims of Crime Act (VOCA) program which provides assistance to victims and their families seeking support through the OCA.
- **An increase of 1.0 FTE position in the Office of the Public Defender:** There is an increase of 1.0 FTE attorney position in the Office of the Public Defender.

CAPITAL APPROPRIATIONS

Article 1 authorizes amounts from the Rhode Island Capital Plan (RICAP) Fund, not otherwise appropriated, to be expended during the fiscal years ending June 30, 2019, June 30, 2020, and June 30, 2021. These amounts supersede appropriations provided for FY2018 within the FY2017 Budget as Enacted.

Subject to final General Assembly approval, any unexpended or unencumbered funds from the RICAP Fund project appropriations in excess of $500 may be reappropriated to the next fiscal year and made available for the same purpose. Any remaining funding less than $500 may be reappropriated at the discretion of the State Budget Officer.

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Article 2: Relating to Economic Development and Tax Credits

This article expands the number and types of tax credits and programs managed by the Commerce Corporation. Specifically, the article:

- Expands the Innovation Initiative voucher program beyond small businesses to include a distinct category of small business manufacturers.
- Creates a Refundable Investment Tax Credit to incentivize Rhode Island manufacturers to invest in their businesses. The Commerce Corporation may award a refundable tax credit up to $200,000 to use against costs associated with financing manufacturing capital assets such as plant and equipment. A manufacturer is only able to redeem the credit if its value exceeded the tax liability in the year the credit is available. Manufacturers have to apply on an annual basis to the Commerce Corporation, who make awards based on competitive factors set forth in the application.
- Creates a specific Refundable Jobs Training Tax Credit available to qualifying manufacturers for expenses incurred in the training and/or retraining of employees. Similar to the investment tax credit described above, manufacturers may be awarded up to $200,000 per year, and in order to redeem the credit it must exceed their tax liability in the year the tax credit is available.
- Establishes a Technical Assistance for Municipal Zoning and Permitting Fund (TA Fund) to finance and support technical assistance to cities and towns. This fund helps cities and towns evaluate and streamline zoning, planning, and permitting processes with the goal of advancing local economic development.
- Adds the Refundable Investment Tax Credit and the Refundable Jobs Training Tax Credit as allowable credits against personal income and business corporations tax liabilities.

FISCAL IMPACT

The Governor recommends an increase of $1.0 million in general revenue in FY2018 for a total budget of $2.5 million to fund an expanded Innovation Initiative grant program, administered by the Commerce Corporation, that supports company-based research and development costs for small businesses and manufacturers.

The Governor budgets $3.5 million for Refundable Manufacturing Investment Tax Credits and $2.0 million in Refundable Job Training Tax Credits for FY2018.

Section 4 of the article establishes the TA Fund and authorizes it to receive funds from all sources including general revenue appropriations and federal grants. The Governor includes $250,000 of general revenue for this initiative in FY2018.

ANALYSIS AND BACKGROUND

This article refines, expands and establishes several economic development incentives and programs, primarily in support of Rhode Island’s manufacturing sector.

Innovation Voucher and Network Initiative Expansion - Manufacturers

Originally authorized by the General Assembly in 2015, the Innovation Voucher and Network Program (RIGL 42-62.28) was created to provide financial assistance to small businesses (under 500 employees) for research and development technical assistance. This article expands and refines the incentive program by creating a distinct category of small business manufacturer (as defined for property tax exemption purposes under RIGL 44-3-3) to which the Commerce Corporation may issue vouchers. Vouchers may be used to pay for: research and technological development; product development; commercialization; market development; technology exploration; and improved business practices/strategies that grow business and create operational efficiencies.

The Commerce Corporation is directed, subject to appropriation levels, to reserve up to $1.0 million in FY2018 for small business manufacturers under this program. The Governor's recommends a total of $2.5 million in general revenue for the Innovation Initiative's voucher program.

Refundable Investment Tax Credit

The Governor creates a new tax credit, to be administered by the Commerce Corporation, intended to promote investment in manufacturing by reducing a business's tax burden. The credit may be taken against personal income and business corporation tax liabilities and is refundable to the extent that the credit exceeds the business's tax liability, exclusively for the tax year in which the credit was issued. Credits carried forward beyond the issued year are not refundable. Credits are capped at $200,000 for any one business in any given tax year. Payment of redeemed tax credits are made from a new account within the Commerce Corporation and is contingent upon state budget appropriation. The Governor recommends $3.5 million in general revenue in FY2018.

To be eligible to take and/or redeem the refundable investment tax credit a business must:

- Meet the definition of a manufacturer as set forth under the existing Investment Tax Credit Program [44-33-1(b)(1) and (2)] as well as those entities described in major groups 20-39 of the federal Standard Industrial Classification Manual.
- Apply to the Commerce Corporation *prior* to making the investment that would give rise to the requested tax credit. When considering an application, Commerce Corporation shall take into account the nature and amount of the investment; the necessity of the investment and/or credit; whether the applicant is within a target sector; the number of jobs resulting, and whether or not the credit is applicable to a manufacturer located in a municipality where family poverty levels exceed the state median.
- Enter into an incentive agreement with the Commerce Corporation setting forth the eligibility terms and conditions governing the approval and use of the credit. Expenses used for calculating this tax credit cannot be used for calculating any other Rhode Island tax credit.
    - Qualifying investments consist of tangible property, including real property such as buildings and structural components of buildings acquired, constructed, reconstructed or erected for use by the taxpayer in the production of goods by manufacturing. The property must also be depreciable (per §167 of Internal Revenue Code), have a minimum useful life of four years, be acquired by purchase (per §179d of the Internal Revenue Code), and have a situs in Rhode Island at the date first placed in service.

The Commerce Corporation is required to annually report the number of business that have entered into an incentive agreement during the preceding fiscal year to the Division of Taxation. The first report is due September 1, 2018. The report and a copy of each incentive agreement must be made available publicly on the Commerce Corporation's website. Additionally, the Office of Management and Budget is charged with providing the Governor by December 1st of each year, the amount necessary to fund the Refundable Investment Tax Credit. The article does not provide for a sunset date for this tax credit.

Refundable Job Training Tax Credit

The Governor also creates a new refundable job training tax credit, to be administered by the Commerce Corporation, intended to improve the State's skilled manufacturing workforce. The credit provides an incentive for employers to invest in training by offering to offset a manufacturer's expenses associated with the training and/or retraining of employees. Similar to the refundable investment tax credit proposal, this credit may be taken against a business's corporate or personal income taxes and is refundable to the extent that the credit exceeds the business's tax liability, exclusively for the tax year in which the credit was issued.

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Credits carried forward beyond the issued year are not refundable. Credits are capped at $200,000 for any one business in any given tax year. Payment of redeemed tax credits are made from a new account within the Commerce Corporation and is contingent upon state budget appropriation. The Governor recommends $2.0 million in general revenue in FY2018.

To be eligible to take and/or redeem the refundable investment tax credit a business must:

- Meet the definition of a manufacturer as set forth under the existing Investment Tax Credit Program [44-33-1(b)(1) and (2)] as well as those entities described in major groups 20-39 of the federal Standard Industrial Classification Manual.
- Apply to the Commerce Corporation *prior* to making the investment that would give rise to the requested tax credit. When considering an application, Commerce Corporation shall take into account the number of employees proposed to receive training, the amount and necessity of the qualifying training expenses, the necessity of the credit, the number of jobs created or retained as a result of the qualifying training, and whether or not the credit is applicable to an employer located in a municipality where family poverty levels exceed the state median.
- Demonstrate that each employee and expense is qualified under the Job Training Tax credit program.
- An employee for purposes of this tax credit program is one who works a minimum of thirty hours per week within the state and earns or shall earn immediately following the completion of the training and/retraining program no less than one hundred fifty percent (150%) of the hourly minimum wage prescribed by Rhode Island law.
- The credit may be used for the following types of expenses (to be incurred only after the employer has been approved for the program): all reasonable expenses (less any federal, state, or local grant training funds) that are directly attributable to training qualifying employees and for expenses paid to either public or private educational institutions for training services, or paid directly to instructors who conduct training. The training, however, must take place in Rhode Island unless it is established by the that it either cannot be obtained in the state or that it is available at a lower cost at another location.

The Commerce Corporation is required to annually report the number of employers that have entered into an incentive agreement during the preceding fiscal year to the Division of Taxation. The first report is due September 1, 2018. The report and a copy of each incentive agreement must be made available publicly on the Commerce Corporation's website. Additionally, the Office of Management and Budget is charged with providing the Governor by December 1st of each year, the amount necessary to fund the Refundable Job Training Tax Credit. The article does not provide for a sunset date for this tax credit.

Technical Assistance for Municipal Zoning and Permitting Fund

The article creates a new technical assistance grant program to improve the local regulatory environment in a manner that supports sustained economic development at the local level. A new fund is established out of which the Commerce Corporation is authorized, within available appropriations, to award grants, loans and other methods of financing that provide municipalities access to technical assistance related to evaluating and streamlining zoning and permitting practices. The funds may receive federal, state, or other resources. The Governor recommends $250,000 of general revenue for FY2018.

The article does not provide for criteria to be used by which grants, loans or other form of financing applications will be judged and awarded. This article leaves this to the Commerce Corporation to develop by rules and regulations. The Commerce Corporation is required to publish a report on the fund to the General Assembly within 60 days after the end of the fiscal year. The report must include information on the commitment, disbursement, and use of all funds allocated under the program. It must also include the economic impact of projects that have been completed using the funds. The article does not permit the authorization of awards after December 31, 2019.

Article 3: Relating to Rhode Island Promise Scholarship

This article establishes the Rhode Island Promise Scholarship program to provide students with two years of tuition and mandatory fees at an eligible institution, less federal and all other financial aid available to the recipient. In order to build a highly educated and skilled workforce, the article aims to increase the number of students enrolled at the state's public higher education institutions and the number of students who complete their degrees on time by removing financial barriers.

FISCAL IMPACT

The article requires the General Assembly to annually appropriate the funds necessary to implement the scholarship program. The annual cost is projected to increase from $10.0 million in FY2018 to $30.0 million upon full implementation in FY2021. This cost estimate includes several assumptions that are discussed in more detail in the following section.

ANALYSIS AND BACKGROUND

As part of an effort to provide relief to the middle class and increase access to higher education, the article creates a scholarship program to provide two years of tuition and mandatory fees to students attending one of the State's three public institutions of higher education with no income or merit restrictions. Other costs, such as room and board, textbooks, meal plans, or travel are not included. The article requires the General Assembly to annually appropriate the funds necessary to implement the scholarship program.

Projected Costs for Rhode Island Promise Scholarship

	FY2018	FY2019	FY2020[1]	FY2021[2]
Scholarships	$3.0	$6.0	$18.0	$30.0
Promise Preparedness Grants	6.0	6.0	-	-
Implementation Costs	1.0	1.0	-	-
Total	**$10.0**	**$13.0**	**$18.0**	**$30.0**
Projected Eligible Recipients[3]	1,461	2,923	5,047	7,171

[1] Includes $6.0 million for students at CCRI, $3.0 million for students at RIC, and $9.0 million for URI.

[2] Includes $6.0 million for students at CCRI, $5.8 million for students at RIC, and $18.2 million for URI.

[3] Assumes 25.0 percent growth in resident enrollment with no attrition at CCRI and RIC, and 20.0% at URI.

$ in millions

Scholarships

The financial aid and enrollment management offices at each institution will administer the program under the supervision of the Council on Postsecondary Education (Council). The Council is authorized to promulgate rules and establish procedures for the award, denial, or revocation of scholarships. The article requires the General Assembly to appropriate the funds necessary to implement the program and allows for charitable donations to provide additional support.

The scholarship will cover two years of tuition and any mandatory fees the student is required to pay in order to enroll in classes. Deemed a "last dollar" scholarship, the Program covers tuition and fees minus federal and other financial aid available to the student. Other costs, such as room and board, textbooks, meal plans, or travel are not included. Each qualifying student will receive a scholarship for either their first two years at the Community College of Rhode Island (CCRI), or their junior and senior years at Rhode Island College (RIC) or the University of Rhode Island (URI).

Analyst's Note: The language of the article states that an award covers the cost of two years of "tuition and mandatory fees" less federal and other financial aid. It is not clear if the scholarship would cover summer classes or a January term.

To qualify, a student must satisfy the following criteria:

- Enroll in either CCRI, RIC, or URI beginning in the fall of 2017, or thereafter.

- Qualify for in-state tuition and fees pursuant to the *Residency Policy* adopted by the Council on Postsecondary Education.
- Have satisfied the high school graduation or equivalency diploma condition prior to reaching the age of 19. The student can satisfy this condition with other certification or equivalent documents as recognized by the regulations promulgated by the Council.
- If attending CCRI, the student must enroll on a full-time basis by the fall immediately following high school graduation or the receipt of the high school equivalency diploma.
- If attending RIC or URI, the student must be enrolled on a full-time basis, have declared a major, and have accumulated a minimum of 60 credit hours towards a bachelor's degree at the student's current institution.
- Have completed the Free Application for Federal Student Aid (FAFSA) form by the deadline prescribed by the applicable institution for each academic year in which the student seeks a scholarship.
- Be "on track to graduate on time" as determined pursuant to the standards of the applicable institution. For a student attending CCRI this means the student will graduate with an associate's' degree within two years. For a student attending RIC or URI, the student will graduate with bachelor's degree within four years.
- Maintain a minimum of 2.0 grade point average at the postsecondary institution.

The student must remain enrolled on a full-time basis throughout the scholarship period unless granted approved medical or personal leave of absence from the enrolling institution. A student who is a member of the National Guard or a reserve unit of a branch of the United States military who is unable to satisfy all the conditions due to basic or special military training or deployment may continue to receive a scholarship upon completion of the training or deployment. A student is limited to one, two-year scholarship.

The following assumptions are included in the annual cost estimate of $30.0 million for the program.

- Enrollment of eligible students will increase by 25.0 percent in the first year and that student population will be maintained throughout with no compounding growth.
- There will be no year-over-year attrition of recipient student population; instead, each student eligible in their first year of enrollment at their institution will be eligible for a scholarship. The intent is to increase retention rates at all the institutions.

Projected Enrollment for Rhode Island Promise

	FY2018	FY2019	FY2020	FY2021
CCRI	1,461	2,923	2,923	2,923
RIC	-	-	990	1,980
URI	-	-	1,134	2,268
Total	**1,461**	**2,923**	**5,047**	**7,171**

Assumes no attrition

Source: Budget Office

- The additional students at RIC do not bring in additional Pell dollars; however, at CCRI and URI the Pell grant would remain at the current average per-pupil rate.
- The institutional financial aid for these growth students and for each cohort would remain at current levels.
- The current Rhode Island Promise Scholarships would continue to exist at CCRI since 90.0 percent of current scholarship recipients are adults or part-time students who would not be eligible under the new program. At RIC and URI, the funding is rolled into the new scholarship program. At URI and RIC, the cost estimate assumes that 25.0 percent of the current funding is available to support new scholarships for the first cohort in FY2020, since only the junior class will be eligible, and 100.0 percent will be available in FY2021.
- Tuition and mandatory fee levels remain constant.

Promise Preparedness Grants

In the first two years of implementation, the Governor includes $6.0 million annually in preparedness grants for the institutions to implement necessary capacity building and adjunct program activities. Such activities include adding academic advisors at RIC to help students stay on track to graduate and faculty at URI to ensure course access with increasing enrollment. It assumed that either this money will be then added to the base funding for the institutions in year three or, after the first two years, the revenue from increased enrollment will provide ongoing support for these activities.

Implementation Costs

In the first two years of the program, the Governor also includes $1.0 million annually for costs such as program advertising, outreach, and a FAFSA completion initiative to build capacity to help students complete the necessary federal aid application.

Article 4: Relating to Division of Motor Vehicles

Article 4 makes a number of changes impacting the Division of Motor Vehicles (DMV). The article: establishes in law the technology surcharge fee of $1.50, which funds the technology restricted receipt account earmarked for the Division's computer system; delays the license plate reissuance one year; and, allocates 0.5 percent of annual Rhode Island Highway Maintenance Account proceeds to the DMV for operating expenses.

FISCAL IMPACT

This article is anticipated to have the following fiscal impact in FY2018:

- The license plate reissuance delay saves $3.0 million in expenditures in the proposed FY2017 revised budget; funding for the initiative shifts from FY2017 to FY2018. Under current law, individuals are charged $6.00 above the regular registration fee per license plate. Delaying the reissuance results in a loss of $935,975 in revenue in FY2017 and $1.1 million in FY2018.
- The Budget Office estimates that the DMV technology surcharge will generate $2.1 million in restricted receipts revenues annually.
- The Rhode Island Highway Maintenance Account proceeds transferred to the DMV are estimated to offset $471,785 in general revenue costs in FY2018.

ANALYSIS AND BACKGROUND

Technology Surcharge Fee

The article establishes a $1.50 per transaction technology surcharge fee that would sunset on June 30, 2022. Currently, through rules and regulations and authorized under the FY2008 Budget as Enacted, the DMV levies a similar surcharge that sunsets this fiscal year. The fee is deposited into a DMV restricted receipt account that is used to fund costs related to the Division's computer system. The budget includes $2.1 million in restricted receipt expenses for FY2018.

Delay License Plate Reissuance

The article delays the license plate reissuance from April 1, 2017, to April 1, 2018. The Governor cites the release of the Rhode Island Motor Vehicle System (RIMS) as the reason for the delay. RIMS is a database designed to provide a real-time and customer-centric computer system to replace the DMV's current legacy system. RIMS is estimated to be implemented in July 2017. The DMV's legacy system would need to be reprogrammed to accommodate the plate reissuance on April 1, 2017, which could be time consuming and costly.

Under RIGL 31-3-33, the DMV is required to issue new reflective license plates for all registered vehicles every 10 years. The law was revised in 1995 to require plate reissuances every 10 years, and in 2009 the General Assembly required a full reissuance in 2011. This requirement has been delayed four times previously: In the FY2012 Budget as Enacted, the General Assembly changed the first full reissuance requirement from 2011 to 2013; the FY2014 Budget as Enacted changed the reissuance until September 2015; the FY2016 Budget as Enacted delayed the reissuance to July 1, 2016; and the FY2017 Budget as Enacted delayed the reissuance to April 1, 2017. Funding for the initiative shifts from FY2017 to FY2018.

Highway Maintenance Fund

The Transportation Investment and Debt Reduction Act of 2011 created the Rhode Island Highway Maintenance Account within the Intermodal Surface Transportation Fund (ISTF). The account is funded via surcharges associated with licenses, vehicle registrations, inspection stickers, titles, and other related fees. Under current law, RIGL 39-18.1-5, funds from the Rhode Island Highway Maintenance Account are authorized for projects that appear in the state's transportation improvement program. This article transfers 0.5 percent of the annual Rhode Island Highway Maintenance Account proceeds to the DMV for operating expenses. The estimated revenue transfer will be $471,785 in FY2018 to partially offset salaries and benefits for DMV Customer Service Representatives and Branch Supervisors.

Article 5: Relating to Government Reorganization

This article makes the following changes to the organization of state government:

- Establishes a civilian Commissioner of Public Safety to head the Department of Public Safety (DPS), replacing the previous Director post held by the Superintendent of the State Police.
- Integrates the Emergency Management Agency (EMA) within DPS.
- Designates 10.0 FTE positions to the unclassified service within the State Merit System
- Transfers oversight of the Utilization Review Act (URA), Health Care Accessibility and Quality Assurance Act (HCAQAA), and the Health Plan Modification Act (HPMA) from the Department of Health (DOH) to the Office of the Health Insurance Commissioner (OHIC) to comply with the federal Affordable Care Act (ACA).

FISCAL IMPACT

The Governor includes an additional $55,054 in general revenue in FY2017 and $215,941 FY2018 for the personnel costs associated with the appointment of the Commissioner of Public Safety. Support positions (Policy Director and Executive Assistant) for the Commissioner in FY2018 total $301,213.

The Governor recommends transferring $18.5 million and 32.0 FTE positions associated with the EMA to DPS as part of the merger of the two agencies. The Governor shifts $55,054 in FY2017 and $215,941 in FY2018 from the Department of Administration (DOA) to the DPS for costs associated with the transfer of the Cybersecurity Director position.

The Governor transfers $217,268 from the DOH to the OHIC within the Department of Business Regulation (DBR) for costs associated with 2.0 FTE positions that support the oversight functions under the URA, HCAQAA, and the HPMA.

ANALYSIS AND BACKGROUND

Reorganization of the Department of Public Safety

This article reorganizes the structure and command of the DPS in several significant ways:

Commissioner of Public Safety: Since its establishment in FY2009, the DPS has been led by the Superintendent of the State Police. This proposal creates a new civilian Commissioner of Public Safety to head the Department and thereby brings Rhode Island’s state-level, public safety structure into alignment with that of other New England states. The Commissioner is appointed by the Governor and requires the advice and consent of the Senate. A number of personnel changes are proposed within the DPS to support the new Commissioner, including the creation of two new unclassified positions, an Executive Assistant and a Policy Director.

Consolidation of Emergency Management Agency: The article integrates the EMA within the DPS, and eliminates it as a stand-alone department by amending RIGL 30-26-5 and thereby creates a seventh division within DPS (State Police, Fire Marshal, E-911, Municipal Police Training, Security Services, Central Management, and EMA). The EMA Director reports to the Governor and the newly established Commissioner. The Director remains an appointment of the Governor that requires confirmation of the Senate. The merger brings with it the transfer of $18.5 million in general revenue from the EMA along with its and 32.0 positions; the Director is authorized to appoint a new unclassified Executive Assistant position.

Cybersecurity Officer to DPS: The article transfers the position of Cybersecurity Officer from the Department of Administration to the DPS.

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Transfer of Oversight for Health Care Plans

This article transfers the regulatory role and oversight responsibilities for several of the State's key health care insurance related programs from the DOH to OHIC. It does so by first repealing the Health Care Services – Utilization Review Act, the Health Care Accessibility and Quality Assurance Act, and the Health Plan Modification Act. These statutes are replaced with new legislation that charges OHIC with the oversight responsibilities for health plan reviews, utilization reviews, and other regulatory functions mandated by the federal Affordable Care Act.

Personnel/Merit System Changes

This article amends RIGL 36-4-2 by designating the following 10.0 FTE positions to the unclassified service within the State Merit System, thereby establishing that individuals hired for these position serve at the pleasure of the Director of the respective state agency.

Position	Department
Chief of Staff	Environmental Management
Chief Public Affairs Officer	Environmental Management
Policy Director	Environmental Management
Legislative Liaison	Health
Medicaid Director	Health and Human Services
Deputy Director	Human Services
Chief of Staff	Human Services
Policy Director	Human Services
Communications/Legislative Coordinator	Human Services
Policy Director	Public Safety

Article 6: Relating to Government Reform

This Article makes several changes to the State personnel system and enhances fraud detection on federal and state programs. Specifically, this article:

- Permits the Governor to set the salaries of directors of state departments.
- Eliminates the public hearing process and General Assembly authorization to change salaries of department directors.
- Permits the Governor to delegate authority to the Director of the Department of Administration to approve changes to the pay plan for unclassified employees; and, provides that a promotional appointee may be restored to their former classification if they are dismissed from their promoted position during the probationary period.
- Allows the Office of Internal Audit to use any tax information deemed proper and contained on tax filings or reports for the purposes of fraud detection and prevention for any federal or state program.

FISCAL IMPACT

Most of the statutory items selected for amendment have no direct savings attached to them. The authorization to use any tax information deemed proper and contained on tax filings or reports for the purpose of fraud detection and prevention is projected to create savings. This is tied to the Governor's $3.5 million revenue projection related to the Fraud Detection and Prevention Initiative.

ANALYSIS AND BACKGROUND

Department Directors' Salaries: Section 1 repeals RIGL 36-4-16.4, eliminating the required public hearing process and General Assembly authorization to change salaries of department directors. Presently, state law requires the Department of Administration to conduct annual public hearings in March to determine the salaries for directors of state executive departments. The public hearing provides a forum for public comment in determining these salaries. In addition, language in Section 3 amends RIGL 36-6-3 and 36-6-5 to allow the directors' salaries to be set by the Governor and to receive cost of living adjustments in the same manner as employees of the executive branch who are not covered by a collective bargaining agreement. The current range of salaries for the various state agency directors is $130,100 for the Director of Revenue to $205,706 for the Secretary of Commerce.

Most state employee salaries are not subject to public hearing and General Assembly authorization. Consequently, in many departments there are employees who earn more than the department director. According to the Department of Administration there is no direct savings anticipated with passage of this section, nor are there any identified expenditure increases.

Personnel/Merit System Reforms: Section 2 amends RIGL 36-4-16.2 and 36-4-29 concerning the Merit System. The Merit System refers to the statutes and rules governing the process of promoting and hiring government employees based on their ability to perform a job. According to the Department of Administration there is no direct savings anticipated with passage of this section. The amendments include:

- Permits the Governor to delegate authority to the Director of the Department of Administration to approve changes to the pay plan for unclassified employees.
- Provides that a promotional appointee, who was promoted on or after July 1, 2017, and whose position restoration privileges are not covered by a collective bargaining agreement as of June 30, 2017, may be restored to their former classification, if they are dismissed from their promoted position during the probationary period. The section changes the act of restoring the person to their former position, from a requirement to a discretionary action.

Disclosure of Tax Information: Section 4 allows the Office of Internal Audit to use any tax information deemed proper and contained on tax filings or reports for the purposes of fraud detection and prevention for any federal or state program.

Article 7: Relating to State Funds

This article adjusts or establishes new restricted receipt accounts as follows:

- Authorizes an annual transfer of any surplus from the medical marijuana restricted receipt accounts in the Departments of Health (DOH) and Department of Business Regulation (DBR) to the general fund.
- Exempts five restricted receipt accounts from the 10.0 percent indirect cost recovery charge provisions under RIGL 35-4-27. The proposed exemptions would apply to the Lead Poisoning Prevention account within the Department of Health (DOH); the State Park Merchandizing account within the Department of Environmental Management (DEM); the Office of Energy Resources (OER) Reconciliation Funding account with in the Department of Administration (DOA); the Other Post-Employment Benefits System (OPEB) account within DOA; and the Division of Motor Vehicles (DMV) Registry Technology account within the Department of Revenue (DOR).
- Establishes a new fund within DOA to support pay-for-success contracts.
- Establishes a new State Park Merchandizing restricted receipt account within the DEM for the purposes of restocking items sold in visitor centers and gift shops at RI state parks.
- Establishes a new restricted receipt account for the Eisenhower House within DEM and transfers authority to collect fees at the site from the Historical Preservation and Heritage Commission to DEM.
- Authorizes the Division of Taxation (Taxation) to retain a portion of the money collected under contingency fee contracts to be used to support the maintenance of the State Tax Administration and Revenue System (STAARS), the Division's new computer system.

FISCAL IMPACT

The combined initiatives within this article provide a net increase of, at most, $490,991 in general revenue in FY2018. The transfer of surplus medical marijuana funds from restricted receipts to the general fund accounts for the largest increase at $670,641. Loss of the indirect cost recovery for the existing accounts is estimated to total $41,500. Shifting the Eisenhower House to a restricted receipt represents a net decrease of $138,150 in general revenue. The fiscal impact of the Performance Improvement Fund and the authorization to use certain funds to support Taxation's STAARS computer system, however, are unknown at this time.

ANALYSIS AND BACKGROUND

This article addresses various restricted receipts accounts. The changes are explained in detail below.

Medical Marijuana Restricted Receipt Surplus Transfer

The article mandates that any surplus funds remaining in the medical marijuana restricted receipt accounts at the Departments of Health and Business Regulation be transferred to the general fund on the last day of the fiscal year. This transfer can only take place after all administrative expenses of the program are paid as well as any outstanding deficits that may exist within these accounts. The article also clarifies that fees paid by compassion centers and compassion center cardholders to the Departments of Health and Business Regulation are to be deposited into the restricted receipt accounts.

By the end of FY2018, collections from patient, cardholder, cultivator, and compassion center fees are estimated to exceed projected estimated departmental expenditures by $670,641. Based upon the proposed changes in this article, the Governor increases general revenue accordingly.

Indirect Cost Recovery Exemptions

State law permits the assessment of a 10.0 percent indirect cost recovery charge on most state restricted receipt accounts in order to support the common costs associated with the collection of funds and administration of the accounts. RIGL 35-4-27 enumerates those restricted receipts exempted from this assessment. This article expands the list to include the following accounts:

Lead Poisoning Prevention Account: This new account within the Department of Health (DOH) is used to support lead inspections; lead hazard technical assistance for families, schools and daycares; the Department of Environmental Management's (DEM) enforcement of lead hazard removal regulations; the State's blood lead testing program and the blood lead screening and testing for the uninsured and underinsured; and the development of the State's lead poisoning database. The account currently exists within the Housing Resources Commission (HRC) at the Executive Office of Commerce. Article 22 transfers this account to the DOH. Receipts are estimated to total $600,000 annually. Exemption from indirect recovery therefore represents a decrease of approximately $60,000 in general revenue in FY2018.

State Park Merchandizing Account: The article creates a new DEM account. See below for details.

Office of Energy Resources (OER) Reconciliation Funding Account: This existing Department of Administration (DOA) account is used to support specific studies requested by the Distributed Generation Board, per their authority under the Renewable Energy Growth law. Reconciliation funding is approved by the Public Utilities Commission under separate docket proceedings. Passage of this article would forgo future general revenue collections by approximately $19,000.

Analyst's Note: Through an amendment dated February 13, 2017, the Governor establishes the Office of Energy Resources (OER) Reconciliation Funding restricted receipt account to finance expenses incurred by the Rhode Island Office of Energy Resources. The account will receive revenue generated through the rate reconciliation process provided in The Renewable Energy Growth Program. RIGL 39-26.6-4 authorizes the OER to effectuate the performance of ceiling price and other studies, subject to approval from the Public Utilities Commission, and to recover the cost of the studies through the rate-reconciliation provisions. In addition, the amendment requires the deposit of revenue recovered to finance the costs of the studies, into a restricted receipt account that is exempt from the indirect cost recovery assessment.

Other Post-Employment Benefits (OPEB) System Account: This existing account in DOA is used to pay the expenses of the OPEB Board, and the cost of maintaining, and administering the OPEB System. The statute authorizes the transfer into this account of twenty-five (25) basis points of the five-year average of investments. Based on the account balance as presented within the Governor's FY2018 Budget, the indirect cost recovery loss amounts to approximately $22,500.

DMV Registry Technology Account: This Department of Revenue account is used to support the ongoing costs related to the Division's computer system. Article 4 of the Governor's FY2018 Budget establishes a $1.50 per-transaction technology surcharge fee that would sunset on June 30, 2022. The DMV currently levies a similar surcharge, originally authorized by the FY2008 Budget as Enacted, that sunsets this fiscal year. The fee is deposited into a DMV restricted receipt account that is used to fund costs related to the Division's computer system. The budget includes $2.1 million in restricted receipt expenses for FY2018.

Government Performance Improvement Fund

Section 3 of this article establishes a new Government Performance Improvement Fund within the Department of Administration to advance, support, and fund pay-for-success (PFS) contracting for service delivery across state government programs. The Governor does not, however, include funding for this initiative in FY2018.

Pay-for-success contracting is a public finance tool that ties payment for service delivery to the achievement of measurable outcomes. Typically, state contracts and grants that support social service delivery are based on the volume of services delivered (e.g., number of people served) or short-term outputs (e.g. certificates awarded in a training program). Pay-for Success contracts are based on actual outcomes, which are longer-term changes; for example, a job training participant who finds and keeps a job, and experiences an increase in earnings.

Under this article PFS contracts require:

- A substantial portion of any payment be conditioned on the achievement of specific outcomes.
- An objective independent evaluator that determines if outcomes have been achieved.
- A determination that the contract will result in significant performance improvements and budgetary savings across impacted agencies if the outcomes are achieved.
- A calculation of the amount and timing of payments that would be earned by the service provider during a year if targets are achieved.

Another characteristic of PFS contracting is the enlistment of private investment into the provision of social services. Because most providers are not in a position to deliver services without a dedicated source of revenue, especially with the risk of not being repaid in the event they do not achieve pre-agreed upon outcomes, PFS contracts often are accompanied by financing agreements that provide upfront capital to support service delivery throughout the contract period. This is accomplished by agreements involving private investors that provide resources upfront and are repaid by a back-end, or outcomes payor, such as the State, once contractually agreed upon outcomes are achieved. This arrangement is referred to as Social Impact Bonding (SIB). SIB shifts financial risk from service providers to investors, with investors underwriting service providers based on their ability to perform.

Analyst Note: Several projects are currently being implemented to the pilot PFS contracting. These include a reentry programming at the Department of Corrections focused on job placement service for formerly incarcerated individuals and a Department of Human Services initiative attempting to improve workforce participation outcomes in Temporary Assistance for Needy Families (TANF) employment programs.

In addition to establishing the PIF fund, this article requires that DOA provide an annual report detailing contracts for the prior fiscal year to the Senate and House Finance Committees by December 31st.

State Park Merchandizing Restricted Receipt Account

The article creates a restricted receipt account within DEM for the deposit of proceeds from the sale of merchandise by DEM to promote Rhode Island's state parks, beaches, and campgrounds. The monies will be used to replenish merchandise stocks and provide additional funding for special park projects that enhance recreational facilities or expand interpretive, educational, and/or recreational programming managed by DEM. The funds cannot be used to supplement the annual operating expenses of the Division of Parks and Recreation. This account is not subject to the 10.0 percent indirect cost recovery provision.

Eisenhower House Restricted Receipt Account

Section 4 of the article creates a restricted receipt account within DEM for the deposit of proceeds from the rental fees for the use of the Eisenhower house and the surrounding grounds. All of the rental fees collected, minus the 10.0 percent indirect cost recovery, must be deposited into this account and can only be used for reinvestment and maintenance of the facility. The indirect cost recovery will be deposited into the general fund. The Governor's Budget transfers management of the facility from the Historic Preservation and Heritage Commission to DEM. The transfer is estimated to decrease departmental general revenue receipts by $153,500 in FY2018. The net general revenue impact is a decrease of $138,150, due to the recapture of the 10.0 percent indirect cost recovery.

Division of Taxation Computer System Maintenance Funding

Over the last four years, the Division of Taxation has been modernizing its information technology system. This State Tax Administration and Revenue System initiative, or STAARS, centralizes all taxpayer information in one computer system and facilitates the coordination of 57 different taxes and fees, amounting to nearly $3.0 billion annually. This article establishes a structural method to assist in financing future maintenance of this $25.0 million investment. Under RIGL 44-1-36 the Division of Taxation is authorized to hire tax collectors on a contingency fee basis. This article allows the Director of the Office

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of Management and Budget to use a portion of the tax monies collected specifically by these contingency fee based contracts (after the contract has been paid) to support and maintain STAARS. The fiscal impact is indeterminable in FY2018.

Analyst's Note: The Governor's Budget Amendment (GBA) dated February 13, 2017, amended Article 7 to remove the sunset provision of the restricted receipt account in the Council on the Arts.

- **Council on the Arts:** *Under current law, donations from the Rhode Island Foundation to the Rhode Island Council on the Arts are only allowed to be deposited into a restricted receipt account in FY2010. The amendment strikes the language limiting the deposit of donations to a particular fiscal year, thereby allowing future donations to be deposited into a restricted receipt account for the support and improvement of the arts in the State.*

Article 8: Relating to Taxes and Revenues

This article makes changes and adjustments to several of the State's tax laws and their enforcement. These amendments include:

- Streamlining state gas tax funding for elderly and disabled transportation services by eliminating the agency pass-through between DHS and RIPTA that pays for these services, and instead directly providing RIPTA the equivalent amount.
- Increasing the excise tax on cigarettes by $0.50, effectively raising the per-pack tax from $3.75 to $4.25.
- Clarifying what constitutes a tobacco product for purposes of taxation and enforcement, as well as increasing the penalties for selling tobacco products without a license from a $10,000 fine to being charged with a misdemeanor and up to a $10,000 fine and/or up to a year in prison.
- Strengthening the administrative authority and penalties available to State Tax Officials, including the ability to seek attorney's fees for successful enforcement actions.
- Establishing an expiration date on certificates of exemption from the sales and use tax of four years from issuance. Definitions of sales suppression (including remote data manipulation) are expanded to aid in sales tax enforcement.
- Reducing the income tax withholding rate for corporate income from 9.0 percent to 7.0 percent.
- Requiring businesses to notify the Division of Taxation of the sale of assets.

FISCAL IMPACT

The Governor recommends that 79.0 percent of DHS's $0.01 portion of the gas tax be directly transferred to RIPTA to provide transportation services to elderly and disabled riders. This change amounts to $3.6 million more in direct gas tax revenue for RIPTA in FY2018; the change is budget neutral since there is a corresponding decrease in the portion of the gas tax that goes to DHS.

The Governor's proposal to increase the excise tax on cigarettes by $0.50 per pack is estimated to yield $8.7 million in combined excise and sales taxes revenue above the projections from the November 2016 Revenue Estimating Conference for FY2018.

The article makes extensive changes to the enforcement and collections framework across numerous parts of the State's tax laws; however, the fiscal impact of these changes are unknown at this time.

ANALYSIS AND BACKGROUND

This article makes a variety of changes to the State's revenue and tax laws. These amendments range from tax increases and new distributions to a series of penalty and enforcement enhancements.

Adjustment to Gas Tax Distribution

This article streamlines a component of the State's gas tax distribution, specifically by eliminating the agency pass-through for programming the Rhode Island Public Transit Authority (RIPTA) provides on behalf of the Department of Human Services (DHS). Under current law the State collects $0.34 on each gallon of gasoline sold. This levy is used to finance various transportation-related priorities and is distributed on a per-cent basis as shown.

State Gas Tax Allocation

Agency	Current	Proposed
DOT	$0.1925	$0.1925
RIPTA	0.0975	0.1054
RITBA	0.0350	0.0350
General Fund	-	-
DHS	0.0100	0.0021
DEM	0.0050	0.0050
Total	**$0.3400**	**$0.3400**

The $0.01 per-gallon allocation to the DHS supports the transportation needs of low-income elderly and disabled individuals. Traditionally, the DHS transferred 79.0 percent of its allocation directly to RIPTA to subsidize reduced bus fare and paratransit programs for their elderly and disabled riders. The remaining 21.0 percent is retained by DHS to pay for specialized paratransit services for the elderly. This article directs an additional $0.0079 per gallon to go to RIPTA with the explicit purpose of serving the elderly and disabled population, while reducing DHS's portion to $0.0021 per gallon. The Office of Revenue Analysis estimates the following distribution based on this change:

$0.01/gallon DHS Gas Tax Share - Redistribution

$0.01/Gallon	FY2017	FY2018
RIPTA Share ($0.0079/gallon)	$3,594,370	$3,590,929
DHS Share ($0.0021/gallon)	955,466	954,551
Total $0.01	**$4,549,836**	**$4,545,480**

Cigarette Tax Increase

This article increases the excise tax levied on cigarettes by $0.50 per-pack of cigarettes, raising the total tax from $3.75 to $4.25 per pack of twenty, or to the equivalent of $0.21 per cigarette. According to the Budget Office, total retail price will increase by $0.58, from $9.49 to $10.07 per individual pack. This amount is $0.40 less than the average total retail price in Massachusetts, and $0.07 per pack below Connecticut. The additional excise tax would generate an additional $8.7 million (combined excise and sales taxes) in revenue above the projections from the November 2016 Revenue Estimating Conference.

Cigarette Tax Revenue Impact

Revenue Item	FY2018
Cigarette Excise Tax	$6.5
Cigarette Floor Tax	1.0
Sales and Use Tax	1.1
Total	**$8.7**

$ in millions

Source: Office of Revenue Analysis

Impact of Cigarette Excise Increase and Regional State Comparison

		Rhode Island Current	Rhode Island Proposed		Massachusetts		Connecticut
Base Price per Pack in $		$4.39	$4.39		$4.16		$4.39
Excise Tax in $		3.75	4.25		3.51		3.90
Subtotal base price + Excise		8.14	8.64		7.67		8.29
Wholesale Markup	2.0%	0.16	0.17	2.0%	0.15	6.5%	0.54
Wholesale Cartage	0.75%	0.06	0.07	0.75%	0.06	0.0%	0.00
Retail Markup	6.0%	0.50	0.53	25.0%	1.97	8.0%	0.71
Total Base Cost		8.87	9.41		9.85		9.54
Sales Tax	7.0%	0.62	0.66	6.25%	0.62	6.4%	0.61
Total Price per Pack		**$9.49**	**$10.07**		**$10.47**		**$10.14**

Note: The Office of Revenue Analysis calculated base price per pack using available data on states' websites. No base price for CT was available, so it was assumed that CT would have the same base price as RI.

Analyst Note: The FY2018 Budget includes $500,000 for tobacco prevention and cessation programs such as anti-smoking media campaigns, targeted cessation efforts, policy development, and advocacy.

Tobacco Enforcement

This article clarifies, tightens, and modernizes the State's tobacco laws and provides additional enforcement tools to the Department of Revenue. The proposal is a response to the evolving market of tobacco products, and the need for law enforcement and tax officials to have an up-to-date set of statutes and tools to assist them.

Towards this end, the article addresses new definitions and penalties (RIGL 44-20-1) as follows:

Cigarettes: The definition now includes items with or without filters and items made of any material, not just paper.

Tobacco Products: The article establishes this new definition which includes: cigars, cheroots, stogies, smoking tobacco (granulated, plug cut, crimp cut, ready rubbed, and any kinds and forms of tobacco suited for smoking), chewing tobacco (Cavendish, twist, plug, scrap, and any other kinds and forms of tobacco for suitable for chewing). It also includes any and all forms of hookah, shisha, and "mu'assel" tobacco, snuff and any other product containing tobacco or tobacco substitutes except cigarettes. This new definition of tobacco products is incorporated throughout RIGL 44-20, wherever the term "cigarettes" is being used.

Pipe: A pipe is defined as an apparatus made of any material used to burn or vaporize products so that the smoke or vapors can be inhaled or ingested by the user.

Place of Business: The definition now includes (but is not limited to) storage rooms, attics, basements, garages, or other facilities adjacent to the location.

Sale: The definition clarifies that holding, storing, or keeping cigarettes and/or tobacco products at a place of business for any purpose is presumed to be holding tobacco for purposes of selling it. It further clarifies that a sale made by employees or other representatives of a licensee are presumed to be a sale made by the licensee.

Penalty, Enforcement and Collection Enhancements

In addition to improved definitions, this article creates a stronger penalty framework across a variety of taxation laws designed to foster greater compliance and aid in their enforcement. These changes include:

- Increasing the penalty for distributing or selling cigarettes and tobacco products without a license from the current fine of up to $10,000 to a misdemeanor charge, plus a fine of up to $10,000, or up to one year in prison, or both.
- Increasing the penalties for possessing or selling contraband cigarettes and tobacco products for first offenses from a fine of $1,000 or five times the retail value of the contraband products, whichever is greater, to ten times the retail value of the contraband products or up to a year in prison, or both. Second offense penalties are increased from a fine of $5,000 or up to three years in prison (or both) to up to twenty-five times the retail value of the contraband and/or three years in prison. Civil penalties for non-compliance are similarly increased (absent the criminal prison term).
- Increasing the penalty for failing to comply with tobacco reporting rules from a $5,000 fine for the first offense to a misdemeanor charge, up to one year in prison or a fine of $5,000 or both.
- Permitting the Tax Administrator to pursue administrative penalties and attorney's fees (in accordance with the Administrative Procedures Act) whenever a licensee and/or taxpayer violates any provision of

the State's tax laws. These penalties include the revocation or suspension of licenses and permits; the levy of a penalty ranging from $100 to $50,000; issuance of a cease and desist order; and/or any combination of these penalties.

- Permitting the recovery of the cost of legal services from violators. These costs can be associated with both in-house attorneys at the Department of Revenue or outside legal counsel as they relate to administrative hearings, court hearings and appeals.
- Permitting the use of a jeopardy determination to protect at-risk tax collections. In the event that the Tax Administrator believes the collection of any tax, interest or penalty will be jeopardized by a delay which could render a person or entity judgment proof and/or frustrate the collection, he or she is authorized to issue a determination stating why the collection is at-risk and require that the amount in question be payable immediately. This decision is appealable for thirty days. Within twenty days from the issuance of the determination, the courts will make a determination as to whether the jeopardy existed
- Increasing the penalty for sales tax violations, including willfully failing to remit any tax to the state that was collected from a customer, from a fine of up to $10,000 and/or one year in prison to $25,000 and/or five years in prison.

Other Tax Amendments

- This article makes several amendments to the business corporation tax laws (RIGL 44-11) and the sales tax. These include:
- Reducing the income tax withholding rate used by pass-through entities businesses (sole proprietorships, partnerships, LLCs, and S corporations) from 9.0 percent to 7.0 percent. Pass-through entities don't pay income taxes at the corporate level. Instead, corporate income is allocated among the owners, and income taxes are only levied at the individual owners' level. This is a technical correction to align the withholding rate for pass-through entities with that of other classes of business taxpayers.
- Requiring that domestic and foreign limited liability companies, domestic and foreign limited partnerships, and other domestic or foreign business entities notify the Division of Taxation of the sale of assets that constitute a tax liability at the time of sale. This brings these classes of businesses in alignment with requirements of domestic and foreign corporations. According to the Division of Taxation, notification helps mitigate the potential for lost revenue due to the consequences of the sale of assets as well as assist in collection enforcement on entities that dissolve in order to evade tax liabilities.
- Establishing an expiration date for certificates of exemption from the sales and use tax. Under current law certificates do not expire. This article creates a certificate that is valid for four years from the date of issue. Existing certificates would expire four years from the effective date of the article (August 1, 2017).
- Defining "remote data manipulation" for purposes of sales tax suppression as the "sending, transmitting, transporting or receiving through any electronic means any and all sales transaction data to a remote location for the purpose of manipulating and/or altering said data in any way."

Article 9: Relating to Remote Sellers Sales Tax Collection

This article creates a new statutory framework designed to improve sales and use tax collections by encouraging remote sellers to register, collect, and remit the sales and use tax. It is based on a similar Colorado initiative that has withstood U.S. Supreme Court review and is being replicated in states across the country. In January 2017, the major e-commerce company Amazon agreed to collect and remit sales tax to Rhode Island beginning February 1, 2017, essentially complying with the requirements of this article already. The estimated $34.7 million fiscal impact of this article FY2018 includes the tax revenue from Amazon.

The article specifically requires remote sellers and other online marketplace retailers to either register, collect, and remit sales/use tax for each transaction, or to do each of the following: post a notice on its website informing Rhode Island purchasers that sales or use tax is due on certain purchases; notify RI purchasers at the time of sale that sales or use tax is due on the product or service purchased; email RI purchasers that sales or use tax is due; and send RI purchasers an annual notice detailing their cumulative annual purchases from the seller.

These requirements are only applicable to those remote sellers that have made at least $100,000 in annual gross revenue from Rhode Island sales or those that have had 200 or more annual Rhode Island sales transactions.

A minimum penalty of $20,000 is established for failing to comply with the above requirements. The article also exempts from these requirements those online marketplace retailers that facilitate sales for a seller or retailer that is registered to collect and remit taxes in Rhode Island.

FISCAL IMPACT

This article increases general revenue by $34.7 million for FY2018. The table below shows the estimated annual impact of the initiative.

Projected Revenue - Article 9

	FY2018	FY2019	FY2020	FY2021	FY2022
Sales/Use Tax from Remote Sellers	$34.7	$40.0	$44.0	$46.0	$47.0

$ in millions

Source: Office of Revenue Analysis

ANALYSIS AND BACKGROUND

This article creates a framework designed to facilitate the ability of remote sellers that sell goods and services to Rhode Islanders over the internet to collect and remit sales and use taxes. It also notifies Rhode Island purchasers of their use tax liabilities on purchases from remote sellers.

States' inability to effectively require remote sellers to collect and remit sales tax has had a significant, negative impact on state revenues across the country. The Rhode Island Department of Revenue (DOR) cites U.S. Census Bureau estimates that show annual sales via electronic shopping in the U.S. growing by 77.4 percent between 2010 and 2014. The State's Office of Management and Budget (OMB) estimates the 58.0 percent of e-commerce sales in Rhode Island are made by retailers without a physical presence in the state and thus are potentially subject to the State's use tax.

The Office of Revenue Analysis (ORA) estimates that this trade is worth at least $34.7 million in sales and use tax revenue in FY2018. The estimate is derived by taking the estimated amount of e-commerce sales in Rhode Island and applying the estimated percentage of those remote sellers without a physical presence (nexus) in state. This represents the potential uncollected taxable sales:

$835.0 m	x	59.0%	=	$495.9 m	x	7.0%	=	$34.7 m
RI Taxable Internet Sales		Sales by Companies w/o Nexus		Taxable Uncollected Sales		Sales Tax Rate		New Revenue

Sales Tax Collection or Notification

This article provides two sales and use tax compliance options from which remote sellers and related entities must choose if they are to make sales into Rhode Island. A remote seller is a business that sells products or services to customers in the state using the Internet, mail order, or telephone, without having a physical presence in that state. The article provides technical definitions for various entities associated with interstate sales including what constitutes a remote seller, a marketplace provider, a market place seller, and a referrer.

The first option, and most direct, requires a remote seller to register for a permit to make retail sales into the state; and collect and remit sales and use tax on all taxable sales into the state. Failing this, the remote seller must specifically notify Rhode Island purchasers that sales or use tax is due on purchases made from the company and that the State requires the purchaser to file a sales or use tax return. This notification must be done by several methods, including:

- A conspicuously posted notice on its website;
- The immediate notification at the point and time of the purchase;
- An email notification subsequent to and within 48 hours of the time of purchase; and
- An annual purchase notice to those Rhode Islanders who have total purchases of $100 or more from the remote seller during the previous year. This notice must be provided to the purchaser by January 31 of each year and include: a list of all purchases made during the prior calendar year by the Rhode Island purchaser from the remote seller and the total amount paid for each purchase, the dates of purchase, and the category or type of purchase, including whether it is exempt or not from taxation in Rhode Island.

These requirements established under this article are applicable only to those remote sellers that have either received $100,000 in gross revenue from sales made to Rhode Island purchasers in the preceding year or have conducted 200 or more sales transactions with Rhode Island purchasers in the preceding year.

Administration and Penalties

The Tax Administrator is responsible for promulgating rules and regulations to support the new requirements as well as enforcement of the article's provisions. Towards this end, the Tax Administrator is provided the authority to examine any supporting information related to any tax return under question.

Any remote seller failing to comply with one of the options outlined above is subject to a minimum penalty of $5 for each infraction; however, there is a minimum $20,000 penalty per year. Determinations made by the Tax Administrator are appealable to District Court.

Legal and Constitutional Issues

The U.S. Supreme Court has historically blocked states from compelling remote sellers to collect and remit sales taxes, in part because of the complexities of doing so. Complying with fifty separate state sales tax codes along with the administrative costs and logistical barriers associated with tax collection have long been considered an undue burden on interstate commerce. Since 2000 many states have worked together to reduce these barriers through the Streamlined Sales and Use Tax Agreement (SSUTA). SSUTA works to align and simplify tax rates and state-level tax administration and to drive states toward uniform tax bases. It requires member states to meet and maintain standards of alignment. Twenty-three states, including

Rhode Island, are currently members. Technology advancements, particularly with financial software, have also lowered the cost of complex tax transactions, such as tracking and remittance.

States have continued to enact measures to encourage sales tax collection and notify purchasers of their tax liabilities. According to the OMB, this article is based upon Colorado's remote seller sales tax law that was enacted in 2013. This law was upheld by 10^{th} U.S. Circuit Court in February 2016. This ruling has paved the way for numerous agreements between states and remote sellers.

Amazon Decision to Collect Sales and Use Taxes in Rhode Island

On January 17, 2017, Amazon, Inc., the largest marketplace provider and internet retailer, announced that it would register with the state for a sales tax permit and begin to collect and remit sales taxes on taxable purchases made by Rhode Islanders effective February 1, 2017. With this announcement, Rhode Island joins a growing number of states for which the internet company has voluntarily decided to collect and remit sales taxes. As of January 23, 2017, Amazon has agreements to collect sales and use taxes on its sales in 35 states. The revenue estimate associated with the Remote Sellers Sales Tax Collection Act implicitly includes the sales and use taxes that Amazon will collect and remit to the State per its announcement.

Article 10: Relating to Making Revised Appropriations in Support of FY2017

This article makes revised appropriations for general revenues, and includes revisions to authorized expenditures from federal, restricted, and other funds, as well as authorized FTE levels for each agency and department for FY2017. The Governor's budget includes $16.7 million in additional general revenue spending compared to the FY2017 Budget as Enacted.

APPROPRIATIONS

The article increases the total FY2017 appropriations by $261.8 million, the bulk of which is attributable to an increase in federal fund expenditures of $141.0 million. General revenue expenditures increase by $16.7 million. The article outlines funding changes at the program level by fund for each department.

Expenditures by Source	FY2016 Final	FY2017 Enacted	FY2017 Governor	*Change to Enacted*
General Revenue	$3,547.9	$3,683.7	$3,700.4	*$16.7*
Federal Funds	2,877.4	2,957.1	3,098.1	*141.0*
Restricted Receipts	245.7	257.0	306.8	*49.8*
Other Funds	1,834.2	2,040.9	2,095.3	*54.3*
Total	**$8,505.2**	**$8,938.7**	**$9,200.5**	***$261.8***

$ in millions. Totals may vary due to rounding.

INTERNAL SERVICE ACCOUNTS

Article 10 authorizes the State Controller to establish 12 specific internal service accounts to reimburse costs for work or other services performed by certain departments or agencies for any other department or agency. Reimbursements may only be made up to an expenditure cap, as set in this article. The changes in these accounts are intended to bring the budgeted expenditures more closely in line with actual costs.

Internal Service Account	FY2017 Enacted	FY2017 Governor	*Change*
State Assessed Fringe Benefits	$41,699,269	$39,846,094	*($1,853,175)*
Administration Central Utilities	14,900,975	20,926,448	*6,025,473*
State Central Mail	6,190,285	6,826,590	*636,305*
State Telecommunications	3,017,521	3,185,153	*167,632*
State Automotive Fleet	12,543,165	12,464,443	*(78,722)*
Surplus Property	2,500	3,000	*500*
Health Insurance	251,723,462	251,776,824	*53,362*
Other Post-Employment Benefits	63,934,483	63,934,483	-
Capital Police	1,172,421	1,128,019	*(44,402)*
Corrections Central Distribution Center	7,094,183	7,047,526	*(46,657)*
Correctional Industries	7,304,210	7,478,481	*174,271*
Secretary of State Records Center	907,177	808,527	*(98,650)*
Total	**$410,489,651**	**$415,425,588**	***$4,935,937***

FTE POSITION CAP AND APPROVAL

Article 10 revises the authorized number of full-time equivalent (FTE) positions for each State department and agency. Departments and agencies may not exceed in any pay period the number of authorized FTE positions shown. Statewide, the Governor recommends a net increase of 83.3 FTE positions from the FY2017 Budget as Enacted. Following are the changes included in the Governor's proposal:

FTE Position Authorization

Expenses by Function	FY2017 Enacted	FY2017 Governor	Change to Enacted
General Government	2,342.7	2,380.4	37.7
Human Services	3,619.6	3,618.6	(1.0)
Education	3,909.9	3,908.9	(1.0)
Public Safety	3,205.6	3,212.2	6.6
Natural Resource	428.0	429.0	1.0
Transportation	701.0	741.0	40.0
Subtotal	**14,206.8**	**14,290.1**	**83.3**
Higher Ed. Sponsored Research	745.8	745.8	-
Total FTE Positions	**14,952.6**	**15,035.9**	**83.3**

FTE changes include:

- **An increase of 40.0 FTE positions in the Department of Transportation:** The Governor adds 40.0 new positions within DOT. These personnel changes are associated with the ongoing reorganization of the Department. These positions are: 1.0 Accountant, 1.0 Administrator Civil Rights Program, 2.0 Assistant Chiefs of Planning, 1.0 Assistant Director of Financial and Contract Management, 3.0 Bridge Inspectors, 1.0 Building Superintendent, 1.0 Business Management Officer, 1.0 Chief Implementation Aide, 1.0 Contracts Specialist I, 1.0 Contracts Specialist II, 1.0 Deputy Chief Engineer, 1.0 Executive Assistant; 1.0 Highway Maintenance Operator I, 4.0 Highway Maintenance Operator II, 1.0 Internet Communications Specialist, 1.0 Manager (Construction Management), 1.0 Managing Engineer, 1.0 Mechanical Parts Storekeeper, 4.0 Principal Civil Engineer, 1.0 Principal Environmental Scientist, 3.0 Project Manager I, 1.0 Project Manager II, 1.0 Senior Civil Engineer, 1.0 Senior Environmental Scientist, 2.0 Senior External Equal Opportunity Compliance Officer, 2.0 Supervising Bridge Safety Inspector, and 1.0 Supervising Civil Engineer.

- **An increase of 26.7 FTE positions in the Department of Labor and Training:** There is an increase of 26.7 FTE positions within the Department of Labor and Training. This increase includes: 14.2 FTE positions within the Income Support Program associated with claims processing services; 1.0 FTE position associated with the Real Jobs Rhode Island workload within Workforce Development Services; 4.0 FTE positions within the Workforce Regulation and Safety program associated with workplace fraud caseloads; 1.5 FTE positions within Central Management, including 1.0 Administrative Officer and 0.5 Legal Counsel; 1.0 Investigative Auditor and 1.0 Senior Monitoring and Evaluation Specialist to augment existing staff to create the Compliance and Integrity Unit; 1.0 Chief of Information and Public Relations to assist in meeting the demands of the Marketing and Communications Unit; 1.0 Principal Research Technician to meet the demands of the State Workforce and Education Alignment Project (SWEAP) funded by a grant from the National Skills Coalition; 1.0 Assistant Coordinator of Employment and Training Programs for the LEAP (Linking to Employment Activities Pre-release) program, which provides employment services for formerly incarcerated individuals; and, 1.0 Assistant Chief of Planning, a new position created to meet the demands within the Governor's Workforce Board.

- **An increase of 9.0 FTE positions in the Department of Business Regulation:** This net increase is associated with several personnel changes that are recommended by the Governor in FY2017 and are included in FY2018 FTE totals. These positions include 1.0 Senior Management & Methods Analyst

FTE position in Central Management, 3.0 Bank Examiner FTE positions in Banking Regulation, 3.0 Insurance Examiner, 1.0 Senior Insurance Examiner and 1.0 Licensing Aide position in Insurance Regulation.

- **An increase of 6.4 FTE positions in the Department of Public Safety:** The FY2017 Budget as Enacted authorized a total of 610.2 FTEs across all divisions at the Department of Public Safety. This is 23.2 FTEs less than the Department was authorized for in FY2016. DPS identified a net reduction of 17.0 positions across several divisions, bringing the total authorized positions recognized by DPS to 616.2. DPS, however, did not fully implement the enacted reductions, resulting in 6.4 FTE positions more than enacted by the General Assembly in FY2017.
- **An increase of 3.0 FTE positions in the Public Utilities Commission:** The Budget adds 2.0 Administrative Assistants, one for the Division and one for the Commission, and a 1.0 Chief of Program Development position. The Administrative Assistants are required to assist Commission and Division staff with energy policies. The Chief of Program Development position is required to meet the increased demand in Energy Facilities Siting Board filings, rate modernization, and the changes to evolving energy policy.
- **A decrease of 1.0 FTE position in the Office of the General Treasurer:** The Budget includes a decrease of 1.0 FTE position reflecting the elimination of the Director of Member Services position for the CollegeBoundSaver Program, which was not funded in the enacted budget.
- **A decrease of 1.0 FTE position in the Office of Health and Human Services:** The Budget transfers 1.0 FTE position, an interdepartmental manager, to the Governor's Office.
- **A decrease of 1.0 FTE position in the Children, Youth, and Families:** The Budget transfers 1.0 FTE position, an Interdepartmental Manager, to the Governor's Office.
- **An increase of 1.0 FTE position in the Office of Child Advocate:** One federally-funded Case Management Coordinator position is added in FY2017.
- **A decrease of 1.0 FTE position in the Historic Preservation and Heritage Commission:** The Budget includes a decrease of 1.0 FTE position to account for the transfer of the Eisenhower House events coordinator to the Department of Environmental Management.
- **An increase of 1.0 FTE position at the Department of Environmental Management:** The Budget includes 1.0 FTE position transferred from the Historical Preservation and Heritage Commission for the management of the Eisenhower House.

Article 11: Relating to the Motor Vehicle Excise Tax

Article 11 reduces the maximum taxable motor vehicle value from 100.0 percent of clean retail value, to 70.0 percent of clean retail value, as reported in defined automobile guides. It also prevents municipalities from decreasing motor vehicle exemptions below current levels. The purpose of this article is to provide relief to taxpayers.

FISCAL IMPACT

According to the Budget Office, the motor vehicle excise tax totaled $220.6 million (based on 12/31/15 certifications), or about 9.0 percent of total local tax revenues, in FY2017. The valuation changes proposed in the article take effect in July 2018, resulting in a loss of approximately $58.0 million to municipalities in FY2019. The Governor indicates an intent to provide state funding to municipalities to account for this loss in the FY2019 Budget.

In FY2018, state funding for the motor vehicle excise tax payments to cities and towns is level-funded at $10.0 million in general revenue, where it has been since FY2011. This funding is used to reimburse municipalities for the minimum $500 exemption required under current state law, ratably reduced. Article 11 prevents municipalities from lowering these exemptions from FY2018 onward. Municipalities are permitted to increase motor vehicle exemptions under this article; however, as is consistent with current law, any additional exemption, or any exemption above $500, is not subject to reimbursement.

ANALYSIS AND BACKGROUND

The motor vehicle excise tax impacts corporations and private individuals, as well as homeowners and renters alike. The tax applies to all motor vehicles and trailers, including leased vehicles. There are material differences in tax rates, ratios of assessment, and exemption levels among communities.

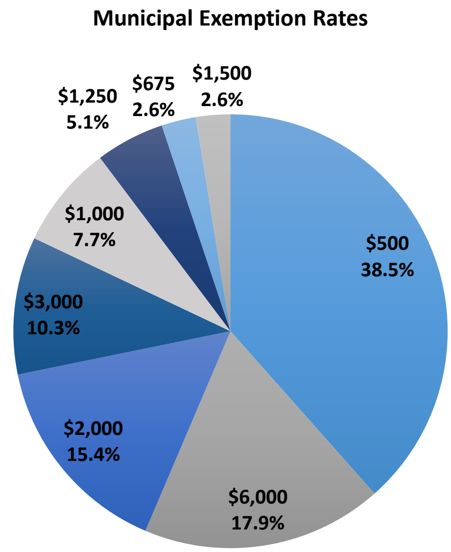
Article 11 reduces the maximum taxable motor vehicle value from 100.0 percent of clean retail value, to 70.0 percent of clean retail value, as reported in defined automobile guides. According to the Administration, this roughly equates to the trade-in value of vehicles and approximates the taxable values applied in Connecticut. The article also prevents municipalities from decreasing motor vehicle exemptions below current levels.

Motor Vehicle Tax Rates

Under current law, for FY2011 and beyond, municipal motor vehicle tax rates are permitted to be lowered, but not raised. Motor vehicle tax rates per thousand dollars of assessed value range by municipality from a low of $9.75 per thousand in New Shoreham to a high of $60.00 per thousand in Providence. See table 11.1 for tax rates by municipality.

Motor Vehicle Exemptions

The tax assessor in each city and town is required to reduce the taxable value of each vehicle based on the minimum state exemptions level. This was increased over a number of years, reaching $6,000 from FY2007 through FY2010; however, it has been reduced to $500 since FY2011. This means that the first $500 of taxable vehicle value cannot be taxed. The law allows municipalities to provide an additional exemption in excess of $500; however, these additional exemptions are not subject to reimbursement under current law. Under current law, the State reimburses municipalities for the minimum required state exemption of $500, ratably reduced based upon an appropriation, which has been $10.0 million since FY2011.



In FY 2017, out of the 39 municipalities in Rhode Island, fifteen (38.5 percent) give residents the minimum $500 exemption; 24 municipalities (61.5 percent) give vehicle owners an exemption greater than the minimum $500 exemption. Of the 24 municipalities offering a higher exemption, seven (17.9 percent) maintained the FY2010 exemption of $6,000. Under current law, a community offering an exemption higher than $500 are not reimbursed by the State. Article 11 does not change this.

Motor Vehicles Ratios of Assessments

Current law permits municipalities to set motor vehicle ratios of assessment equal to or less than the ratio of assessment used in FY2011, but no higher. Article 11 states that from FY2018 and thereafter, municipalities may increase ratios of assessment so long as they do not exceed 100.00 percent. Currently, all but three municipalities have ratios of assessment at 100.0 percent of presumptive value. Presumptive value is determined by the Rhode Island Vehicle Value Commission, authorized under RIGL 44-34-11, using data from official used car guides, such as that of the National Automobile Dealers Association of New England. Under this article, presumptive value is reduced from 100.0 percent to 70.0 percent clean retail value, or Manufacturer's suggested retail price (MSRP) for current model year cars. Per current local practice, motor vehicles in Portsmouth are assessed at 70.0 percent of presumptive value, 80.0 percent of presumptive value in Richmond, and 95.0 percent of presumptive value in Scituate. This article would allow cities and towns to increase the municipal ratio of assessment to 100.0 percent. It is unclear how this will impact municipal motor vehicle tax revenues or residents' motor vehicle tax bills in these municipalities.

Analyst Note: Per the Department of Revenue and the Governor's Office, Portsmouth, Richmond, and Scituate assess retail value of vehicles as described above. This could not be found in the municipalities' ordinances.

Motor Vehicle Excise Tax Calculation

Below is an illustrative example from the Department of Revenue that explains the formula to calculate a motor vehicle excise tax bill in Rhode Island:

Illustrative Example

Tax bill for a 2010 Honda Civic in the city of Cranston with clean retail value of **$12,000**
Current law: **$500** exemption and mill rate of **$42.44**

Motor Vehicle Excise Tax by Municipality

The Governor's proposal impacts taxpayers differently based upon a number of factors. As seen in table 11.2, vehicles taxed at a lower rate have a greater percentage savings than vehicles taxed at a higher rate. For example, a Newport resident with a $12,000 vehicle valuation saves 60.0 percent on their motor vehicle excise tax bill, while a resident with a vehicle valuation of $20,000 saves 42.9 percent. Additionally, residents in municipalities with higher exemption rates tend to have a greater savings percentage. Residents in Cumberland, which has the minimum exemption of $500 (and a tax rate of $19.87 per $1,000), with a car valuation of $12,000 save 31.3 percent. Residents in Tiverton, which has an exemption of $6,000 (and a tax rate of $19.14 per $1,000), with the same car valuation save 60.0 percent. Savings are also a function of the municipality's tax rate.

Property Tax Cap

Under RIGL 44-5-2, unless otherwise exempt, municipalities are permitted to increase property tax levies by no more than 4.0 percent above the total amount levied in the previous year. This 4.0 percent cap applies to four classes of property combined: residential real estate, commercial real estate, personal property, and motor vehicles. According to the Budget Office, the motor vehicle excise tax totaled $220.6 million, or about 9.0 percent of total local tax revenues, in FY2017. Article 11 will reduce tax revenue to municipalities by an estimated $58.0 million. The Governor has stated an intent to provide state funding to municipalities to account for this loss in the FY2019 budget.

Analyst Note: Due to this tax revenue loss, municipalities would have room to raise levies on other classes of property while staying under the 4.0 percent cap. Language could be added to ensure that other property tax levies are not adjusted due to the additional tax cap space.

Table 11.1: Current Motor Vehicle Excise Tax Rate and Levy vs. New Tax Rate and Levy

Municipality	Rate per $1,000	Exemption	Ratably Reduced MV Direct Municipal Aid	Full Funding of $500 Exemption	Tax Levy TY2014	Governor's Proposed Tax Levy at 70% Value *	Tax Levy Difference
Barrington	$42.00	$2,000	$217,477	$810,516	$5,413,326	$3,889,767	(1,523,559)
Bristol	17.35	2,000	94,294	351,425	2,337,079	1,536,688	(800,391)
Burrillville	40.00	1,250	200,798	748,356	4,432,540	3,122,820	(1,309,720)
Central Falls	48.65	1,250	96,208	358,557	1,641,475	1,230,700	(410,775)
Charlestown	13.08	500	44,097	164,347	906,163	689,424	(216,739)
Coventry	18.75	500	244,791	912,314	5,133,679	3,899,610	(1,234,069)
Cranston	42.44	500	1,005,084	3,745,851	19,633,250	16,546,748	(3,086,502)
Cumberland	19.87	500	247,485	922,354	5,337,383	4,068,525	(1,268,858)
East Greenwich	22.88	6,000	81,417	303,435	2,172,725	1,227,481	(945,244)
East Providence	37.10	500	501,297	1,868,285	9,819,781	7,929,631	(1,890,150)
Exeter	32.59	500	92,110	343,284	1,963,858	1,471,757	(492,101)
Foster	36.95	500	72,955	271,895	1,313,107	853,976	(459,131)
Glocester	24.37	500	102,420	381,708	2,109,168	1,599,661	(509,507)
Hopkinton	21.18	500	69,295	258,255	1,398,877	1,064,728	(334,149)
Jamestown	14.42	6,000	22,042	82,148	570,773	313,267	(257,506)
Johnston	41.46	500	422,637	1,575,125	8,970,557	6,853,770	(2,116,787)
Lincoln	30.66	3,000	198,583	740,100	4,985,844	3,100,238	(1,885,606)
Little Compton	13.90	6,000	12,896	48,063	323,924	171,268	(152,656)
Middletown	16.05	3,000	63,006	234,815	1,684,877	1,064,608	(620,269)
Narragansett	16.46	6,000	60,810	226,632	1,541,632	829,112	(712,520)
Newport	23.45	6,000	77,989	290,659	136,550	100,730	(35,820)
New Shoreham	9.75	1,000	6,714	25,021	1,966,487	1,045,010	(921,477)
North Kingstown	22.04	3,000	185,691	692,054	4,630,948	2,888,386	(1,742,562)
North Providence	41.95	500	389,770	1,452,635	9,337,386	6,387,191	(2,950,195)
North Smithfield	37.62	675	177,990	663,353	4,302,823	2,973,526	(1,329,297)
Pawtucket	53.30	500	794,500	2,961,025	14,340,452	12,029,293	(2,311,159)
Portsmouth	22.50	2,000	84,669	315,553	1,965,989	2,853,207	887,218
Providence	60.00	2,000	1,882,415	7,015,577	33,962,850	22,317,776	(11,645,074)
Richmond	22.64	500	65,687	244,810	1,309,940	1,557,189	247,249
Scituate	30.20	6,000	68,633	255,790	1,750,690	1,075,449	(675,241)
Smithfield	39.00	2,000	255,759	953,189	6,177,180	4,106,511	(2,070,669)
South Kingstown	18.71	3,000	139,730	520,761	3,504,200	2,132,212	(1,371,988)
Tiverton	19.14	6,000	59,170	220,522	1,439,852	737,365	(702,487)
Warren	26.00	500	92,183	343,558	1,856,570	1,431,121	(425,449)
Warwick	34.60	2,000	964,536	3,594,733	23,019,748	15,274,766	(7,744,982)
West Greenwich	19.02	500	54,390	202,704	1,155,679	868,493	(287,186)
West Warwick	28.47	1,000	231,779	863,816	5,032,081	3,661,542	(1,370,539)
Westerly	29.67	1,500	216,507	806,899	5,194,978	3,337,227	(1,857,751)
Woonsocket	46.58	1,000	402,183	1,498,898	7,733,154	6,143,115	(1,590,039)
Total			**$10,000,000**	**$37,269,023**	**$210,507,575**	**$152,383,889**	**($58,123,686)**

**The Governor's proposed tax levy assumes that all municipalities will raise assessment ratios to 100.0 of presumptive value (determined by the Vehicle Value Commission), which under Article 11 is 70.0 percent of clean retail value. Additionally, some municipalites currently apply an "aging methadology" to determine the taxible value of used vehicles. The Governor's proposal assumes that municipalities will no longer use any existing aging methodologies.*

Table 11.2: Motor Vehicle Excise Tax by Municipality

			$12,000 Vehicle				$20,000 Vehicle			
Municipality	Rate per $1,000	Exemption	Current Tax	New Tax	Savings	% Difference	Current Tax	New Tax	Savings	% Difference
Barrington	$42.00	$2,000	$420.00	$268.80	$151.20	-36.0%	$756.00	$504.00	$252.00	-33.3%
Bristol	17.35	2,000	173.50	111.04	62.46	-36.0%	312.30	208.20	104.10	-33.3%
Burrillville	40.00	1,250	430.00	286.00	144.00	-33.5%	750.00	510.00	240.00	-32.0%
Central Falls	48.65	1,250	522.99	347.85	175.14	-33.5%	912.19	620.29	291.90	-32.0%
Charlestown	13.08	500	150.42	103.33	47.09	-31.3%	255.06	176.58	78.48	-30.8%
Coventry	18.75	500	215.63	148.13	67.50	-31.3%	365.63	253.13	112.50	-30.8%
Cranston	42.44	500	488.06	335.28	152.78	-31.3%	827.58	572.94	254.64	-30.8%
Cumberland	19.87	500	228.51	156.97	71.53	-31.3%	387.47	268.25	119.22	-30.8%
East Greenwich	22.88	6,000	137.28	54.91	82.37	-60.0%	320.32	183.04	137.28	-42.9%
East Providence	37.10	500	426.65	293.09	133.56	-31.3%	723.45	500.85	222.60	-30.8%
Exeter	32.59	500	374.79	257.46	117.32	-31.3%	635.51	439.97	195.54	-30.8%
Foster	36.95	500	424.93	291.91	133.02	-31.3%	720.53	498.83	221.70	-30.8%
Glocester	24.37	500	280.26	192.52	87.73	-31.3%	475.22	329.00	146.22	-30.8%
Hopkinton	21.18	500	243.57	167.32	76.25	-31.3%	413.01	285.93	127.08	-30.8%
Jamestown	14.42	6,000	86.52	34.61	51.91	-60.0%	201.88	115.36	86.52	-42.9%
Johnston	41.46	500	476.79	327.53	149.26	-31.3%	808.47	559.71	248.76	-30.8%
Lincoln	30.66	3,000	275.94	165.56	110.38	-40.0%	521.22	337.26	183.96	-35.3%
Little Compton	13.90	6,000	83.40	33.36	50.04	-60.0%	194.60	111.20	83.40	-42.9%
Middletown	16.05	3,000	144.45	86.67	57.78	-40.0%	272.85	176.55	96.30	-35.3%
Narragansett	16.46	6,000	98.76	39.50	59.26	-60.0%	230.44	131.68	98.76	-42.9%
Newport	23.45	6,000	140.70	56.28	84.42	-60.0%	328.30	187.60	140.70	-42.9%
New Shoreham	9.75	1,000	107.25	72.15	35.10	-32.7%	185.25	126.75	58.50	-31.6%
North Kingstown	22.04	3,000	198.36	119.02	79.34	-40.0%	374.68	242.44	132.24	-35.3%
North Providence	41.95	500	482.43	331.41	151.02	-31.3%	818.03	566.33	251.70	-30.8%
North Smithfield	37.62	675	426.05	290.61	135.43	-31.8%	727.01	501.29	225.72	-31.0%
Pawtucket	53.30	500	612.95	421.07	191.88	-31.3%	1039.35	719.55	319.80	-30.8%
Portsmouth	22.50	2,000	225.00	144.00	81.00	-36.0%	405.00	270.00	135.00	-33.3%
Providence	60.00	2,000	600.00	384.00	216.00	-36.0%	1080.00	720.00	360.00	-33.3%
Richmond	22.64	500	260.36	178.86	81.50	-31.3%	441.48	305.64	135.84	-30.8%
Scituate	30.20	6,000	181.20	72.48	108.72	-60.0%	422.80	241.60	181.20	-42.9%
Smithfield	39.00	2,000	390.00	249.60	140.40	-36.0%	702.00	468.00	234.00	-33.3%
South Kingstown	18.71	3,000	168.39	101.03	67.36	-40.0%	318.07	205.81	112.26	-35.3%
Tiverton	19.14	6,000	114.84	45.94	68.90	-60.0%	267.96	153.12	114.84	-42.9%
Warren	26.00	500	299.00	205.40	93.60	-31.3%	507.00	351.00	156.00	-30.8%
Warwick	34.60	2,000	346.00	221.44	124.56	-36.0%	622.80	415.20	207.60	-33.3%
West Greenwich	19.02	500	218.73	150.26	68.47	-31.3%	370.89	256.77	114.12	-30.8%
West Warwick	28.47	1,000	313.17	210.68	102.49	-32.7%	540.93	370.11	170.82	-31.6%
Westerly	29.67	1,500	311.54	204.72	106.81	-34.3%	548.90	370.88	178.02	-32.4%
Woonsocket	46.58	1,000	512.38	344.69	167.69	-32.7%	885.02	605.54	279.48	-31.6%

Article 12: Relating to Medicaid Reform Act of 2008 Resolution

This article is a joint resolution authorizing the Executive Office of Health and Human Services (EOHHS) to undertake various reforms within the Medical Assistance (Medicaid) program. Included in the resolution are measures requiring changes to the Medicaid State Plan, Category II or III changes under the terms and conditions of Rhode Island's Section 1115 Waiver, and/or changes to state rules and regulations.

The annual appropriations bill passed by the General Assembly typically includes an article that provides legal authority for Medicaid initiatives that have budgetary savings associated with them. In recent budgets, this article has also included a series of resolutions that describe changes to the Medicaid program that underlie the budget's appropriation that do not require statutory action, but rather regulatory changes. This article grants OHHS the authority to undertake all actions required to realize the funding levels included in Article 1. Article 12 includes language for the statutory changes needed to implement several of the associated initiatives.

FISCAL IMPACT

The article includes a total fiscal impact of $15.6 million in general revenue savings ($32.0 million all funds) specific to the Healthy Aging Initiative and invests $3.3 million in general revenues ($6.8 million all funds) for a net decrease of $12.3 million in general revenue ($25.2 million all funds) in the FY2018 Governor's budget. This article seeks authority for a number of other initiatives that also have statutory changes. For these initiatives the fiscal impact is noted in Article 13.

Healthy Aging Initiative	Impacts	General Revenue	All Funds
MCO Administrative Savings	MCOs	($7.9)	($16.2)
Acuity-Based Payment Reform	Nursing Facilities	(5.2)	(10.7)
Reduced Utilization	Nursing Facilities	(2.5)	(5.1)
Community-Based Investment	Community-Based Providers	3.3	6.8
Net Impact		**($12.3)**	**($25.2)**

$ in millions

ANALYSIS AND BACKGROUND

This article requests authority from the General Assembly to make changes to the Medicaid State Plan, Category II or III changes under the terms and conditions of Rhode Island's Section 1115 Waiver, and/or changes to state rules and regulations to implement the following:

Healthy Aging Initiative: The article amends the 1115 waiver authority by changing Integrated Care Initiative (ICI) enrollment, modifying payment methodology, updating the eligibility determination procedures, and promoting options counseling for long-term services and supports (LTSS). The authority to reduce MCO administrative payments and modify payments to nursing facilities are directly related to the authority and fiscal impact of this initiative.

- The ICI was designed to align the care and financing of Medicare and Medicaid, promote home and community based care, and provide cost-effective care for adults with disabilities and the elderly. The program has been developed in two phases over three years, beginning Phase I in November of 2013 and Phase II in July of 2016. The ICI aligns the financing of Medicare and Medicaid and integrates primary, acute, behavioral health, and LTSS for Medicare-Medicaid enrollees. The article will allow EOHHS to move ICI enrolled long-term nursing home residents, out of the program, and into fee-for-service Medicaid saving $7.9 million in general revenue ($16.2 million all funds) in FY2018. The savings are generated by removing the administrative expenses, $381 per-member-per month (pmpm), paid to Managed Care Organizations (MCOs) for ICI enrollees, as well as from reducing estimates for the Risk Share payments. A portion of the savings will then be used to develop enhanced services in the community to prevent entry into nursing facilities.

- The article authorizes reforms to the acuity-based payment to nursing facilities. EOHHS proposes to rebase the acuity-base component of the nursing facility rate that was established in 2013. Acuity payments are established by an assessed measurement of intensity of nursing care for a patient. For example, a patient who is ambulatory (able to walk) would have a lower acuity level than a patient who is unable to walk. The acuity-based payment was originally developed with an average weight of 1.0. Following the adoption of the acuity-based payment, the average weight increased to 1.05 resulting in higher expenditures than anticipated. The Department proposed to rebase acuity weights to the targeted average of 1.0, saving $5.2 million in general revenue ($10.7 million all funds). The changes reduce total acuity-based payments from $207.1 million to $196.4 million in FY2018.
- LTSS eligibly determinations procedures will be modified to promote a streamlined process to improve the LTSS system and increase home and community-based services. Additionally, the Department projects a lower nursing home utilization, a reduction of 80 individuals to the average daily nursing home census, saving $2.5 million in general revenue ($5.1 million all funds) in FY2018.
- The article does not include language specific to reinvestment; however, based on the Governor's proposed budget, $3.3 million in general revenue ($6.8 million all funds) will be investing to improve programming for community based programming.

Payment Rate Adjustments: The article seeks authority to reduce and/or freeze rates to hospitals, nursing facilities, managed care organizations (MCO), and reform acuity-based payments to behavioral health services.

- **Hospitals:** The article reduces payments to hospitals by 1.0 percent for six months beginning on January 2018 and freezes the scheduled Center for Medicare and Medicaid Services (CMS) Prospective Payment System Hospital Price index increase to take-effect in FY2018. The fiscal impact for this authority is included in Article 13.
- **Nursing Facilities:** The Governor freezes inflation-based rate increases to nursing facilities and adjust acuity-based payments in FY2018. The inflation-based rate is an annual rate increase, based on the national nursing home inflation index, scheduled to go into effect on October 1, 2017. The fiscal impact for this authority is included in Article 13.
- **Managed Care Organizations (MCOs):** The article seeks authority to reduce administrative rates paid to MCOs in FY2018. The fiscal impact of these changes are included in Article 13.
- **Federally Qualified Health Center (FQHC) Payment Reform:** The article seeks approval to change the current alternative payment methodology to FQHCs. This authority will allow EOHHS to move reimbursement into the Managed Care Organizations (MCOs) monthly capitation rates. The fiscal impact for this authority is included in Article 13.

Beneficiary Liability Collection Enhancements: The article seeks authority to implement improved methods for collecting beneficiary liabilities in the Medicaid Fee-For-Service (FFS) system and the Rhody Health Options (RHO) programs. The article gives EOHHS authority to enhance methods for collection of cost-shares in a timely manner. It is unclear what process or program changes will occur to achieve savings.

Analyst Note: The FY2017 Budget as Enacted included $1.5 million in general revenue ($3.1 million all funds) savings associated with improved beneficiary patient liability collections. Due to delays in implementation, the savings were not achieved in the FY2017 Budget as Enacted. The November Caseload Estimating Conference (CEC) assumed $1.2 million ($2.5 million all funds) in the FY2018 projections. This savings initiative is in addition to the already assumed savings projections included in the November CEC.

Adult Dental Service Reform: The article seeks to reform the payment methodology and delivery system for adult dental services, including rates for oral surgery. These adjustments will require changes to the 1115 waiver authority.

Estate Recovery Collections: The article proposes to improve the collections of estate recoveries and liens against beneficiaries of long-term services and supports. The article does not state what changes will be made in order to improve collections. The Governor's budget includes a $250,000 ($513,769) savings in the FY2018 associated with this initiative.

Asthma Treatment: The Governor proposes to amend the State Plan to include the Home Asthma Response Program (HARP). The inclusion of the program in the State Plan will enable the use of federal financing within the Medicaid program. HARP is designed to reduce emergency room utilization and promote preventative treatment and management for high risk pediatric asthma patients.

Analyst Note: The fiscal impact of adding HARP services to the State Plan have not been included in the Governor's FY2018 Budget proposal.

Centers of Excellence: This article seeks authority to cover services that are provided by Centers of Excellence (COEs). COEs promote best practices and treatment for individuals addicted to opioids and are licensed by the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH). In FY2016 BHDDH received funding for the infrastructure development of six COEs over the period of three years. Currently, CODAC is the only licensed COE in operation; however, services that are provided are not yet considered reimbursable COE services.

Analyst Note: The fiscal impact of adding COE services to the State Plan have not been included in the Governor's FY2018 Budget proposal.

Federal Financing Opportunities: This article grants EOHHS to pursue any changes to the Rhode Island Medicaid program that improves, quality, access and cost-effective delivery, so long as the changes do not have an adverse impact on beneficiaries or increases expenditures beyond appropriations for state fiscal year 2017.

Article 13: Relating to Medical Assistance and Uncompensated Care

This article revises and adds to the statutes governing the Medical Assistance (Medicaid) program, implementing certain initiatives set forth in the Governor's FY2018 Budget and aligning the General Laws with the stated goals of ensuring access to high quality and building an efficient health care delivery system which delivers better health outcomes for Rhode Islanders.

FISCAL IMPACT

This article reduces general revenue expenditures by $19.3 million ($34.1 million all funds) in FY2018. These adjustments are attributed to an increase in general revenue expenditures of $2.5 million ($5.1 million all funds) for a home healthcare worker wage increase, an increase in restricted receipt collections of $3.8 million due to an assessment rate increase on commercial insurers to fund the Children's Health Account, and a reduction in general revenue expenditures of $2.0 million for elimination of funding for the Medical Graduate Program. Reductions in expenditures include hospital rate reductions saving $5.2 million in general revenue ($15.1 million all funds), nursing facility rate freezes and reforms saving $5.6 million in general revenue ($11.2 million all funds), payment reforms to Federally Qualified Health Centers (FQHCs) saving $1.2 million in general revenue ($3.0 million all funds), and reductions to the Upper Payment Limit (UPL) saving $4.0 million in general revenue ($9.9 million all funds).

Article 13 Proposals	General	All Funds
Nursing Facility Rate Freeze and Payment Reform	($5.6)	($11.2)
Hospital Rate Reductions	(5.2)	(15.1)
Upper Payment Limit (UPL) Reduction	(4.0)	(9.9)
Children's Health Account	(3.8)	-
Wage Increase for Home Health Workers	2.5	5.2
Graduate Medical Education	(2.0)	-
Federally Qualified Health Center Payment Reform	(1.2)	(3.0)
Total	**($19.3)**	**($34.1)**

$ in millions

ANALYSIS AND BACKGROUND

Nursing Facility Rate Freeze and Payment Reform: The article proposes to freeze a 3.0 percent inflation-based rate increase to nursing facilities saving $5.6 million in general revenue ($11.2 million all funds) in FY2018. The inflation-based rate is an annual increase, based on the national nursing home inflation index, scheduled to go into effect on October 1, 2017.

Analyst Note: Additionally, the article proposes to modify the acuity-based payment methodology to nursing facilities, saving $5.2 million in general revenue ($10.7 million all funds) in FY2018. The fiscal impact is included in Article 12.

The article authorizes reforms to the acuity-based payment to nursing facilities. EOHHS proposes to rebase the acuity-based component of the nursing facility rate that was established in 2013. Acuity-based payments are established by an assessed measurement of intensity of nursing care for a patient. For example: a patient who is ambulatory (able to walk) would be assessed at a lower acuity level than a patient who is unable to walk. The acuity-based payment was developed with an average weight of 1.0. Following the adoption of the acuity-based payment, the average provider billed weight increased to 1.05 within the first few months resulting in higher expenditures.

According to the Department the increase in the weighted average was not likely the result of patients becoming sicker, rather, providers became more skilled at either the assessment of acuity or accurately billing for it. Re-basing the acuity base is essentially cutting the rate in which nursing facilities are compensated for an individual's level of care needs.

In the FY2017 Budget as Enacted, nursing facilities received the inflation-based rate increase, $3.9 in general revenue ($7.9 millions all funds), with the condition that 85.0 percent of rate increase was used to increase wages and employee related benefits to certified nursing assistance (CNAs) and other direct care workers at nursing facilities.

Analyst Note: The Executive Office of Health and Human Services (EOHHS) received approval from the Centers for Medicaid and Medicare (CMS) to create a Health System Transformation Project (HSTP), for up to $130.0 million in federal matching funds over a five year period for the project. The HSTP is designed to advance the formation and success of Accountable Entities (AE); an integrated provider organization responsible for improving quality of care and outcomes for patients while also managing costs. Funding in year one ($20.5 million) is designated exclusively to hospitals and nursing homes in FY2017. However, the details of this award are not included in the Governor's Budget.

Hospital Rate Reduction: The article reduces payments to hospitals from Managed Care Organizations (MCOs) and Medicaid by 1.0 percent for six months saving $885,832 in general revenue ($2.6 million all funds) and freezes the payment increase currently scheduled to take-effect in FY2018, saving $4.3 million in general revenue ($10.7 million all funds). These actions provide a combined general revenue savings of $5.2 million ($13.2 million all funds).

Hospitals are reimbursed by Medicaid on a fee-for-service basis and by MCOs for in-patient, out-patient, and emergency services. Section 40-8-13.4 allows EOHHS to review these rates annually to make adjustments to the payments by considering factors such as hospital costs, hospital coding, and availability of services to beneficiaries and/or include, but not to exceed the CMS Prospective Payment System Hospital Price Index, an inflation-based index. This article proposes to maintain current rates and will not implement an inflationary increase to payments. The 2018 projected CMS price increase is 3.0 percent for inpatient payments and 1.6 percent for outpatient payments. This article maintains the current rate hospitals are receiving through December 31, 2017, at which point the article proposes to reduce the reimbursement rate by 1.0 percent beginning on January 1, 2018.

Hospital Reductions	General Revenue	All Funds
1.0 Percent Rate Cut	($0.9)	($2.6)
Rate Freeze	(4.3)	(10.7)
Total	**($5.2)**	**($13.2)**

$ in millions

Upper Payment Limit (UPL) Reduction: This article amends section 40-8.3-10 of the Uncompensated Care statute by reducing the total to 50.0 percent of the total outpatient adjustment for hospitals and adds language to include "government" hospitals and "psychiatric" hospitals. This proposal will yield $4.0 million in general revenue ($9.9 million all funds) savings in FY2018.

UPL payments compensate hospitals for the gap between what hospitals receive for Medicaid outpatient and inpatient services and what they would have been paid for those services under Medicare reimbursement principles. In past fiscal years, the State has made UPL payments to hospitals, matched by the federal government, to bring its total Medicaid expenditures up to 100.0 percent of the Medicare upper payment limit, maximizing available federal funds. This article will reduce the total Medicaid expenditures to 50.0 percent of the Medicare upper payment limit, saving $4.0 million in general revenue.

The article also contains language to include "government" and "psychiatric" hospitals as participating hospitals for the disproportionate share hospitals (DSH) payments, allowing Eleanor Slater Hospital, Bradley Hospital, and Butler Hospital to receive DSH payments. The FY2017 Enacted budget excluded these hospitals from receiving payments. Previous to this change in FY2017 these hospitals were able to receive DSH payments.

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DSH payments, like UPL, are supplemental payments made to hospitals for uncompensated costs. The payments are meant to help close the gap between what the cost of the services they provide and the reimbursement rate they receive from Medicaid

In order to generate the financial resources to provide DSH and UPL payments, Rhode Island assesses hospitals, including ESH, a hospital licensing fee. The 5.652 percent fee is assessed based on total net patient service revenue in 2016. The State generated $169.0 million in general revenue in FY2017 from the hospital licensing fee. The State then uses this revenue to request a federal match from the Centers of Medicaid and Medicare to fund uncompensated care, DSH, and UPL payments to hospitals. The State redistributes the funds to hospital for calculated uncompensated care amounts and nets $89.6 million in general revenue for the State.

The Eleanor Slater Hospital (ESH) is a State-operated hospital which has two campuses: the larger campus, the Pastore Center in Cranston, has 306 licensed beds, while the Zambarano Campus in Burrillville has 189 licensed beds. The Pastore Center Campus focuses on long-term psychiatric and psychogeriatric services. The Zambarano Campus focuses on long-term and rehabilitative care.

Eleanor Slater Hospital

Fiscal Year	Hospital License Fee	DSH Collection	*Loss*
FY2012	$5.8	$1.5	($4.3)
FY2013	$5.2	$1.5	($3.7)
FY2014	$5.5	$1.5	($4.0)
FY2015	$6.5	$1.5	($5.0)
FY2016	$6.7	$1.5	($5.2)

$ in millions

In previous fiscal years, ESH has received the portion of the DSH payments that were associated with their patient population. In FY2018, ESH is projected to pay approximately $6.7 million and will not receive a DSH payment without the inclusion of "government" and "psychiatric" provision requested in Article 13. The FY2017 Supplemental budget included $2.8 million general revenue request for an operational deficit at the division of Hospitals and Rehabilitative Services associated with operation of ESH.

Children's Health Account: This article will increase the assessment on private and self-funded insurers to fund the Children's Health Account (CHA). The assessment will increase from $7,500 per child, per service, per year to $12,500. The Governor projects the increased assessment will generate an additional $3.0 million in restricted receipts in FY2018. The distribution of the projected increase to insurance companies is below.

Children's Health Account Collections

Fiscal Year	BCBS	UHC	All Other Insurers	Total CHA Assessment
FY2013	$7.1	$1.6	$3.2	$11.9
FY2014	6.9	1.4	3.2	$11.5
FY2015	7.2	1.5	3.5	$12.2
FY2016	7.2	1.2	3.3	$11.7
FY2017	3.9	2.7	4.0	$10.6
FY2018**	5.9	3.7	4.0	$13.6

* Total asssesment includes administrative expense collections

*Totals vary due to rounding

**Governor's Budget proposal

$ in millions

Analyst Note: In FY2018 the administrative fees associated with the collection of the CHA assessment are reduced for a net increase of $3.6 million available for services.

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The CHA fund provides commercially insured children with special health care needs access to Medicaid benefits and habilitative services, not otherwise covered by commercial plans. The assessments are determined annually based on the insurance carrier number of lives covered. During the 2015 legislative session, legislation was passed to expand the assessment collection to include self-insured products, broadening the base of assessment.

Children's Health Account Billable Cost by Insurer and Total Collection FY2013-FY2015

Fiscal Year	BCBS	UHC	All Other Insurers	Total Insurer Billable Costs*	Total CHA Collection	*Diff*	Total FFS Medicaid Program Cost*
FY2013	$12.7	$4.5	$4.7	$22.0	$11.0	$11.0	$46.8
FY2014	10.9	5.0	6.2	22.1	10.7	$11.4	47.2
FY2015	9.4	5.4	5.8	20.5	9.6	$10.9	44.3

$ in millions

*Total billable costs is the annual total cost of all insurers billable services that are provided by Medicaid.

*Total Medicaid fee-for-service (FFS) program costs for children with special healthcare needs commercially and non-commercially insured

The increase in assessment will allow EOHHS to offset the cost of benefits that commercial insurers are not required to provide for children with special healthcare needs that are provided by Medicaid through programs like Katie Beckett. Currently, this fund offsets approximately 46.0 percent of the expenses incurred by commercially insured children, saving insurers $10.9 million in benefit costs in FY2015. The increase in assessment will reduce commercial insurer savings and increase general revenue collections to offset Medicaid covered services for the commercially insured. The table below includes the breakdown by insurer and the collection of services covered by the CHA.

Blue Cross Blue Shield of Rhode Island and Massachusetts has the highest utilization of services by their insured lives receiving services that are covered under the CHA, approximately 44.0 percent of total billable services in FY2015. The statutory changes that occurred in FY2015 broadened the base of insurers that are being assessed as well as redistributed the payment requirements by insurers. These adjustments have led to a year over year reduction in assessed cost for BCBS from FY2016 to FY2017. The Governor's proposal would increase assessments across all insurers in FY2018. BCBS will still pay less than the pre-FY2017 levels.

Wage Increase for Home Health Workers: The article provides a one-time increase to the base-payment rates to home and community based providers with the intent of increasing wages to home health workers providing care to long-term care beneficiaries living in the community. This proposal will increase general revenue expenditures by $2.5 million ($5.1 million all funds) in FY2018.

Through the Reinventing Medicaid public process, held in 2015, stakeholders, community providers and direct care workers expressed the need to increase wages in order to strengthen the home healthcare workforce in support of the effort to increase community options for individuals receiving long-term services and supports (LTSS). In response to the expressed need, the General Assembly included $2.0 million ($4.1 million all funds) for a wage increase for home health workers in the FY2017 Budget as Enacted.

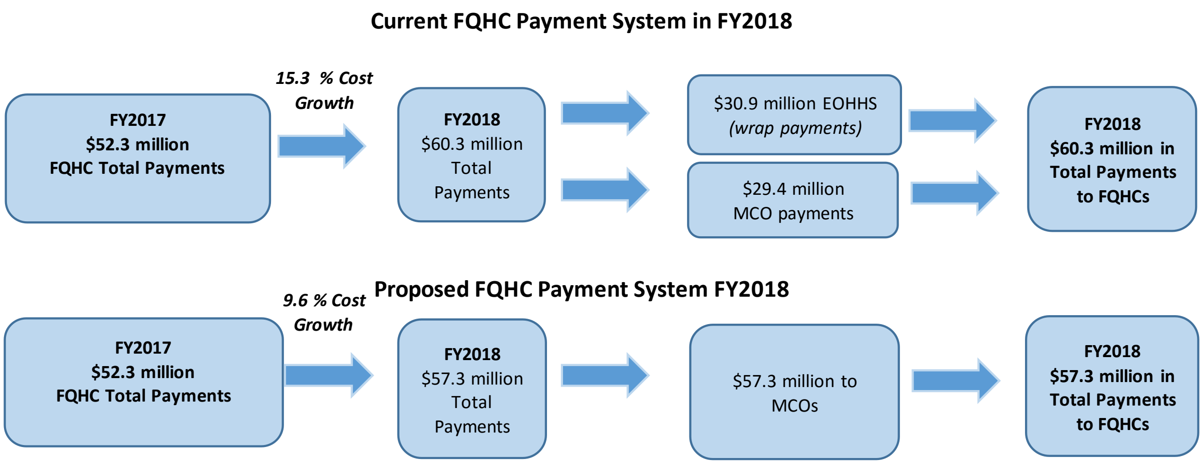
Graduate Medical Education: This article repeals the statute governing appropriations for the Graduate Medical Education program. This initiative will save $2.0 million in general revenue for FY2018. During the 2016 legislative session, the Governor recommended eliminating funding for this program; however, the funding was reinstated in the FY2017 Budget as Enacted. This program is currently available to Rhode Island's academic Level I trauma center hospitals, with a minimum of 25,000 discharges per year and provides at least 250 interns and residents per year. Currently, Rhode Island Hospital is the only hospital that qualifies for this funding.

Federally-Qualified Health Center (FQHC) Payment Reform: The article amends the alternative payment methodology by requiring reimbursement rates to FQHCs to be included in Managed Care Organizations (MCOs) capitated rates, saving $1.2 million in general revenue ($3.0 million all funds) in FY2018.

The federal Prospective Payment System (PPS) rate methodology is how FQHCs seek reimbursement for services. This PPS rate methodology arrangement allows FQHCs take their total operating cost and divide it by their encounters (patient visits) resulting in an encounter rate. All FQHCs have different rates. MCOs pay FQHCs a negotiated encounter rate often lower than the FQHC encounter rate. EOHHS then makes a "wrap" payment to make up the difference between the MCO rate and the FQHC encounter rate.

The Department sees a trend of significantly higher encounters in Medicaid member usage at FQHCs and increasing operational and infrastructure costs at FQHCs. This has resulted in an increase in average encounter rate at FQHCs and higher wrap payments by EOHHS. MCOs set rates with FQHCs and have no incentive to increase payment to the FQHCs, and the FQHCs have little incentive to control costs if EOHHS continues to provide wrap payment to FQHCs.

The Governor's proposal eliminates the wrap payments made by EOHHS and includes the total cost of current encounter rates in the MCO capitated rate. This initiative is intended to incentivize MCOs to work with the FQHCs to manage costs and strengthen procedure on billable encounters, which are the basis for the reimbursement rate. MCOs will be given the resources that EOHHS previously provided in "wrap" payments to include in their capitated rates.



The savings for this proposal are not assumed by a cut to FQHCs, rather slowing the rate of growth of the FQHC encounter rate and overall annual payments. The November 2016 caseload estimating conference assumed a 15.3 percent growth in average FQHC encounter rates, $8.0 million all funds in FY2018 over FY2017 Budget as Enacted. The Governor proposes to increase spending to FQHCs by $5.0 million in FY2018; however, this reduces the spending by $1.2 million general revenue ($3.0 million all funds) from projected FY2018 levels without changes.

FQHC Payments FY2013 through FY2017

Fiscal Year	EOHHS Wrap Payment	MCO Payment	Annual Payments to FQHC	% EOHHS Wrap Payment total	% MCO Payment of Total
FY2013	$13.7	$15.8	$29.5	46%	54%
FY2014	16.0	19.4	35.4	45%	55%
FY2015	23.2	24.0	47.2	49%	51%
FY2016	25.8	24.7	50.5	51%	49%
FY2017*	26.8	25.5	52.3	51%	49%
FY2018**	30.9	29.4	60.3	51%	49%
FY2018***	-	57.3	57.3	0%	100%

$ in millions

**Projection base on November 2016 CEC estimates*

***Projection based on November 2016 CEC estimates*

****Projections based on Governor's Budget*

Article 14: Relating to Licensing of Hospital Facilities

This article reinstitutes the annually-enacted Hospital License Fee at the rate of 5.652 percent and a discounted rate of 3.561 for hospitals located in Washington County. Licensing fees are generated upon net patient services revenue of hospitals for the hospital's first fiscal year ending on or after January 1, 2016. Through a pending waiver submitted to the Centers for Medicare and Medicaid Services, Washington County hospitals' license fee is discounted by 37.0 percent. These license fees are payable by July 10, 2018, but are accrued as FY2018 revenues by the State Controller.

FISCAL IMPACT

The fee is estimated to raise $169.0 million in revenue, consistent with FY2017 Budget as Enacted.

ANALYSIS AND BACKGROUND

The hospital license fee is a provider tax that the State levies to collect revenue from hospitals. This fee is federally capped at 6.0 percent. In past fiscal years, it has been used as a mechanism to generate state funds that are then matched with additional federal Medicaid funds and returned to hospitals as partial reimbursement for their care of the uninsured and indigent through the Disproportionate Share Hospital (DSH) program.

Though the State's largest hospitals are non-profit and do not pay corporate income taxes or property taxes, the hospital license fee has become a considerable source of revenue for the State since its substantial increase in FY2009.

Fiscal Year	Rate	Revenue
2008	3.480%	$73.9
2009	5.473%	121.5
2010	5.314%	124.5
2011	5.465%	135.8
2012	5.430%	138.0
2013	5.313%	138.5
2014	5.246%	141.3
2015	5.745%	138.6
2016	5.862%	169.1
2017	5.652%	169.0
2018*	5.652%	169.0

**Proposed*

$ in millions

Article 15: Relating to Behavioral Healthcare, Developmental Disabilities, and Hospitals

This article co-designates the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals and the Executive Office of Health and Human Services (EOHHS) as a single state authority for purposes of calculating the maintenance of effort (MOE) for the Substance Abuse Block Grant awarded by Substance Abuse and Mental Health Services Administration (SAMHSA). The MOE is a federal requirement placed upon the Substance Abuse Block Grant program which requires the State to demonstrate certain levels of funding for substance abuse programs from year to year. While the article co-designates authority it retains BHDDH as the sole agency responsible for planning, policy development, and implementation of laws and regulations relating to substance abuse.

Analyst Note: The FY2017 Enacted Budget included language within Article 4 creating a single state entity to meet the MOE requirements of the SAMHSA Block Grant. The Department indicated the language did not satisfy the federal requirements; therefore, the current Budget includes language that has been requested by SAMHSA to satisfy this requirement.

FISCAL IMPACT

According to BHDDH, the State is at risk to lose $7.6 million in SAMHSA grant funding due to failure to meet federal MOE requirements. Additionally, the State has an outstanding $10.4 million in unmet MOE for FY2015 and FY2016 for the Substance Abuse Block Grants. The Department anticipates with the passage of this article, SAMHSA will approve current and past MOE obligations of the State.

ANALYSIS AND BACKGROUND

Block grants require the State to demonstrate a MOE to be considered and awarded federal funds. The MOE for the SAMHSA block grant is the aggregate of all state expenditures for substance abuse activities at a level that is greater than or equal to the average level of state expenditures over the two-year period preceding the year the state applies for the grant.

BHDDH is charged with the direction and coordination of mental health and substance abuse prevention, treatment, recovery supports, and the administration of the community-based system of care. The Division of Behavioral Healthcare operating budget has historically been augmented by discretionary grants received by SAMHSA. In FY2017, BHDDH is operating multiple SAMHSA-funded initiatives: Projects for Assistance in Transition for Homelessness and Substance Abuse Prevention and Treatment, Community Mental Health Services Block Grant, PATH Grant, Partnership for Success, Medication Assisted Treatment, Screening Brief Intervention and Referral to Treatment (SBIRT), Healthy Transitions, Rhode Island CABHI Youth Treatment Transitions.

This article co-designates the two agencies as the “single state authority for mental health and substance abuse”, thereby allowing Medicaid expenditures to fulfill the SAMHSA MOE requirements. Currently, EOHHS provides the primary funding source for BHDDH substance abuse services through Medicaid Managed Care Organizations (MCOs). In order to attribute these expenditures toward MOE, SAMHSA requires the State to create statutory and interdepartmental agreement between EOHHS and BHDDH.

Article 16: Relating to Debt Management Act Joint Resolutions

This article serves as a joint resolution for the issuance of up to $139.0 million in debt required pursuant to RIGL 35-18-1, commonly known as the Kushner Act, to finance an array of projects across state government. The projects, total costs, financing instruments, annual amounts, and total debt are summarized below.

Proposed Debt Authorizations

Certificates of Participation (COPS)	Department	Principal	Interest	Total Debt
Information Technology Improvements	Administration	$16.2	$4.8	$21.0
Energy Improvements in State Facilities	Administration	12.0	3.2	15.2
Confined Aquatic Disposal Cells (CAD Cell)	CRMC	10.5	3.1	13.6
Energy Conservation - URI	URI	11.6	5.2	16.8
Total COPS		**$50.3**	**$16.3**	**$66.6**
Revenue Bonds				
White Horn Brook Apartments	URI (RIHBC)	**$88.8**	**$84.5**	**$173.3**
Total (COPS and Revenue Bonds)		**$139.0**	**$100.8**	**$239.9**

$ in millions

FISCAL IMPACT

The article authorizes $50.3 million in total state borrowing for four projects, at 5.0 percent interest, over 10-15 years.

Project	Department	Total Cost (w/interest)	Annual Debt Service	Final Payment
Information Technology Improvements	Administration	$21.0	$2.0	2028
Energy Improvements in State Facilities	Administration	15.2	1.7	2027
Confined Aquatic Disposal Cells (CAD Cell)	CRMC	13.6	1.4	2028
Energy Conservation - URI	URI	16.8	1.1	2033
Total		**$66.6**	**$6.2**	

$ in millions

Additionally, $88.8 million in RIHEBC revenue bonds are authorized, at 5.0 percent interest over 30 years, yielding a total debt service of $173.3 million that will be financed primarily through University of Rhode Island auxiliary fee revenues.

ANALYSIS AND BACKGROUND

Information Technology Improvements

Section 2 authorizes the issuance of debt of $16.1 million in certificates of participation (COPs) over four years, including financing costs, for four information technology improvement projects. Total debt service at a 5.0 percent borrowing rate after 10-years is projected to be $21.0 million.

TOC

Agency	Project	Project Cost
Department of Revenue	Integrated Tax System Cash and Statistical Reporting	$2.0
Department of Administration	New Payroll Attendance and Scheduling System	3.5
Department of Health	Vital Records	2.5
BHDDH, Corrections, and Human Services	Electronic Medical Records and Patient Case Management	8.1
Total		**$16.1**

$ in millions

- **Integrated Tax System:** The plan includes $2.0 million in FY2018 for the second phase of the new Integrated Tax System to aid the Department of Revenue with cash transactions and statistical reporting.
- **Payroll, Attendance, and Scheduling System:** The Budget includes $3.5 million in FY2018 to update current payroll systems in the Department of Administration. The update will allow the system to interface with new payroll attendance and scheduling systems.
- **Vital Records:** This project involves a new vital statistics program for the Department of Health to provide electronic recording capabilities that are compliant with the federal government. The Budget provides $2.5 million in FY2018.
- **Electronic Medical Records and Patient Case Management:** The plan includes $8.1 million for a new patient management and electronic medical records system for the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals; Corrections; and, the Veterans' Home under the Department of Human Services.

Energy Efficiency Improvements

Section 3 authorizes the issuance of $12.0 million in certificates of participation for various energy efficiency improvements to State facilities, including the State House, state-owned group homes, administrative buildings, parking lots, and health labs. Total debt service cost after 10-years is projected to be $15.2 million, assuming 5.0 percent interest annually. It is anticipated that increased energy savings will offset a portion of the debt service costs.

Confined Aquatic Dredged Material Disposal Cells

The article provides for the issuance of $10.5 million in COPs in FY2018 for Confined Aquatic Disposal (CAD) cells. The total State debt-service obligation is estimated at $13.6 million over 10 years at an average interest rate 5.0 percent. This project is budgeted in the Coastal Resources Management Council and the funding provides the 35.0 percent state match for a federal project to be performed by the Army Corps of Engineers.

The Army Corps of Engineers has asked the Coastal Resources Management Council to act as the local sponsor to the federal action of maintaining the depths of the Providence River and Harbor Shipping Channel. To maintain the depths, the channels must be dredged to remove sediments that accumulate over time. These areas were last dredge in 2003. To reduce the environmental risk from sediments not suitable for ocean disposal, the dredged sediment is stored in CAD cells. CAD cells are depressions created in the bottom of a body of water for storing contaminated sediments to reduce the risk of the sediment contaminating the entire system. Currently, there are six CAD cells below the Providence River Federal Navigation Channel in the vicinity of the Port of Providence and Simms Metals that were created in the mid 1990's; however, these cells are reaching capacity. This project would provide for the design and construction of additional CAD cells.

Energy Performance Contract

The article provides for the issuance of $11.6 million in COPS for Phase 3 of an Energy Performance Contract at the University of Rhode Island (University), including $7.0 million in FY2018 and $4.6 million in FY2019. Total debt is projected at $16.8 million over 15 years with an average interest rate of 5.0 percent. The payments will be supported through energy savings at the University.

The University entered into an energy performance contract with Noresco, an Energy Service Company (ESCO), to purchase energy saving improvements for buildings and infrastructure. Performance contracting is structured so that the cost of implementing the energy conservation measures is recovered from the cost avoidance achieved by the performance measures. The return on investment for the project is realized over a 12-15 year period. Phase III of this project includes comprehensive multi-campus interior LED dimmable lighting; fume hood upgrades at the Center for Biology and Life Science; replacement of HVAC components; installation of plug load controllers; electric sub-metering throughout the Kingston campus; heating system upgrades; and a continuation of building weatherization upgrades.

White Horn Brook Apartments

This article provides for the issuance of Rhode Island Health and Educational Building Corporation (RIHEBC) revenue bonds in the amount of $88.8 million for the construction of the White Horn Brook Apartments, including $49.1 million in FY2018 and $39.7 million in FY2019. The total debt service may not exceed $173.3 million assuming an interest rate of 5.0 percent over 30 years. Auxiliary fee revenues from the University of Rhode Island (URI) Housing and Residential Life will support approximately 95.0 percent of the total project costs and University general funds will support the remaining 5.0 percent.

Article 17: Relating to Lease Agreement for Leased Office and Operating Space

This article authorizes the Council on Postsecondary Education (Council) and the State Properties Committee to approve a lease agreement for additional parking spaces for the Nursing Education Center (NEC) at an estimated cost of $500,000 annually.

FISCAL IMPACT

The article provides an estimated annual cost of $500,000; however, the language does not specify a cap on the cost of the lease. The article provides that the General Assembly approves financing of $500,000 annually for the off-site parking "but will be later informed by the final lease". Furthermore, the article does not specify the source of funds for the annual lease payments. The institutions have indicated that the cost will be shared by the University of Rhode and Rhode Island College but the article is silent on this issue. Due to these omissions, the fiscal impact of the article is indeterminable at this time.

ANALYSIS AND BACKGROUND

The article authorizes the Council on Postsecondary Education and the State Properties Committee to enter into a lease agreement for parking spaces for students attending the Nursing Education Center (NEC). The NEC is a partnership between the State, Rhode Island College, and the University of Rhode Island to provide a state-of-the-art facility to be shared by the institutions. The NEC is located at the South Street Landing property (a.k.a. the South Street Power Station or Dynamo House).

The current lease for the education facility located at South Street Landing includes 200 parking spaces for faculty and staff; however, additional parking is needed for students. The article authorizes a lease agreement for additional parking spaces. The solicitation of proposals for the additional parking issued by the Department of Administration requires an initial contract period of five years with two consecutive two-year options; consequently, the maximum lease period is nine years. While the number of spaces is not specified within the article, the approved financing is estimated at $500,000 annually, but will "be later informed" by the final lease agreement.

Analyst's Note: The language of the statute does not clearly provide a limit on the financing that can be approved by the Council and State Properties Committee, the source of funding for the lease payments, or the number of spaces required.

Article 18: Relating to Education Aid

This article makes the categorical fund that provides additional support for English learners (EL) permanent. Article 11 of the FY2017 Budget as Enacted established a category of aid that provides 10.0 percent of the per-pupil core instruction amount, adjusted by the state share ratio, for each English learner, but only in FY2017.

FISCAL IMPACT

The article does not require an appropriation for EL students but instead allows for the additional support to continue beyond FY2017; consequently, the language of the article does not have a direct fiscal impact on the State. However, the FY2018 Budget contains $2.5 million in additional support for EL students.

ANALYSIS AND BACKGROUND

Article 11of the FY2017 Budget as Enacted established a new categorical fund to provide additional support for costs associated with English learners (EL). The fund provides additional aid of 10.0 percent of the per-pupil core instruction amount for each qualified EL student. This additional aid is then multiplied by the state share. When the article was originally enacted, the additional the per-pupil weight was $898 for each identified English learner. In FY2018, the per-pupil weight increases to $916, to reflect 10.0 percent of the $9,163 core instruction amount. This amount is then multiplied by the state share ratio. The formula is provided below.

(Per-pupil core instruction amount x number of EL students) x 10.0 percent x state share ratio = additional state support per EL student

This support is then ratably reduced based on the total amount appropriated.

Qualified EL students are identified pursuant to standards and assessments delineated by the Commissioner. The Department of Elementary and Secondary Education is responsible for collecting performance reports and ensuring that funds are not used to displace local resources; consequently, districts must manage the funds in accordance with requirements enumerated by the Commissioner. The Department is required to approve the use of funds prior to expenditure to ensure the funds align to innovative and expansive activities. Distribution is subject to a pro-rata reduction based on the funds available; consequently, if the amount appropriated does not completely fund the 10.0 percent for each student, each district will receive its proportionate share of the amount available. The Budget level funds the categorical in FY2018 at $2.5 million, approximately one-half of the estimated full funding amount as estimated in the FY2017 Budget.

The table on the following page outlines the EL funding for districts in FY2017 and FY2018.

English Learner Calculator

Districts	English Learner (June 2016 Data)	English Learner Funding	State Share Ratio	State Share of English Learner Funding	FY2018 Governor	FY2017 Enacted	*Change*
	A	($9,163*10%)* A = B	C	C * B=D	44.6%		
Barrington	16	$14,661	15.9%	$2,331	$1,040	$1,339	*($299)*
Burrillville	3	2,749	54.3%	1,494	667	721	*(54)*
Charlestown	1	916	18.4%	168	75	-	*75*
Coventry	3	2,749	48.7%	1,340	598	1,099	*(501)*
Cranston	295	270,309	52.7%	142,538	63,609	59,195	*4,414*
Cumberland	69	63,225	42.4%	26,791	11,956	2,123	*9,833*
East Greenwich	11	10,079	9.7%	978	436	274	*162*
East Providence	134	122,784	60.5%	74,320	33,166	25,391	*7,775*
Foster	-	-	40.8%	-	-	-	-
Glocester	-	-	38.8%	-	-	-	-
Hopkinton	1	916	44.2%	405	181	613	*(432)*
Jamestown	4	3,665	7.6%	277	124	33	*91*
Johnston	99	90,714	52.5%	47,619	21,250	14,412	*6,838*
Lincoln	16	14,661	41.3%	6,058	2,704	1,438	*1,266*
Little Compton	1	916	9.7%	89	40	0	*40*
Middletown	67	61,392	30.8%	18,920	8,443	9,787	*(1,344)*
Narragansett	2	1,833	16.1%	294	131	218	*(87)*
Newport	118	108,123	46.6%	50,384	22,484	16,406	*6,078*
New Shoreham	6	5,498	10.7%	587	262	455	*(193)*
North Kingstown	26	23,824	26.7%	6,363	2,839	2,268	*571*
North Providence	73	66,890	57.6%	38,520	17,190	14,368	*2,822*
North Smithfield	6	5,498	32.9%	1,811	808	1,007	*(199)*
Pawtucket	622	569,939	83.7%	476,961	212,850	188,827	*24,023*
Portsmouth	7	6,414	14.2%	909	405	389	*16*
Providence	4,270	3,912,601	87.4%	3,419,669	1,526,071	1,540,593	*(14,522)*
Richmond	-	-	36.3%	-	-	163	*(163)*
Scituate	-	-	23.2%	-	-	-	-
Smithfield	7	6,414	26.0%	1,665	743	467	*276*
South Kingstown	23	21,075	16.0%	3,371	1,505	-	*1,505*
Tiverton	7	6,414	34.3%	2,197	980	304	*676*
Warwick	72	65,974	40.4%	26,640	11,888	6,548	*5,340*
Westerly	16	14,661	28.9%	4,240	1,892	1,898	*(6)*
West Warwick	59	54,062	63.6%	34,368	15,337	8,433	*6,904*
Woonsocket	364	333,533	86.0%	286,990	128,073	122,647	*5,426*
Bristol-Warren	-	-		-	-	-	-
Bristol	27	24,740	28.2%	6,976	3,113	3,485	*(372)*
Warren	13	11,912	52.4%	6,239	2,784	5,328	*(2,544)*
Exeter-West Greenwich	-	-	-	-	-	-	-
Exeter	6	5,498	24.7%	1,358	606	309	*298*
West Greenwich	2	1,833	26.8%	491	219	418	*(199)*
Chariho	-	-	-	-	-	-	-
Foster-Glocester	2	1,833	39.5%	725	323	-	*323*
Central Falls	478	437,991	94.1%	411,997	183,859	211,465	*(27,606)*
District Total	**6,926**	**$6,346,294**		**$5,106,082**	**$2,278,654**	**$2,242,421**	***$36,233***
Charter School Total	546	500,300		427,573	190,810	129,264	*61,546*
Davies	27	24,740		21,886	9,767	1,566	*8,201*
Met School	31	28,405		23,539	10,505	-	*10,505*
Urban Collaborative	15	13,745		11,661	5,204	-	*5,204*
Total	**7,545**	**$6,913,484**		**$5,590,741**	**$2,494,939**	**$2,373,251**	***$121,688***

Source: Rhode Island Department of Education

Article 19: Relating to Electric Vehicle Rebate Program

This Article creates an Electric Vehicle Rebate Program to be administered by the Office of Energy Resources in the Department of Administration. The Office of Energy Resources is authorized to promulgate rules and regulations to implement this program.

FISCAL IMPACT

The Governor includes $250,000 in general revenue in the Office of Energy Resources within the Department of Administration for the first year of the program, which will expire June 30, 2022.

ANALYSIS AND BACKGROUND

This Article establishes a State funded Electric Vehicle Rebate Program administered by the Office of Energy Resources for the purpose of providing rebates to eligible applicants in connection with the purchase or lease of an electric vehicle purchased or leased within the State. The program will be effective from July 1, 2017, to June 30, 2022.

Currently, the State offers the Driving Rhode Island to Vehicle Electrification (DRIVE) rebate program, begun in 2016. This is a one-time federal program using $300,000 in federal settlement funds to provide rebates for 164 new vehicles. The program increased in-state electric vehicle use by 32.0 percent, had 14 Rhode Island automobile dealerships participating in electric vehicle sales, and generated approximately $150,000 in new sales tax revenue. Fifteen states and the federal government offer various rebate or tax incentives to purchase or lease electric vehicles.

The Article requires the appropriation of $250,000 in FY2018, and requires further unstated appropriations in subsequent years, for the payment of rebates until June 30, 2022. The Office of Energy Resources is authorized to promulgate rules and regulations to implement this program. However, the Article stipulates the following:

- The vehicle must be purchased or leased in State.
- The rebate will be made available to licensed drivers of the State, or to those who can demonstrate their residency in the State.
- Rebate payments cannot exceed the amount appropriated in the Budget.
- At minimum, the application for the rebate shall contain the following information:
  - Proof of purchase or lease;
  - Vehicle cost;
  - Make and model of the vehicle;
  - Auto dealership identification that sold or leased the electric vehicle;
  - Applicant information including name, address, valid driver’s license; and,
  - Other relevant information as required by the program rules and regulations.

The Article requires the Office of Energy Resources to file an annual report on its office website by October 1st summarizing the activities of the program over the past year, including the amount of rebate payments issued through the program.

Article 20: Relating to Minimum Wages

This article increases the minimum wage from $9.60 to $10.50 per hour effective October 1, 2017.

FISCAL IMPACT

The Governor includes $122,017 to fund the impact of the proposed minimum wage increase on the Department of Environmental Management's seasonal recreational program.

ANALYSIS AND BACKGROUND

This article increases the minimum wage from $9.60 per hour to $10.50 per hour, effective October 1, 2017. Rhode Island increased the minimum wage for four consecutive years in a row, 2013 through 2016. January 1, 2016, marked the most recent increase from $9.00 per hour to $9.60 per hour. The Governor's FY2017 Budget proposed to increase the minimum wage from $9.60 per hour to $10.10 per hour on January 1, 2017; however, this was not included in the FY2017 Budget as Enacted.

Recent RI Minimum Wage Increases

Calendar Year	Amount	*Change*
2007	$7.40	
2013	7.75	*4.7%*
2014	8.00	*3.2%*
2015	9.00	*12.5%*
2016	9.60	*6.7%*
2017*	10.50	*9.4%*

**Governor's FY2018 Proposal*

Connecticut has had three consecutive minimum wage increases since 2014, increasing from $8.70 per hour to $10.10 per hour on January 1, 2017. Massachusetts' minimum wage was increased to $10.00 per hour effective January 1, 2016, and again to $11.00 per hour on January 1, 2017. Vermont and Maine also increased minimum wage in January 2017.

New England Minimum Wage Rates

	2016	2017
Massachusetts	$10.00	$11.00
Rhode Island	9.60	*10.50
Connecticut	9.60	10.10
Vermont	9.60	10.00
Maine	7.50	9.00
New Hampshire	7.25	7.25

Amounts in dollars per hour.

**Governor's proposed increase.*

Article 21: Relating to Department of Labor and Training Fees and Fines

This article eliminates annual fees for both apprentice sponsors and for registered apprentices to advance the use of apprenticeship programs for workforce development training. The article also increases various penalties related to labor law violations.

FISCAL IMPACT

The changes proposed in the article are projected to produce a net increase of $305,000 in general revenue. The Budget also includes an increase of $125,000 in restricted receipt funding for half a year of penalty increases. The increase in fines is estimated to yield $350,000 in additional general revenue, while the elimination of apprenticeship fees is estimated to decrease general revenue by $45,000.

ANALYSIS AND BACKGROUND

Apprenticeship Fees

The article eliminates the annual fees associated with the following apprenticeships: $20 for electricians, oil burner persons, fire alarm installers, electrical sign installers, lighting protection installers, plumbers, irrigators, and water-filtration/treatment system installers; and $24 for pipefitters, refrigeration/air conditioning technicians, sprinkler technicians, sheet metal masters, and all other apprentices not specifically mentioned. Additionally, the $120 apprenticeship sponsor annual fee is eliminated. These changes will decrease general revenue by an estimated $45,000.

Labor Law Violation Penalties

The article changes or adds the following penalties, which increases general revenue by an estimated $350,000 and restricted receipts by an estimated $125,000:

- Unlicensed electrician first violation penalties increase from $500 to $1,500 and subsequent violations increase from $950 to $2,000. The Budget Office anticipates that this penalty increase will generate an additional $100,000 in general revenue.
- Administrative penalties on employers who violate wage payment labor laws are added. The penalty is a percentage of the back wages ordered to be paid. The first violation penalty is 15.0 percent to 25.0 percent within a three-year period. Subsequent violations, within the same three-year period, are 25.0 percent to 50.0 percent. It is estimated that there will be an increase of $150,000 in general revenue due to this new penalty.
- The minimum civil penalty relating to the misclassification of a worker as an independent contractor, when the worker should be considered a paid employee, increases from $500 to $1,500. The maximum penalty remains the same at $3,000. This penalty increase is estimated to add $100,000 in general revenue.
- Penalties for employers who fail to file employer tax and withholding record reports are increased as described below. These penalty changes will increase the employment security tardy account fund $125,000.
    - Employers who fail to file a quarterly wage report are fined $25 per month that the report is late; the penalty shall not exceed $200. Under current law, the highest penalty is $150.
    - A penalty on employers who fail to submit unemployment insurance contributions or other payment, as required by regulation, increases from a range of $10-$100 to a range of $25-$200.

- A penalty on employers who fail to file reports or pay contributions in the manner at the time required by law increases from $10 to $25 for each failure in addition to 10.0 percent of the amount due.
- Violators of unemployment insurance law for which a penalty is not specified, has a fine increase from a range of $20-$50 to a range of $25-$200.

Article 22: Relating to Lead Poisoning Prevention Programs

This article repeals RIGL 42-128.1, “Lead Hazard Mitigation”, which authorizes the Housing Resource Commission (HRC) as the lead state agency for lead hazard mitigation, planning, education, technical assistance, and project coordination of state financial assistance to property owners for lead hazard mitigation. The article amends RIGL 23-24.6, “Lead Poisoning Prevention Act”, which establishes the Department of Health (DOH) as the lead state agency on lead poisoning prevention efforts and eliminates the Interagency Coordinating Council on Environmental Lead. These prevention efforts include lead screening, detection, education, hazard reduction, and enforcement. The purpose of this article is to consolidate authority on lead-related issues under the Department of Health and streamline and strengthen lead poisoning prevention activities to improve child and family health across the State.

FISCAL IMPACT

In 2014 the General Assembly established a restricted receipt account at the HRC for the specific purposes of funding housing assistance, lead abatement, and homelessness mitigation. The account is primarily funded by a portion of the tax imposed on the transfer of real estate. This tax was raised in FY2015 from $2.00 per $500 of the assessed property’s value (or fractional part of the purchase price), to $2.30, with all new revenue to be directed to the funding the programs of the Housing Resources Commission; however, HRC has not used this funding for lead abatement activities.

Under current law, the Housing Resource Commission (HRC) restricted receipt account receives $0.30 of Real Estate Conveyance Tax collections; the article shifts $0.05 of the HRC’s $0.30 collection to the Department of Health’s lead screening restricted receipt account. It is estimated that this restricted receipt transfer will total $590,618 in FY2018, which will fund new program responsibilities and 3.0 new FTE positions (2.0 State Lead Inspectors and 1.0 Data Manager) associated with lead poisoning prevention efforts.

Analyst Note: Article 22 refers to DOH’s “lead screening restricted receipt account” as described above. Article 7: Relating to State Funds, exempts a number of restricted receipt accounts from the 10.0 percent indirect cost recovery charge provisions under RIGL 35-4-27. The proposed exemption would apply to what is referred to in Article 7 as the “Lead Poisoning Prevention account”. It appears that Article 7 incorrectly names this restricted receipt account.

ANALYSIS AND BACKGROUND

Lead is a heavy metal that can be harmful if inhaled or ingested. Before 1978, lead was used to make paint; consequently, houses built before this time were painted with lead-based paint. In Rhode Island the most common exposure to lead comes from lead-based paint and paint dust found in pre-1978 constructions. DOH reports that an estimated 80.0 percent of homes in Rhode Island were built before 1978.

Lead exposure is most dangerous for children under the age of six. Lead levels present in a child’s blood can have a negative effect on brain development and health. Potential negative health effects include, learning disabilities, decreased intelligence, behavior problems, nervous system and kidney damage, and decreased muscle and bone growth.

The Department of Health tracks the number of children under age six whose blood lead levels are "of concern". Blood lead levels are measured in micrograms per deciliter (mc/dL)). The Centers for Disease Control and Prevention (CDC) currently defines any blood lead level greater than or equal to 5 mc/dL as a level of concern. In 2015, DOH reported new incidents of children under the age of six with blood lead levels greater than or equal to 5 mc/dL at 4.0 percent. In 2015, “core cities” had a rate of 6.0 percent new cases, 4.0 percent in rural areas, and 3.0 percent in suburban areas. “Core cities” is defined as cities where the child poverty level is greater than 15.0 percent.

The purpose of this article is to improve child and family health by consolidating authority and funding for lead abatement efforts under the Department of Health. Article 22 repeals RIGL 42-128.1, “Lead Hazard Mitigation” and shifts much of the law to RIGL 23-24.6, “Lead Poisoning Prevention Act”. The article notably makes the following changes:

Rental Properties

Authority over lead mitigation at rental properties is transferred from the Housing Resource Commission to DOH. Pre-1978 rental dwellings continue to be required to be inspected by a licensed lead inspector; however, owner-occupied two to three unit properties are no longer exempt; and zero-bedroom units and housing for persons with disabilities are now exempt. The mandate for rental property owners to take a three hour lead control awareness seminar is eliminated.

Foster Care Homes

Foster homes are no longer held to the same licensure requirements as child care facilities and elementary schools. Any child care facility or elementary school serving children under the age of six is required to demonstrate that they are lead free or lead safe and must undergo lead inspections at specified intervals. Additionally, school yards, public playgrounds, and shelters are removed from this section. Foster homes will now be held to the same standards as residential properties. According to the Department of Health, if a foster home is a pre-1978 construction then the home is required to be deemed lead safe. This change aims to help to address the licensing backlog of foster families.

Article 23: Relating to Behavioral Healthcare, Developmental Disabilities, and Hospitals – Maintenance of Effort

This Article authorizes changes to the developmental disabilities' professional workforce wage structure to strengthen the health care workforce by providing a wage increase to direct support professionals (DSP) and job coaches who support individuals with intellectual and developmental disabilities (I/DD). The proposed resolution changes will increase the base reimbursement rate to providers with the intent of increasing the wage of the DSP worker. The Article requires the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) and the Office of Internal Audit to review the implementation of the increase to ensure the wage is passed-through as intended.

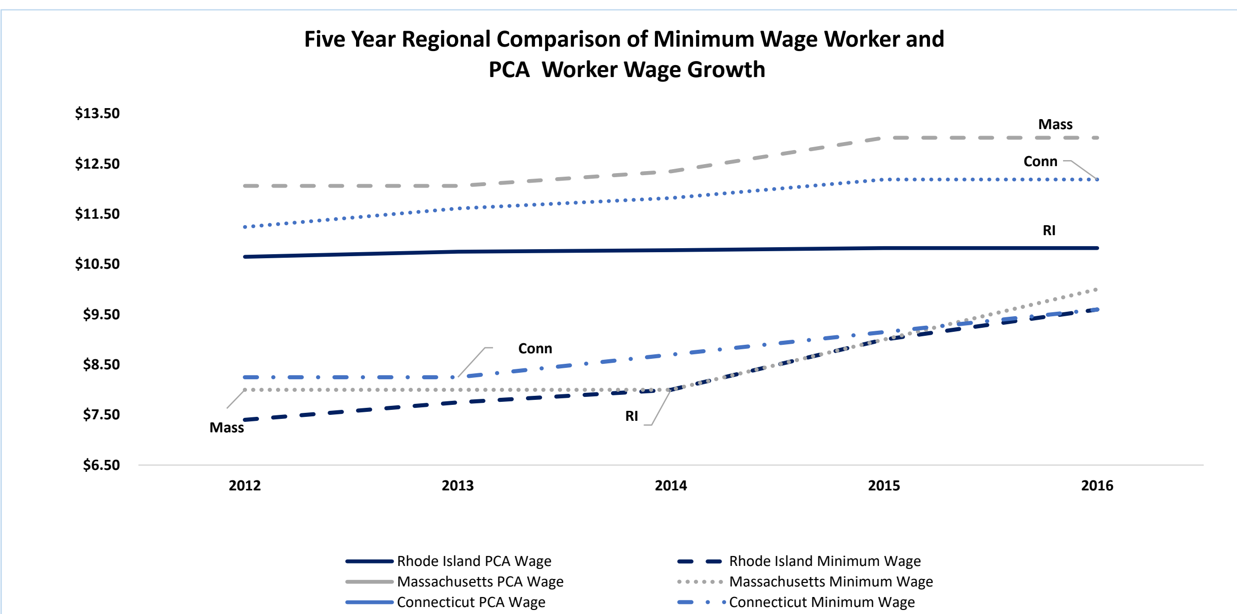
FISCAL IMPACT

Article 1 increases general revenue expenditures by $3.0 million ($6.1 million all funds) to increase wages for DSP workers and job coaches providing care for individuals with I/DD. The Article will increase the DSP wage by increasing the base reimbursement rate to providers by an estimated 5.0 percent according to the Department.

ANALYSIS AND BACKGROUND

During the 2016 legislative session, the Senate Finance Committee was presented with testimony from community providers and advocates describing the state of the low DSP wage as a barrier to reforms needed to improve the services provided to individuals with I/DD. Providers stated that the low wage and competition with the rising minimum wage depresses their ability to hire and maintain a workforce capable of providing quality services and/or ability to reform program practice.

The U.S. Department of Labor reports industry wages across states. The Personal Care Attendant (PCA) worker category aligns with the primary functions of Direct Support Professional (DSP) as well as the experienced wage. When comparing this category of worker to our neighboring states, Rhode Island DSP/PCA worker wages are considerably lower. Additionally, as the Rhode Island minimum wage has increased by approximately 30.0 percent, over the same period of time the DSP wage has increased by only 1.8 percent.



To address this issue, the General Assembly included $2.5 million in general revenue ($5.0 million all funds) in the FY2017 Budget as Enacted to increase the DSP worker wage. On September 14, 2016, BHDDH released updated reimbursement rates to be issued to providers beginning on October 1, 2016, retroactive to July 1, 2016.

Article 23 outlines, in the form of a resolution, the wage challenges and rationale for increases contained in Article 1. Additionally, the Article attempts to strengthen the monitoring of the wage increase by requiring the Office of Internal Audit to conduct a vendor compliance review to ensure the base-rate payment increases are in accordance with the Article.

Analyst Note: The FY2017 Budget as Enacted included specific language for the wage increase for DSP workers in Article 1. The Governor includes the appropriations for the wage increase for FY2018 within the appropriations for the Division of Developmental Disabilities at BHDDH; however, there is no language directing that the funds be specifically used for the direct care wage increase.

Article 24: Relating to Effective Date

This article provides that the Act will take effect on July 1, 2017, except as otherwise provided herein.

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