



SENATE FISCAL OFFICE  
REPORT

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**GOVERNOR'S FY2016  
AND  
FY2015 SUPPLEMENTAL  
BUDGET**

**2015-H-5900**

**ARTICLE SUMMARIES**

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APRIL 7, 2015

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## **Article 1: Relating to Making Appropriations in Support of FY2016**

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Article 1 outlines the appropriation amounts from all fund sources for FY2016. 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 Rhode Island Capital Plan Fund projects; determines expenditure limits for internal service funds; and provides for 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.
- Permits the Secretary of Commerce to reallocate the \$44.5 million in general revenue funding between initiatives within the Economic Development Initiatives Fund. Written notice to the Office of Management and Budget, and the chairs of the House and Senate Finance Committees in advance of any transfer of funds is required.
- Requires student financial aid at the University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) not fall below the 2014-2015 level. However, the institutions will be increasing tuition for the first time in three years, and the Budget does not prohibit tuition increases as in previous years.
- Allocates \$4.0 million of Public Higher Education Guaranty Agency Operating Fund for scholarships and grants at the State's public institutions of higher education (URI, RIC, and CCRI).
- Caps at \$932,340 the amount the Judiciary may charge five state agencies (Public Defender's Office; Office of the Attorney General; Department of Corrections; Department of Children, Youth, and Families; and Department of Public Safety) for public courthouse occupancy costs.
- Directs an internal services account be established in FY2016 for the Division of Information Technology (DoIT). The Article also establishes a new billing system for DoIT, which would benchmark its costs as compared to the private sector.
- Requires Rhode Island Housing to continue to support the Neighborhood Opportunities Program, but does not specify the amount. RI Housing is also required to report to the Director of Administration, chair of the Housing Resources Commission, State Budget Officer, and the chairs of the House and Senate Finance Committees the number of housing units produced and funding allocated. The Budget does not specify the reporting timeline for this requirement.
- Requires the following transfers be made to the State Controller by June 30, 2016, increasing general revenue by \$20.7 million in FY2016: \$1.5 million from Resource Recovery Corporation; \$11.0 million from Clean Water Finance Agency; \$2.8 million from Narragansett Bay Commission; \$5.0 million from Rhode Island Health and Educational Building Corporation; \$430,000 from the Rhode Island Airport Corporation.

**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, 2016.

<b>Expenditures by Source</b>	<b>FY2014 Final</b>	<b>FY2015 Enacted</b>	<b>FY2016 Governor</b>	<b>Change to Enacted</b>	<b>% Change</b>
General Revenue	\$3,336.4	\$3,445.2	\$3,491.6	\$46.5	1.3%
Federal Funds	2,676.2	3,086.5	3,003.1	(83.4)	-2.7%
Restricted Receipts	222.1	283.1	239.4	(43.7)	-15.4%
Other Funds	1,820.7	1,965.4	1,893.5	(72.0)	-3.7%
<b>Total</b>	<b>\$8,055.4</b>	<b>\$8,780.2</b>	<b>\$8,627.6</b>	<b>(\$152.6)</b>	<b>-1.7%</b>

*\$ 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; allows the appropriation of Lottery Division funds for award winnings during FY2016; and \$4.0 million of Public Higher Education guaranty agency reserve funds to need-based scholarships and grants at the State's public institutions of higher education (URI, RIC, and CCRI).

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.

<b>Internal Service Account</b>	<b>FY2015 Enacted</b>	<b>FY2016 Governor</b>
State Assessed Fringe Benefits	\$37,123,794	\$38,930,194
Administration Central Utilities	14,244,902	17,782,800
State Central Mail	5,617,173	6,203,680
State Telecommunications	4,080,029	4,122,558
State Automotive Fleet	13,733,063	13,830,623
Surplus Property	2,500	2,500
Health Insurance	250,127,757	251,175,719
Other Post-Employment Benefits	63,934,483	64,293,483
Capital Police	1,060,301	1,252,144
Corrections Central Distribution Center	6,739,558	6,768,097
Correctional Industries	7,704,793	7,228,052
Secretary of State Records Center	882,436	813,687
<b>Total</b>	<b>\$405,250,789</b>	<b>\$412,403,537</b>

**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 33.4 FTE positions from the FY2015 Budget as Enacted. Following are the changes included in the Governor's proposal:

<b>FTE Position Authorization</b>			
<b>Function</b>	<b>FY2015 Enacted</b>	<b>FY2016 Governor</b>	<b>Change to Enacted</b>
General Government	2,298.7	2,331.8	33.1
Human Services	3,744.0	3,743.6	(0.4)
Education	3,890.3	3,889.0	(1.3)
Public Safety	3,221.6	3,228.6	7.0
Natural Resources	428.0	428.0	-
Transportation	752.6	752.6	-
Higher Ed. Sponsored Research	750.8	745.8	(5.0)
<b>Total</b>	<b>15,086.0</b>	<b>15,119.4</b>	<b>33.4</b>

Major FTE changes include:

- **An increase of 22.2 FTE positions in Higher Education:** The Governor transfers 15.0 FTE positions to Public Higher Education from the Rhode Island Higher Education Assistance Authority (RIHEAA) and eliminates 7.0 FTE from RIHEAA, reflecting the elimination of RIHEAA and the transfer of its authority to the Office of Postsecondary Commissioner (OPC). The Governor also reclassifies 5.0 FTE positions from Third Party Research to General Education at CCRI, and adds 2.2 unspecified FTE positions to the OPC.
- **An increase of 18.6 FTE positions in the Executive Office of Commerce.** This reflects an increase of 5.0 FTE new positions for the Office of the Secretary and the transfer of 13.6 FTE positions from the Department of Administration. The five new positions include 1.0 Secretary of Commerce, 1.0 Deputy Director, 1.0 Chief Strategic Planning and Monitoring, 1.0 Director of Communications, and 1.0 Chief Implementation Aide. The transfers from the Department of Administration include 11.0 FTE positions for the Housing and Community Development program (formerly in the Division of Planning), and 2.6 FTE positions for the RI Film Office.
- **A shift of 18.0 FTE positions to the Office of Health and Human Services:** This reflects the consolidations of the Office of the Child Advocate, Commission on the Deaf and Hard of Hearing, Governor's Commission on Disabilities, and Office of the Mental Health Advocate into the Office of Health and Human Services.
- **An increase of 9.5 FTE positions in the Department of Revenue:** The Governor adds 2.0 new Revenue Agent and 1.0 new Principal Revenue Agent positions in the Assessment and Review sub-program. These positions are recommended to help implement the new "Self-Audit" and "Contingency Fee Contract Services" programs, which are projected to increase revenues by \$2.3 million. In addition, 12.0 new part-time positions (6.5 FTE) were added as customer service representatives to maintain personnel staffing levels are necessary to keep customer waiting times from increasing as experienced staff members are being utilized for the development of the Rhode Island Motor Vehicles System (RIMS) IT system.
- **An increase of 7.0 FTE positions for the Military Staff (RI National Guard):** This reflects an increase of 7.0 federally-funded maintenance positions, increasing the total number of Military Staff maintenance personnel to 20.0 FTE positions to maintain over 1.0 million square feet of facility space covering 600 acres in the state.
- **An increase of 5.0 FTE positions in the Department of Business Regulation:** The Governor transfers a Small Business Ombudsman position (Programming Services Officer) from the Office of Management and Budget within the Department of Administration to the Department of Business Regulation. In addition, the Governor adds 4.0 FTE principal policy associate positions in the Office of the Health Insurance Commissioner. The principal policy associates will have primary oversight

for the adoption of value-based care paradigm payment models among commercial payers under the auspices of the Office of Health Insurance Commissioner.

#### CAPITAL APPROPRIATIONS

Article 1 appropriates the following amounts from the Rhode Island Capital Plan (RICAP) Fund, not otherwise appropriated, to be expended during the fiscal years ending June 30, 2017, June 30, 2018, and June 30, 2019. These amounts supersede appropriations provided for FY2016 within the FY2015 Budget as Enacted.

<b>Agency</b>	<b>Project</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
DOT	Highway Improvement	\$27,200,000	\$27,200,000	\$27,200,000
DOT	Maintenance - Capital Equipment	2,500,000	2,500,000	2,500,000
DOA	Pastore Center Rehab	7,915,000	2,500,000	2,120,000
Higher Ed	Asset Protection - CCRI	2,732,100	2,799,063	2,368,035
Higher Ed	Knight Campus Renewal	4,000,000	5,000,000	4,000,000
Higher Ed	Asset Protection - RIC	3,357,700	3,458,431	3,562,184
Higher Ed	Asset Protection - URI	7,856,000	8,030,000	7,700,000
DOC	Asset Protection	4,000,000	4,000,000	4,000,000
Judiciary	Asset Protection	875,000	950,000	950,000
Military Staff	Joint Forces Headquarters Building	3,000,000	3,000,000	4,100,000
DEM	Dam repairs	1,000,000	1,550,000	1,500,000
DEM	Recreational Facilities	2,250,000	1,700,000	1,550,000
<b>Total</b>		<b>\$66,685,800</b>	<b>\$62,687,494</b>	<b>\$61,550,219</b>

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.

## **Article 2: Relating to Debt Management Act Joint Resolution**

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This article serves as a joint resolution for the issuance of debt required pursuant to RIGL 35-18-1, commonly known as the Kushner Act. The proposed project includes improvements to water distribution and storm water management systems, gas, electric and telecommunication infrastructure, and roadways, walkways, and parking lots in the district known as Fraternity Circle at the University of Rhode Island.

### **FISCAL IMPACT**

Total debt service on the bonds, including principal and interest, is not expected to exceed \$8.1 million, or \$407,000 annually, for debt service at 5.0 percent borrowing rate over a 20 year repayment period. Payments are expected to begin in FY2016.

### **ANALYSIS AND BACKGROUND**

This article serves as a joint resolution required pursuant to RIGL 35-18-1 for the issuance of debt for the infrastructure projects in the district known as “Fraternity Circle” at the University of Rhode Island. The act authorizes the issuance of not more than \$5.1 million in debt to finance improvements to water distribution and storm water management systems, gas, electric and telecommunication infrastructure, and roadways, walkways, and parking lots. Bonds will be financed through the Rhode Island Health and Educational Building Corporation (RIHEBC) with an expected term of twenty years. Capital costs for this project are expected to be \$417,790 in FY2016, \$3.8 million in FY2017, and \$906,518 in FY2018.

## Article 3: Relating to Licensing of Hospital Facilities

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This article reinstates the annually-enacted Hospital License Fee at the rate of 5.703 percent upon net patient services revenue of hospitals for the hospital's first fiscal year ending on or after January 1, 2013, except for those hospitals located in Washington County, Rhode Island, where the hospital license fee is discounted by 37.0 percent, lowering the rate paid by Westerly and Newport Hospitals to 3.593 percent. These license fees are payable by July 11, 2016.

### FISCAL IMPACT

The fee is expected to raise \$156.1 million in revenue in FY2016, consistent with the amount included in the FY2015 Budget as Enacted.

### ANALYSIS AND BACKGROUND

The hospital license fee is a provider tax that the State levies to collect revenue from hospitals. 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 for their care for the uninsured and indigent through the Disproportionate Share Hospital (DSH) program. The fee is federally-limited to 6.0 percent.

<b>Fiscal Year</b>	<b>Rate</b>	<b>Revenue</b>
2007	3.560%	\$66.8
2008	3.480%	73.9
2009	5.473%	121.5
2010	5.314%	124.9
2011	5.465%	135.8
2012	5.430%	138.0
2013	5.313%	138.5
2014	5.246%	141.3
2015	5.703%	156.1
2016*	5.703%	156.1

*\*Proposed*

*\$ in millions*

## Article 4: Relating to Hospital Uncompensated Care

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While providing the statutory authority for Disproportionate Share Hospital (DSH) payments in FFY2016 of \$136.8 million, this article repeals both inpatient and outpatient Upper Payment Limit (UPL) payments to hospitals, effective July 1, 2015.

### FISCAL IMPACT

The proposed budget includes \$11.2 million in general revenue (\$22.6 million all funds) savings from the elimination of both UPL payments.

The Governor includes \$69.2 million in general revenue (\$138.3 million all funds) funding for DSH payments to hospitals in FY2016, inclusive of a \$1.5 million general revenue payment to the State's public hospital, Eleanor Slater Hospital.

### ANALYSIS AND BACKGROUND

Rhode Island's community hospitals receive payments from the Executive Office of Health and Human Services (OHHS) and the federal government for uncompensated care they provide to uninsured and indigent patients. These payments are commonly known as Disproportionate Share Hospital (DSH) payments.

Under current law (RIGL 40-8.3-3), DSH payments are distributed to hospitals based on the ratio of each hospital's uncompensated inpatient care costs to the total uncompensated inpatient care costs for all hospitals. "Uncompensated care costs" are defined as the sum of the costs to each hospital for care attributable to charity care (free care or bad debt) and the hospital's "Medicaid shortfall" (the difference between the cost of care provided to Medicaid beneficiaries and Medicaid reimbursements).

UPL payments compensate community hospitals for the gap between what hospitals receive for Medicaid 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 this Medicare upper payment limit, maximizing available federal funds.

The FY2013 Budget as Enacted made outpatient UPL payment a statutory requirement while the inpatient UPL payment became a requirement by the FY2015 Budget as Enacted; this article repeals the requirement for both of these payments effective July 1, 2015.

## Article 5: Relating to Medical Assistance

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This article provides the legal authority for the Executive Office of Health and Human Services (OHHS) to decrease payments to nursing homes and hospitals in FY2016, enabling the Office to achieve associated savings as included in the Budget.

The annual appropriation bill passed by the General Assembly typically includes an article that provides legal authority for any 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 but that do not require statutory action. This article, however, does not specify these non-statutory initiatives but rather includes language that grants OHHS the authority to undertake all actions required to realize the funding levels included in Article 1.

The article also eliminates the Graduate Medical Education fund at the State's academic Level 1 trauma center hospitals (Rhode Island Hospital) in both FY2015 and FY2016, with \$1.0 million of general revenue savings in each year. This program was established by the General Assembly in the FY2015 Budget as Enacted.

### FISCAL IMPACT

The Governor's budget includes \$25.6 million in general revenue (\$50.6 million all funds) savings resulting from changes to the Medicaid program included in this article.

Article 5 Proposals	General Revenue	All Funds
Hospitals		
Eliminate COLA	\$5.0	\$9.9
Reduce Rates 5.0 percent	10.8	21.7
Nursing Homes		
Eliminate COLA	3.5	7.1
Reduce Rates 3.0 percent	5.4	10.9
Eliminate Medical Education Program	1.0	1.0
<b>Total</b>	<b>\$25.6</b>	<b>\$50.6</b>

*in millions*

### ANALYSIS AND BACKGROUND

#### ***Eliminate COLA and Reduce Rates - Hospitals***

This article provides the authority to suspend the scheduled rate increase for inpatient and outpatient hospital services in FY2016 in both the fee-for-service and managed care environments.

Typically, the base price for hospital services is annually adjusted for trends in a nationally recognized price index. For FY2016, however, this increase, 2.9 percent for inpatient services and 2.1 percent for outpatient services, is suspended, as it was in FY2014 and in FY2015. Furthermore, the article reduces prevailing rates by 5.0 percent for FY2016. The Governor's FY2016 budget includes savings of \$15.7 million (\$31.6 million all funds) for this initiative.

*Analyst's Note: Hospitals are also impacted by Article 4, which eliminates outpatient and inpatient Upper Payment Limit (UPL) payments to hospitals and which results in an additional \$22.6 million reduction in Medicaid payments to hospitals.*

***Eliminate COLA and Reduce Rates – Nursing Homes***

Under this article, payments made to skilled nursing facilities and associated hospice organizations that provide services to Medicaid-eligible individuals will not be adjusted by the change in the national nursing home inflation index. This 2.6 percent adjustment was to be made on October 1, 2015, but is suspended for FY2016. Additionally, the Governor reduces prevailing nursing home rates by 3.0 percent for FY2016. The proposed budget includes general revenue savings of \$8.9 million (\$18.0 million all funds) for this initiative.

Of the approximately 28,000 Medicaid-eligible elderly individuals in Rhode Island, 21.0 percent, or approximately 5,000, reside in the State's 84 long-term skilled nursing facilities (nursing homes). Despite efforts through the Global Waiver to rebalance the State's long term care system and build community-based supports that will enable people to remain in their homes rather than enter nursing homes, these efforts have been largely unsuccessful.

In response, OHHS has begun implementing the Integrated Care Initiative. For those individuals included in the initiative, OHHS no longer pays for nursing home care on a fee-for-service, per diem basis. Rather, OHHS pays a single monthly rate to Neighborhood Health Plan of RI that integrates both the medical (which is paid for by Medicare) and nursing home care (which is paid for by Medicaid).

The reduction in nursing home rates included in this article apply to rates paid by Medicaid directly to nursing homes (fee-for-service) as well as those paid for through the Integrated Care Initiative's managed care arrangements.

***Eliminate Graduate Medical Education Program***

Article 5 eliminates the Graduate Medical Education Program at academic medical centers that meet certain criteria.

The FY2015 Budget as Enacted provides \$1.0 million in general revenue funding to support medical education programs at hospitals that provide inpatient care to at least 25,000 indigent patients each year, have a Level 1 Trauma Center, and provide medical education to at least 250 interns and residents per year. Rhode Island Hospital is currently the only hospital that meets these criteria.

This article is effective retroactive to July 1, 2014, allowing the Governor's budget to save \$1.0 million in general revenue in both FY2015 and FY2016.

## Article 6: Relating to Education

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This article eliminates the requirement that school districts provide transportation and textbooks for private school students. The article also modifies the Full-Day Kindergarten Accessibility Act to implement a requirement that all districts provide full-day kindergarten by August 2016.

### FISCAL IMPACT

This article has no direct fiscal impact. While the article repeals the requirement for districts to provide transportation of private school students, the transportation categorical fund remains intact and subject to appropriation. In FY2016, the Governor does not provide any funding for private school transportation and reduces funding for regional transportation by \$282,440, relative to the FY2015 Budget.

Furthermore, while the article repeals the requirement for school committees to supply textbooks to private school students, it does not repeal the reimbursement fund; however, no funding is provided in FY2016.

### ANALYSIS AND BACKGROUND

The Governor recommends the following changes to education aid:

#### *Transportation*

Under current law, districts must provide transportation to resident students who attend private schools and attend a school within the busing district as established pursuant to RIGL 16-21.1-2. This obligation is repealed through the article.

The Education Adequacy Act provides state-funded categorical aid to districts for transporting students to out-of-district, non-public schools for districts that participate in the statewide transportation system and for 50.0 percent of the local costs associated with transporting students within regional school districts. As with all the categorical programs, the funding available for distribution to the districts cannot exceed the amount appropriated in any given fiscal year. In FY2016, the Governor eliminates funding for out-of-district, non-public transportation (\$1.7 million in savings) and reduces funding for regional transportation by \$282,440, relative to the FY2015 Budget. These reductions reduce total funding for the category by \$2.0 million from FY2015 levels.

#### *Non-Public Textbook Loan Program*

This article eliminates the requirement that school committees provide free textbooks to all students in grades kindergarten through 12<sup>th</sup> grade who reside in the community. Traditionally, the statute is associated with the loaning of textbooks from a list published by the Department of Elementary and Secondary Education to private school students; however, the statute to be repealed also applies to textbooks and school supplies used in the public schools, opening the door to allowing school committees to charge public school students for these items.

*Analyst's Note: While the Governor eliminates the requirement for school committees to provide free textbooks, the article does not repeal the fund requiring the State reimbursement of costs associated with loaning textbooks. RIGL 16-23-3.1 requires the State to appropriate the funds needed to reimburse school districts for "the cost of English/language arts and history/social studies textbooks that the district has provided to students in grades K-12 pursuant to § 16-23-2." While the Governor eliminates funding for the reimbursement fund (\$240,000), it does not repeal the statutory language establishing the reimbursement.*

The following table shows State reimbursements to districts for English/language arts and history/social studies textbooks, and unreimbursed costs to districts for textbooks loaned to private school students in FY2014. Since the cost of the qualified textbooks was reimbursed, districts will not realize any savings

for these expenditures; however, by not funding this program in FY2016, the Governor will reduce State expenditures by \$240,000, the amount appropriated in the FY2015 Budget as Enacted. The same amount was appropriated in FY2014; however, the districts only spent \$195,052.

**District Costs for Non-Public Textbook Loan Program (FY2014)**

District	Reimbursed Unreimbursed			Reimbursed Unreimbursed	
	Cost	Cost		Cost	Cost
Barrington	\$1,460	\$7,171	Middletown	5,203	4,064
Bristol-Warren	2,769	8,714	Narragansett	2,374	4,783
Burrillville	1,471	2,895	New Shoreham	-	-
Central Falls	3,844	6,642	Newport	4,384	4,052
Chariho	2,399	8,749	North Kingstown	13,290	16,725
Coventry	18,941	15,338	North Providence	8,276	7,735
Cranston	6,919	5,455	North Smithfield	3,579	2,269
Cumberland	10,126	4,351	Pawtucket	27,899	18,031
East Greenwich	1,438	6,100	Portsmouth	5,970	12,383
East Providence	3,767	16,191	Providence	12,195	88,170
Exeter-West Greenwich	1,903	5,248	Scituate	2,858	7,361
Foster	458	277	Smithfield	1,719	3,784
Foster-Glocester	904	3,145	South Kingstown	2,021	12,773
Glocester	470	835	Tiverton	1,925	16,927
Jamestown	211	1,366	Warwick	17,686	21,166
Johnston	13,299	16,614	West Warwick	4,491	7,019
Lincoln	5,197	6,755	Westerly	1,939	6,265
Little Compton	723	2,377	Woonsocket	2,944	8,193
			<b>Total</b>	<b>\$195,052</b>	<b>\$359,921</b>

**Full-Day Kindergarten Accessibility Act**

The Full-Day Kindergarten Accessibility Act was passed in 2012 to provide one-time, startup funding on a competitive basis for public school districts preparing to implement full-day programs. This article deletes the legislative finding that specifies the Act does not mandate school districts to operate a full-day program, and adds, in a different section, the requirement that all school districts offer full-day kindergarten to every eligible student in order to qualify for state education aid. The article does not provide a definition of “state education aid”; however, the language refers to any education aid provided through Title 16 of the general laws, which provides state funding for education programs such as the funding formula, school construction aid, and teachers’ retirement.

The article also deletes the legislative finding specifying that the program is intended to provide one-time, startup funding on a competitive basis; however, the article leaves intact the section of the statute describing the use of the funds as “a portion of the reasonable, one-time start-up costs...” in RIGL 16-99-4. Consequently, the program would continue to help with start-up costs through a competitive process.

*Analyst’s Note: In the past, full-day kindergarten formula funding has been provided only upon implementation of the full-day kindergarten program. The Administration has indicated that a budget amendment is forthcoming to clarify that funding added in the FY2016 formula for this purpose may be used for district startup costs if the program is not implemented in FY2016.*

## Article 7: Relating to Higher Education Assistance Authority

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This article eliminates the Rhode Island Higher Education Assistance Authority (RIHEAA), effective July 1, 2015, or upon approval of the US Department of Education, whichever is later. Its powers and programs are transferred to a newly-created Division of Higher Education Assistance (DHEA) within the Office of the Postsecondary Commissioner (OPC) and to the Office of the General Treasurer. The Commissioner of Postsecondary Education will serve as DHEA's Executive Director, and DHEA will be governed by the Council on Postsecondary Education. DHEA will assume all the rights, assets, programs and obligations of RIHEAA, including its role as a Guaranty Agency for the Federal Family Education Loan Program (FFELP). RIHEAA's Tuition Savings Program will be transferred to the Office of the General Treasurer.

The article further specifies that reserve funds shall be used for financial aid-related activities pursuant to federal statutes and regulations governing the use of those funds.

### FISCAL IMPACT

This impact of the transfer will shift 15.0 FTE positions (RIHEAA currently has a 22.0 FTE authorization) and \$19.1 million from RIHEAA to OPC. Of the \$19.1 million being transferred, \$7.9 million is from the Tuition Savings Program (Other Funds) and \$11.2 million is from the Guaranty Agency (Federal Funds), including \$4.0 million from the Guaranty Agency reserve fund. Twenty FTE positions of the 22.0 FTE position authorization are currently filled as of the payroll period ending February 21, 2015. Of the 7.0 FTE positions that would be eliminated in the proposed transfer, 6.0 FTE positions are currently filled.

### ANALYSIS AND BACKGROUND

The Rhode Island Higher Education Assistance Authority (RIHEAA) was created in 1977 to provide a system of financial assistance programs to promote opportunities for post-secondary education by providing grants and loans to qualified students. The Authority administers four major programs:

**The Scholarship and Grant Program:** The Scholarship and Grant Program is a need-based program that uses data submitted on the Free Application for Federal Student Aid (FAFSA) to determine eligibility. This program will be transferred to the Office of the Postsecondary Commissioner, Division of Higher Education Assistance.

**The CollegeBoundfund (CBf) Program:** This program includes the CollegeBoundfund, the Academic Promise Scholarship Program, CollegeBoundfund Baby, and the CollegeBoundfund 5&10 Matching Grant Program. The CollegeBoundfund (CBf) is a "qualified state tuition program" under section 529 of the IRS code. These programs will be transferred to the Office of the General Treasurer.

**The Loan Program:** This program includes the Federal Family Education Loan Program (FFELP) and the Health Professions Contract Program. New loans under the FFELP program are gradually being phased out due to a change in federal laws, but the program will continue to pursue loan collections activities, including enrollment and repayment status management, default aversion activities, default collection activities, financial aid awareness and related outreach activities. In addition, changes in federal law will reduce the amount the agency will receive from default aversion activities. This program will be transferred to the Office of the Postsecondary Commissioner, Division of Higher Education Assistance.

**WaytoGo Web Portal Program:** RIHEAA initiated the WaytoGoRI web portal, which is free to all Rhode Island residents, all elementary and secondary schools (public, private and parochial) and postsecondary institutions. WaytoGoRI allows students, parents, and educators to explore education and career options, plan and prepare for college and careers, and conduct college and career searches. WaytoGoRI also supports Individual Learning Plans (ILPs), which are required for all Rhode Island public school students

from grades 6-12, and allows for e-transcripts. This program will be transferred to the Office of the Postsecondary Commissioner, Division of Higher Education Assistance.

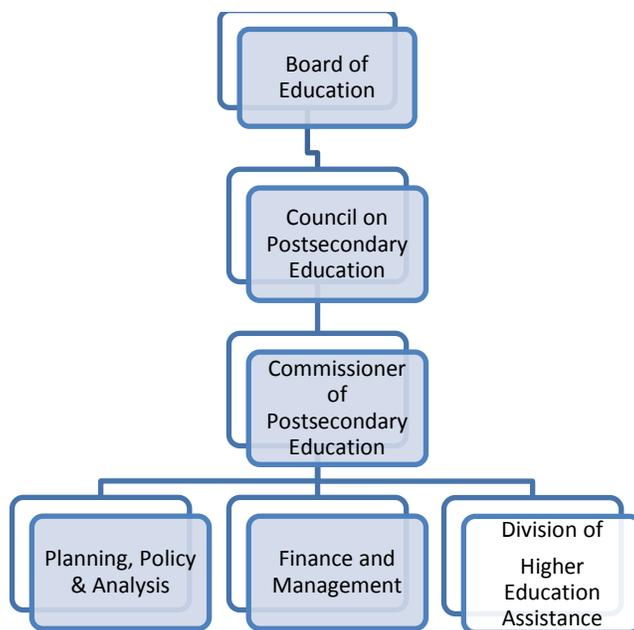
### ADDITIONAL BACKGROUND

Article 14 of the FY2015 Budget as Enacted included a provision that required the Governor to include a proposal for the transfer of Higher Education Assistance Authority's program to appropriate agencies within state government in the FY2016 budget recommendation. Article 7 of the Governor's budget fulfills this requirement.

RIHEAA's ability to continue as a stand-alone agency is jeopardized by changes in federal law. On March 3, 2010, President Obama signed into law the Health Care and Education Reconciliation Act of 2010. The Act made changes to student financial assistance programs, including a provision eliminating loan originations under Federal Family Education Loan Program (FFELP) effective July 1, 2010. As a result, all guaranteed student loans are now originated under the Federal Direct Loan Program.

Also, the Ryan-Murray budget agreement, passed by Congress in December 2013, reduces the compensation that the agency receives from rehabilitating loans from the FFELP program. The reduced fees began on July 1, 2014, reducing the agency's funding derived from the rehabilitation of defaulted student loans by approximately 50.0 percent. Based on projections provided by RIHEAA, the guaranty portion of the agency will experience a loss by FY2020.

RIHEAA's role as a guaranty agency in the FFELP is its single largest activity; approximately 75.0 percent of the Authority's employees are allocated to the guaranty agency functions (17.0 FTE positions out of a total of 22.0 currently authorized FTE positions). RIHEAA's guaranty loan operation receives over 90.0 percent of its net revenue from the collection and rehabilitation of defaulted loans that it has guaranteed. With the transition to the Federal Direct Loan program as the single originator of all guaranteed student loans, RIHEAA's services will eventually be eliminated. The Authority will continue to provide services for loans currently in its portfolio (including claims payments and reinsurance transactions, default prevention and aversion activities, and collection of defaulted student loans), it is difficult to predict the time period over which such services will be required, and to what extent those responsibilities would constitute a substantive activity for the Authority.



## Article 8: Relating to Municipalities

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This article imposes a deadline for Newport, Jamestown, or any municipality requesting reimbursement from the Division of Municipal Finance for Newport Bridge tolls paid by police, fire, ambulance service, or the school department as required during the course of duty. The deadline is September 30th of the fiscal year following the fiscal year for which reimbursement is being requested.

This article also allows municipalities to borrow funds from the Municipal Road and Bridge Revolving Fund or the Efficient Buildings Fund administered by the Rhode Island Infrastructure Bank (formerly Clean Water Finance Agency) or the school building authority capital fund, administered by the Rhode Island Health and Educational Building Corporation, for the period July 1, 2015, through June 20, 2016, without voter approval. As 2015 is not a year in which a general election will be held, this legislation would allow communities to seek funding without voter approval to avoid the costs of a special election in FY2016.

*Analyst's Note: According to the State Budget Office, the date June 20, 2016, will be changed to June 30, 2016, by a Governor's Budget Amendment to reflect the intent of the legislation.*

### FISCAL IMPACT

There is no fiscal impact from the article.

### ANALYSIS AND BACKGROUND

#### ***Toll Reimbursement Program***

Per R.I. General Laws §24-12-26, personnel of police, fire, and ambulance services for the city of Newport and the town of Jamestown shall be reimbursed if they are required to pay a toll for use of the Newport Bridge during the course of their duty. Upon presentment of receipts for the payment of the toll to the town of Jamestown or the city of Newport, such personnel shall be reimbursed for all charges on an annual basis by the respective municipality, who in turn shall be reimbursed for all payments made by the state.

No request for reimbursement has been made by either the town of Jamestown or the City of Newport since FY2012, and there is currently no deadline by which the municipality has to make its claim. The state proposes to include a deadline date of September 30th for which the town of Jamestown and the city of Newport must submit a request for reimbursement for the previous fiscal year (ending June 30th). The State also proposes the same deadline for use of the Mount Hope Bridge and the Sakonnet River Bridge; however, no tolls exist on those bridges at this time.

For both FY2015 and FY2016, \$5,000 in general revenue is included in the Department of Revenue budget, Division of Municipal Finance, for toll reimbursement to municipalities.

#### ***Municipal Road and Bridge Revolving Fund***

The FY2014 Budget as Enacted established the Municipal Road and Bridge Revolving Fund. Loans began in FY2014, and future capitalizations combined with the revolved funds allow state-sponsored financing on an ongoing basis. This fund is administered by the Rhode Island Clean Water Finance Agency (CWFA). Applications are submitted to the Rhode Island Department of Transportation (RIDOT), based on regulations development by RIDOT. RIDOT uses a project priority list to rank projects based on 6 criteria:

- The extent to which the project generates economic benefits.
- The extent to which the project would be able to proceed at an earlier date.
- The likelihood the project will provide mobility benefits.

- The cost effectiveness of the project.
- The likelihood that the project will increase safety.
- The readiness of the project to proceed during the next calendar year.

For FY2014, the revolving fund included \$10.3 million of bond premium proceeds derived from the sale of 2013 general obligation bonds from the Rhode Island Capital Plan Fund (RICAP) to capitalize the Municipal Road and Bridge Revolving fund. These funds were loaned to nine communities in FY2014.

The FY2015 Budget as Enacted included an additional \$5.0 million in funding made available from the sale of Tobacco Settlement Bonds to capitalize this program. The Clean Water Finance Agency will appropriate \$3.5 million from its board designated administrative fund in order to fully fund every project that has met all of the application requirements in FY2015. The Governor does not recommend additional funding for FY2016.

*Analyst's Note: An additional \$300,000 is available for lending, as one municipality did not request its entire authorization in FY2014. No community has begun payback of funds loaned in FY2014; therefore there are no "revolved" funds currently available.*

Seven communities submitted applications to borrow from the Municipal Road and Bridge Revolving Fund; however, East Providence, which requested \$1.8 million for four projects, does not meet the requirement of having voter approval.

<b>Project Ranking<sup>1</sup></b>	<b>Municipality</b>	<b>Requested Amount</b>	<b>Approved by CWFA Board</b>
1	West Warwick	\$150,515	\$150,515
2	East Providence	230,000	
3	Bristol	500,000	500,000
4	East Providence	515,000	
6	East Providence	435,000	
8	Hopkinton	253,000	253,000
9	East Providence	650,000	
10	Pawtucket	5,000,000	5,000,000
11	East Greenwich	2,000,000	2,000,000
13	Coventry	900,000	900,000
<b>Total</b>		<b>\$10,633,515</b>	<b>\$8,803,515</b>

<sup>1</sup>The projects ranked 5 (Cranston), 7 (Scituate) and 12 (Narragansett) were withdrawn by the municipalities.

*Analyst's Note: If this legislation passes, inclusive of the provision to allow borrowing without voter approval in FY2016, the City of East Providence could request that its applications be reconsidered by the Clean Water Finance Agency for FY2015 funding as new applications for FY2016 funds are not required to be sent to the Department of Transportation until September 15, 2015. The Governor's budget does not include additional funding for FY2016; however, the Clean Water Finance Agency may have additional funds available from its board designed administrative fund to fund the East Providence projects.*

## Article 9: Relating to School Building Authority Capital Fund

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This article creates a School Building Authority at the Department of Elementary and Secondary Education and a School Building Authority Capital Fund at the Rhode Island Health and Education Building Corporation (RIHEBC). The article changes the composition of the Board of Directors at the RIHEBC and eliminates the compensation for Board members permitted under current law. The article also shortens the time period for communities to receive the 80.0 percent reimbursement of refunded bond savings to June 30, 2015, instead of December 31, 2015, as provided in current law. The article allows charter schools to receive capital funds at the ratio provided to the district in which the charter school is located.

### **FISCAL IMPACT**

This article has no direct fiscal impact; however, the Governor includes a one-time appropriation of \$20.0 million in new general revenue to capitalize the School Building Authority Capital Fund.

### **ANALYSIS AND BACKGROUND**

#### ***Refunded Bond Savings***

This article shortens the time period for communities to receive the 80.0 percent reimbursement of refunded bond savings to June 30, 2015, instead of December 31, 2015, as provided in current law. Article 13 of the FY2014 Budget as Enacted included the incentive to encourage communities to take advantage of lower interest rates beginning July 1, 2013.

#### ***School Building Authority***

The article designates the Department of Elementary and Secondary Education (Department) as the State's School Building Authority (Authority) and charges the Department with implementing a system of state funding for school facilities, managing the school housing aid program, and developing a project priority system. The Authority will oversee two distinct funding mechanisms for school facilities: the foundation program, as currently enumerated in RIGL 16-7-35 through 16-7-47, and the school building authority capital fund, as created through this article.

Pursuant to the article, the Department is responsible for promulgating the rules and regulations establishing the application process for the new Capital Fund, and for establishing investment priorities and project evaluation criteria, in consultation with the Advisory Board. The priorities are to be reviewed a minimum of every five years.

Pursuant to the article, the Rhode Island Health and Educational Building Corporation (RIHEBC) will fund the Department's costs associated with the Authority, the Advisory Board, and any additional tasks requested by the General Assembly. The source of funds is not identified within the specific section of the article; however, language establishing the Capital Fund requires payment of administrative expenses from fund resources (see section 4 of article).

The Council on Elementary and Secondary Education (Council) will continue to approve school construction applications for the existing foundation program and, pursuant to the article, will also approve applications for the new Capital Fund. In addition, the Council will approve the investment priorities for the new Capital Fund proposed by the Authority in consultation with the Advisory Board.

#### ***School Building Authority Advisory Board***

The article establishes the School Building Authority Advisory Board (Advisory Board) to advise the Authority on the best use of funds, including identifying statewide investment priorities and criteria for project approval. The Board would be comprised of the following seven members:

- The General Treasurer
- The Director of the Department of Administration, serving as chair
- A member of the Governor's staff
- Four members of the public, appointed by the Governor, with expertise in education and/or construction, real estate, or finance. The public members are not subject to an advice and consent process.

***Rhode Island Health and Educational Building Corporation (RIHEBC)***

The Rhode Island Health and Educational Building Corporation (RIHEBC) was created in 1967 through RIGL §45-38.1-4 to provide non-profit educational and healthcare providers with access to low-cost, affordable financing for capital projects through the sale of tax-exempt bonds. All of the powers of RIHEBC are vested in the five-member board of directors elected at the first meeting of the incorporators. Commencing in 1968, successor members are appointed by the Governor for five-year terms. RIGL §45-38.1-4(f) provides that board members are entitled to receive compensation at a rate of \$50 per meeting up to \$1,500 annually; however, the article would discontinue compensation effective July 1, 2015.

The article would increase the Governor's appointments to the Board of Directors to from five to seven members and impose a limit of two, five-year terms on members appointed after July 1, 2015. The Governor would select the chairperson and vice chairperson from the appointed members. There is no advice and consent process for Board members under current law, or in the article.

***School Building Authority Capital Fund***

The article establishes a School Building Authority Capital Fund (Capital Fund) to be held in trust and administered by RIHEBC. The article requires certain monies be deposited into the Capital Fund, including but not limited to:

- The difference between the annual housing aid appropriations and the housing aid commitment amounts from the fund in a given year.

*Analyst's Note: It appears this refers to appropriations to the Capital Fund; however, the language is unclear.*

- Loan repayments, bond refinance interest savings
- Interest earnings
- Bond proceeds, and
- Administrative fees

Pursuant to the article, administrative costs in the Department and RIHEBC associated with the Capital Fund must be paid from the Capital Fund. The article also provides for the payment of bond proceeds by the General Treasurer to RIHEBC for any bonds or notes issued by the State for the purposes of the Capital Fund. The article allows cities and towns to borrow up to \$500,000 without voter approval despite city charter provisions to the contrary; and exempts construction pay-as-you-go grants from General Assembly approval through enabling legislation. As with bonds issued by RIHEBC in current law, the issue of school building authority capital funds would not require passage of an enabling act by the General Assembly.

The article authorizes RIHEBC to grant districts and municipalities the state share of an approved project cost consistent with the share ratios determined in current law; however, the article requires RIHEBC to grant a recipient of assistance under the Capital Fund the percentage of state aid available to the community in which the school is located.

*Analyst's Note: It is unclear from the language of the article what "percentage of state aid" is being referenced; however, this clause appears to require charter schools to receive a state aid ratio equivalent to the district the charter is located, instead of the 30.0 percent provided under current law.*

RIHEBC must submit an annual report on the fund to the Governor, the Speaker of the House, the President of the Senate, and the Secretary of State. The initial report is due by January 1, 2016.

### ***Additional Background***

In the *Public Schoolhouse Assessment*, published in FY2013, the Rhode Island Department of Elementary and Secondary Education (Department) analyzed data collected from the LEAs, including age, facility rating, enrollment, maintenance costs, and capital improvement expenditures. It was found that 70.0 percent of the State's schools were built 25 to 75 years ago, with an average age of 58 years. Through data analysis, GIS mapping, and inter-agency collaboration, the Department developed findings and recommendations to improve the financing, design, construction, and operation of school facilities in the State. When submitting the data, LEAs were asked to rate building conditions on a scale from 1 to 4, with 1 being in good condition, requiring general maintenance and minor repairs, and 4 being in poor condition, requiring major renovation and/or replacement. Based on the report, the total estimated cost to bring all 276 district schools up to good condition is \$1.8 billion. This estimate does not include the 16 public charter schools in existence in FY2012 or the 8 district career and technical centers.

Under the current school housing aid program, on average, approximately 40.0 percent of housing aid reimbursements fund bond interest rather than school improvements, due to the historical reliance on bonding. Due to the increasing cost of the program, the 2011 General Assembly enacted a moratorium limiting the approval of new projects to those necessitated by immediate health and safety reasons. Once the moratorium expires on May 1, 2015, a backlog of new project proposals are anticipated. While the precise cost of these proposals is unknown, the cost of the existing housing aid program is expected increase substantially over time. Approvals from the Board of Education for Necessity of School Construction projects have ranged from \$22.0 million under the moratorium in FY2011 to \$265.0 million in FY2007, averaging \$74.8 million per year. This article proposes a new Capital Fund with a one-time appropriation of \$20.0 million to begin preparing for the anticipated growth in school renovation and construction projects.

## Article 10: Relating to Making Revised Appropriations in Support of FY2015

This article makes revised appropriations for general revenues, federal, restricted and other funds as well as revises authorized FTE levels for each agency and department for FY2015.

Specifically, Article 10 permits the General Treasurer to pay up to the maximum debt service due for the I-195 Redevelopment District Commission loan from the state appropriation for debt service. This article also transfers \$6.4 million of bond premium from the RICAP fund to the Information Technology Investment Fund for the Unified Health Infrastructure Project. Lastly, the Governor eliminates the requirement that the Rhode Island Higher Education Assistance Authority (RIHEAA) fund \$4.1 million in need based scholarships from the Guaranty Agency Reserve in FY2015.

### APPROPRIATIONS

The article increases the total FY2015 appropriations by \$59.3 million, the bulk of which is attributable to an increase in general revenue expenditures by \$43.2 million. The article outlines funding changes at the program level by fund for each department.

Expenditures by Source	FY2014 Final	FY2015 Enacted	FY2015 Governor	Change to Enacted	% Change
General Revenue	\$3,336.4	\$3,445.2	\$3,488.4	\$43.2	1.3%
Federal Funds	2,676.2	3,086.5	3,140.5	54.0	1.7%
Restricted Receipts	222.1	283.1	278.3	(4.8)	-1.7%
Other Funds	1,820.7	1,965.4	1,932.4	(33.1)	-1.7%
<b>Total</b>	<b>\$8,055.4</b>	<b>\$8,780.2</b>	<b>\$8,839.5</b>	<b>\$59.3</b>	<b>0.7%</b>

*\$ 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	FY2015 Enacted	FY2015 Governor
State Assessed Fringe Benefits	\$37,123,794	\$37,581,962
Administration Central Utilities	14,244,902	16,936,000
State Central Mail	5,617,173	6,000,840
State Telecommunications	4,080,029	4,088,455
State Automotive Fleet	13,733,063	13,813,802
Surplus Property	2,500	2,500
Health Insurance	250,127,757	250,334,337
Other Post-Employment Benefits	63,934,483	63,934,483
Capital Police	1,060,301	1,221,139
Corrections Central Distribution Center	6,739,558	6,778,130
Correctional Industries	7,704,793	7,276,321
Secretary of State Records Center	882,436	874,022
<b>Total</b>	<b>\$405,250,789</b>	<b>\$408,841,991</b>

### FTE POSITION CAP AND APPROVAL

The article establishes the authorized number of full-time equivalent (FTE) positions for each State department and agency for FY2015. Departments and agencies may not exceed the number of authorized

FTE positions shown, in any pay period. Statewide, the Governor recommends a net increase of 14.7 FTE positions below the FY2015 Budget as Enacted. The following changes are included in the Governor's proposal:

<b>FTE Position Authorization</b>			
<b>Function</b>	<b>FY2015 Enacted</b>	<b>FY2015 Governor</b>	<b>Change to Enacted</b>
General Government	2,298.7	2,307.7	9.0
Human Services	3,744.0	3,744.0	-
Education	3,890.3	3,896.0	5.7
Public Safety	3,221.6	3,221.6	-
Natural Resources	428.0	428.0	-
Transportation	752.6	752.6	-
Higher Ed. Sponsored Research	750.8	750.8	-
<b>Total</b>	<b>15,086.0</b>	<b>15,100.7</b>	<b>14.7</b>

Major FTE changes include:

- **An increase of 5.0 FTE positions in the Executive Office of Commerce:** This reflects an increase of 5.0 FTE new positions for the Office of the Secretary. The five new positions include 1.0 Secretary of Commerce, 1.0 Deputy Director, 1.0 Chief Strategic Planning and Monitoring, 1.0 Director of Communications, and 1.0 Chief Implementation Aide.
- **An increase of 5.0 FTE positions in the Department of Business Regulation:** The Governor transfers a Small Business Ombudsman position (Programming Services Officer) from the Office of Management and Budget within the Department of Administration to the Department of Business Regulation. In addition, the Governor adds 4.0 FTE principal policy associate positions in the Office of the Health Insurance Commissioner. The principal policy associates will have primary oversight for the adoption of value-based care paradigm payment models among commercial payers under the auspices of the Office of Health Insurance Commissioner.
- **An increase of 2.2 FTE positions in Public Higher Education:** This reflects an increase of 2.2 unspecified FTE positions within the Office of the Postsecondary Commissioner.

## Article 11: Relating to Revenues

This article makes a number of changes to sources of state revenue, including taxes and fees.

- Creates a state property tax on non-owner occupied properties valued at \$1.0 million or higher.
- Increases excise tax by \$0.25 per pack of cigarettes.
- Expands the hotel tax to include online hotel resellers and unlicensed rentals such as those listed on Airbnb.com. Vacation rentals will be subject to the sales and local tax.
- Transfers hotel tax revenue from general revenue to the Rhode Island Commerce Corporation.
- Applies the real estate conveyance tax to sales of controlling interests in a business entity that holds real property.
- Expands the current sales tax exemption for electricity, gas, and fuel used in the manufacturing process to consumption of these utilities by all businesses over the next five years.
- Exempts Social Security benefits from the State's income tax for individuals with adjusted gross income (AGI) of \$50,000 a year or less, and for joint returns with AGI of \$60,000 a year or less.
- Authorizes the Division of Taxation to enter into performance-based contracts with third-party vendors to enforce taxpayer compliance and payment of tax liabilities.
- Implements a managed audit program within the Division of Taxation permitting businesses to perform self-audits.
- Increases the rate an eligible taxpayer may claim for a refund under the earned income tax credit.
- Phases out the 2.0 percent surcharge on net patient services revenue generated by outpatient healthcare facilities and imaging services providers.
- Eliminates the Enterprise Zone Wage tax credit, which provides employment-based tax incentives for businesses located in certain geographically defined areas of the state.

### FISCAL IMPACT

The article increases general revenue by \$13.2 million for FY2016. The table below itemizes the impact of each initiative.

<b>Article 11 Revenue Changes</b>	<b>FY2016</b>
<b>Expansion</b>	
<i>State Property Tax on Non-Owner Occupied Residential Properties</i>	\$11.8
<i>Increase Excise Tax on Cigarettes</i>	7.1
<i>Accommodations Subject to Taxation: Funding Shift to CommerceRI</i>	3.3
<i>Controlling Interest Transfer Tax</i>	0.7
<b>Exemptions</b>	
<i>Sales Tax Exemption on Utilities</i>	(4.9)
<i>Income Tax Exemption on Taxable Social Security Benefits</i>	(3.9)
<b>Enforcement</b>	
<i>Increased Collections from Tax Compliance Contract</i>	1.8
<i>Taxation Self-Audit Program</i>	0.5
<b>Other Revenue Changes</b>	
<i>Changes to Earned Income Tax Credit</i>	(3.0)
<i>Imaging Services Surcharge Phase Out</i>	(0.6)
<i>Eliminate Enterprise Zone Wage Tax Credit</i>	0.4
<b>Total</b>	<b>\$13.2</b>

*\$ in millions. Totals may vary due to rounding.*

## ANALYSIS AND BACKGROUND

This article makes a number of changes impacting general revenue collections, including: expanding the existing tax base, exempting certain personal and business liabilities from taxation, and enhancing Taxation enforcement activities.

### **State Property Tax on Non-Owner Occupied Residential Properties**

**\$11.8 million**

The Governor proposes a state property tax on non-owner occupied residences and vacant residential land with an assessed value of \$1.0 million or more. The proposed tax rate of \$2.50 per \$1,000 of total assessed value is estimated to increase general revenue by \$11.8 million. Currently, there is no state property tax in Rhode Island. The Governor relies on the local assessed value of each property impacted by this proposal.

The Office of Revenue Analysis (ORA) reviewed a sample of municipal property tax rolls to identify non-owner occupied property (land and residential buildings) valued at \$1.0 million or more. Based on the sample reviewed, ORA estimates that 2,359 properties, valued at \$4.7 billion in total, would be subject to this tax.

#### **Top 5 Municipalities with >\$1.0 million Non-Owner Occupied Properties**

<b>Municipality</b>	<b>Total Non-Owner Occupied Properties &gt;\$1.0mil in Assessed Value</b>	<b>Total Assessed Value of the Properties</b>	<b>State Property Tax Revenues at \$2.50 per \$1,000 Rate</b>
Westerly	568	\$1,452.7	\$3.6
New Shoreham	423	631.0	1.6
Newport	217	558.8	1.4
Little Compton	222	431.1	1.1
Charlestown	193	335.7	0.1

*\$ in millions*

*Source: Office of Revenue Analysis*

*Analyst Note: ORA's estimated revenues are based on non-owner occupied single family residences, two to five family residences, estates, seasonal and beach property, residential condominiums, times shared condominiums, dockminiums (boat slips), mobile homes and residential vacant land with total assessed values of \$1.0 million or more.*

### **Increase Excise Tax on Cigarettes**

**\$7.1 million**

The Governor recommends a \$0.25 increase in the excise tax on cigarettes, which raises the tax from \$3.50 to \$3.75 per pack of twenty, or to the equivalent of \$0.19 per cigarette. Total retail price will increase by \$0.29, from \$8.88 to \$9.17 per individual pack. The additional excise tax and associated sales taxes would generate an additional \$7.1 million in revenue above the projections from the November 2014 Revenue Estimating Conference. This amount also includes an increase from floor stock taxes assessed on existing stocks of cigarettes that are in inventory at midnight on July 31, 2015. Cigarettes purchased in Rhode Island would be priced similarly to those in Connecticut, and remain approximately \$0.53 cheaper than those sold in Massachusetts.

Numerous states, including Rhode Island, include some minimum pricing provisions related to the sale of cigarettes. These minimums can impact the end price as much or more than tobacco taxes. Thus, when comparing cigarette taxes between states, the average total price per pack should also be accounted for to capture the impacts of tobacco tax rates, minimum pricing and markup provisions, and applicable sales taxes. The table below compares the current end price of a pack of cigarettes to the Governor's proposed excise increase, and outlines Rhode Island's markups compared to neighboring states.

## Cigarette Pricing and Taxing Provisions - Regional Comparison

	Rhode Island		Massachusetts		Connecticut		
	Current	Proposed					
Base Price per Pack in \$	\$4.12	\$4.12		\$3.61		\$4.12	
Excise Tax in \$	3.50	3.75		3.51		3.40	
<i>Subtotal base price + Excise</i>	7.62	7.87		7.12		7.52	
Wholesale Markup	2.0%	0.15	0.16	2.0%	0.14	6.5%	0.49
Wholesale Cartage	0.75%	0.06	0.06	0.75%	0.05	0.0%	0.00
Retail Markup	6.0%	0.47	0.49	25.0%	1.83	8.0%	0.64
<i>Total Base Cost</i>	8.30	8.57		9.15		8.65	
Sales Tax	7.0%	0.58	0.60	6.25%	0.57	6.4%	0.55
<b>Total Price per Pack in \$</b>	<b>\$8.88</b>	<b>\$9.17</b>		<b>\$9.72</b>		<b>\$9.20</b>	

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

**Accommodations Subject to Taxation: Funding Shift to CommerceRI****\$3.3 million**

The State imposes three taxes on hotel accommodations: a 7.0 percent sales tax (collected as general revenue), a 5.0 percent hotel tax (shared by state general revenue, tourism districts, and municipalities), and a 1.0 percent local tax (allocated to municipalities). The Governor proposes expanding the definition of accommodations subject to these taxes to include online room resellers, unlicensed lodging rentals (such as those listed on Airbnb.com), and vacation rentals (which will only be subject to the sales tax and local tax). Secondly, the Governor modifies the distribution of the hotel tax, shifting the State's current 5.0 percent hotel taxes normally deposited as general revenue and a portion of tourism district revenue shares to CommerceRI. Lastly, through expanded sales tax to certain types of accommodations, net revenue to the State will increase by \$3.3 million (which includes an increase of \$7.1 million for expanded sales taxes, less \$3.8 million in hotel taxes redirected as pass-through revenues to CommerceRI).

**Hotel Base Expansion**

The Budget expands the definition of hotels to include houses, condominiums, or other residences regardless of the number of rooms used and/or advertised for rent for occupancy, such as those listed on Airbnb.com. Currently, rental accommodations with less than three rooms are exempt. It also expands the definition to include room resellers. Room resellers have authority from a hotel to arrange accommodations and include sellers of travel packages, such as Expedia, Inc. or Priceline.com. The State currently levies a 5.0 percent gross receipts tax on hotels that have more than three rooms and are rented for 30 days or less.

**Lodging Tax Expansion:** The article expands the definition of hotels subject to the State's lodging taxes to include houses, condominiums, or other residential units, regardless of number of rooms, which are advertised for rent for occupancy. Using VRBO.com (a website listing vacation rentals by owner), ORA calculated that 6,205 rooms are available for rent in Rhode Island. Using the median price per rental unit by community, and assuming a 122 day rental season, ORA calculated a revenue increase of \$6.2 million in FY2016.

**FY2016 Hotel Tax Expansion on All Lodging Rentals**

	7% Sales	1% Local
General Revenue	\$5,422,316	
CommerceRI		
Municipalities		774,617
Subtotal	\$5,422,316	\$774,617
<b>Total</b>		<b>\$6,196,933</b>

*Note: The Governor does not impose the 5.0% hotel tax on vacation rentals and bed and breakfasts.*

**Online Room Resellers:** Room resellers have authority from a hotel to arrange accommodations, including sellers of travel packages, such as Expedia, Inc. or Priceline.com. This article requires room resellers to register annually with the Division of Taxation to obtain a retail business permit and to collect the sales and use taxes and hotel taxes. Resellers currently remit taxes to the hotel based on the wholesale cost of the room, not the actual cost to the end consumer, effectively allowing these resellers to pay less in taxes than a direct seller. This article requires sales tax to be calculated upon the amount of rental and other fees paid by the occupant to the room reseller, less the amount of any rental or other fees paid by the reseller to the hotel. The hotel will then remit taxes upon the amount of rental and fees paid to the hotel by the reseller or occupant.

**FY2016 Hotel Tax Expansion on Online Resellers**

	7% Sales	5% Hotel	1% Local
General Revenue	\$820,662	-	-
CommerceRI	-	194,519	-
Municipalities	-	146,053	117,237
<i>Tourism Districts:</i>			
Aquidneck Island	-	99,409	-
All Other Tourism Districts	-	32,511	-
Convention Authority of Providence	-	23,133	-
Warwick Dept. of Economic Development	-	12,131	-
Prov/Warwick Convention & Visitors Bureau	-	78,430	-
Subtotal	\$820,662	\$586,186	\$117,237
<b>Total</b>			<b>\$1,524,085</b>

**Unlicensed Rentals:** This article also expands hotel taxes to the short-term rental of unlicensed lodging accommodations, such as those listed on the Airbnb.com website. ORA tracked data available on the Airbnb.com website for one month to determine occupancy rates (assuming that if a room at the beginning of the month was no longer listed as available, it was determined to be occupied); for summer and holidays, ORA assumed an occupancy rate of 100.0 percent. ORA calculated the availability of unlicensed rentals for weekends, summer, and holidays, and applied the occupancy rates to the available rental days for each category: 61, 170, and 122 days, respectively. Lodging tax shares were applied to the total revenue of \$12.2 million, which are broken down in the following table:

**FY2016 Hotel Tax Expansion on Unlicensed Rentals**

	7% Sales	5% Hotel	1% Local
General Revenue	\$851,512		
CommerceRI		197,627	
Municipalities		152,056	121,645
<i>Tourism Districts:</i>			
Aquidneck Island	-	119,289	-
All Other Tourism Districts	-	34,298	-
Convention Authority of Providence	-	29,325	-
Warwick Dept. of Economic Development	-	857	-
Prov/Warwick Convention & Visitors Bureau	-	74,770	-
Subtotal	\$851,512	\$608,222	\$121,645
<b>Totals</b>			<b>\$1,581,379</b>

The expansion of the hotel tax base will increase net revenue to municipalities by \$1.3 million through the 5.0 percent hotel tax share and 1.0 percent local occupancy tax.

## FY2016 Current Hotel Tax Collections Summary and Increases from Hotel Tax Base Expansion

Municipality	*FY2016 Est.	Increases from		Municipality	*FY2016 Est.	Increases from	
		Base Expansion	Total			Base Expansion	Total
Barrington	-	\$4,840	\$4,840	Newport	1,996,172	233,709	2,229,881
Bristol	38,661	17,585	56,246	New Shoreham	308,496	66,217	374,713
Burrillville	-	1,543	1,543	North Kingstown	80,610	24,059	104,668
Central Falls	-	1,029	1,029	North Providence	-	1,029	1,029
Charlestown	21,589	70,672	92,261	North Smithfield	3,141	622	3,763
Coventry	83,386	6,467	89,852	Pawtucket	54,005	4,943	58,948
Cranston	9,504	6,863	16,367	Portsmouth	12,020	18,329	30,349
Cumberland	-	-	-	Providence	2,019,681	162,919	2,182,600
East Greenwich	905	3,843	4,748	Richmond	3,577	637	4,215
East Providence	44,947	5,660	50,607	Scituate	5,037	173	5,210
Exeter	-	514	514	Smithfield	152,721	15,023	167,744
Foster	254	9	263	South Kingstown	143,481	73,564	217,045
Glocester	2,808	1,564	4,371	Tiverton	-	9,739	9,739
Hopkinton	-	953	953	Warren	-	6,384	6,384
Jamestown	9,467	45,856	55,323	Warwick	1,059,108	39,403	1,098,511
Johnston	7,743	781	8,523	Westerly	460,049	99,977	560,026
Lincoln	106,834	4,185	111,020	West Greenwich	98,522	3,900	102,422
Little Compton	4,489	40,217	44,706	West Warwick	102,452	3,520	105,972
Middletown	709,165	58,938	768,103	Woonsocket	53,703	1,845	55,549
Narragansett	84,305	274,001	358,305	<b>Total</b>	<b>\$7,676,832</b>	<b>\$1,311,510</b>	<b>\$8,988,342</b>

\*Includes municipal share of 5% state hotel tax and 1% local occupancy tax estimated for FY2016.

**Reallocation to CommerceRI:** The Governor proposes to re-direct \$6.4 million in new and existing hotel tax proceeds, based on reallocation of hotel tax revenue in the following table, to fund operations at CommerceRI, including \$4.5 million to enhance statewide tourism and promote Rhode Island as a vacation and leisure destination. The following table shows the reallocation using the existing hotel tax base and does not include the additional \$380,000 which would be generated through the base expansion and reallocation. (\$6.0 million + \$380,000 = \$6.4 million)

## FY2016 Reallocation of Current Hotel Tax Revenues

Recipient	Current Law		Proposed		Change
	State Hotel Tax Share	Amount of State Hotel Tax	State Hotel Tax Share	Amount of State Hotel Tax	
Aquidneck Island District	47%	\$2,893,084	47%	\$2,893,084	-
Statewide District	47%	130,544	-	-	(130,544)
All Other Districts	47%	1,778,772	25%	946,156	(832,616)
Convention Authority of Providence	31%	1,391,336	15%	673,227	(718,109)
Warwick Department of Economic Development	31%	729,608	15%	353,036	(376,572)
Providence/Warwick Convention & Visitors Bureau*	23/7/12%	2,172,656	23/7/12%	2,172,656	-
RI Convention Center Authority	30%	316,906	-	-	(316,906)
Municipalities	25%	4,000,819	25%	4,000,819	-
State General Revenue	21%	3,645,903	-	-	(3,645,903)
RI Commerce Corporation	0%	-	35.1%	6,020,650	6,020,650

\*Shares of state hotel tax revenue are received as follows: 23.0% from rooms rented in Providence and Warwick, 12.0% from rooms rented at the Omni Providence, and 7.0% from room rentals in the rest of the State.

**Analyst Note:** Reducing the distribution to the RI Convention Center Authority could increase general revenue expenditures to the State in covering the Authority's operating losses.

**Controlling Interest Transfer Tax****\$695,970**

The Governor proposes to apply a conveyance tax on sales of controlling interests in a business that holds real property. Rhode Island assesses a real estate conveyance tax of \$2.30 per \$500 of the price paid on certain sales involving real estate. Under current law, however, the owner of a business may sell the ownership of a business entity that owns a real property such as a building, without paying the transfer tax on the value of the building.

*Analyst Note: The legislation is unclear as to whether this tax will apply to only real estate holdings of a business or all other assets transferred in the sale.*

**Sales Tax Exemption on Utilities****(\$4.9 million)**

The State currently exempts electricity, natural gas, and heating fuels used in the manufacturing process from the sales and use tax. The Governor proposes to expand the current exemption to consumption of these utilities by all businesses over the next five years. Exemptions would be phased in by 20.0 percent annually through FY2020. Expands the current sales tax exemption for electricity, gas, and fuel used in the manufacturing process

<b>5 Year Impact of Sales Tax Exemption Phase-In for All Businesses</b>					
<b>Energy Item</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Electricity	(\$3,500,540)	(\$7,106,634)	(\$10,888,608)	(\$14,779,715)	(\$18,606,863)
Natural Gas	(1,162,798)	(2,401,203)	(3,708,744)	(5,029,919)	(6,427,874)
Heating Fuels	(214,418)	(435,565)	(669,898)	(918,986)	(1,176,627)
<b>Total</b>	<b>(\$4,877,756)</b>	<b>(\$9,943,402)</b>	<b>(\$15,267,250)</b>	<b>(\$20,728,620)</b>	<b>(\$26,211,364)</b>

<i>Exemption Rate</i>	<i>20%</i>	<i>40%</i>	<i>60%</i>	<i>80%</i>	<i>100%</i>
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*Source: Office of Revenue Analysis*

**Income Tax Exemption on Taxable Social Security Benefits****(\$3.9 million)**

The Governor exempts Social Security benefits from the State's income tax for individuals whose adjusted gross income (AGI) is \$50,000 a year or less, and for joint filers couples whose AGI is \$60,000 a year or less. Rhode Island personal income taxes are based on federal AGI (the basis of income subject to federal income taxes) and any additional modifications the State allows that reduce federal AGI. The standard deduction and personal exemption amounts, which are set annually by the Division of Taxation, are then deducted from the state taxable amount to determine taxable income. This is estimated to reduce revenues by \$3.9 million in FY2016 and by \$8.1 million in FY2017.

<b>5-Year Revenue Impact</b>					
	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Social Security Exemption	(\$3.9)	(\$8.1)	(\$8.3)	(\$8.5)	(\$8.7)

*\$ in millions*

*Source: Office of Revenue Analysis*

## Sample Modification of Taxable Social Security Income

Federal Return	Current	Proposed
Pension	15,000	15,000
Interest/Dividends	1,500	1,500
Taxable Distribution from Personal 401K	12,000	12,000
Taxable Social Security*	13,199	13,199
<b>Federal Adjusted Gross Income (AGI)**</b>	<b>41,699</b>	<b>41,699</b>
<b>Rhode Island Tax Return</b>		
Starting Point: Federal AGI	41,699	41,699
<i>Taxable Social Security Benefits Included in Federal AGI*</i>	-	(13,199)
Adjusted State Income	41,699	28,500
Less: Standard Deduction Amount	(8,100)	(8,100)
Less: Personal Exemption Amount	(3,800)	(3,800)
<b>Total State Taxable Income</b>	<b>29,799</b>	<b>16,600</b>
<i>Tax Rate for Taxable Income Under \$59,600</i>	3.75%	3.75%
<b>Total Tax Due to State **</b>	<b>\$1,117</b>	<b>\$623</b>

*Note: Calculation shows a scenario modifying income tax for a taxpayer with AGI under \$50,000, filing under single status, claiming the average monthly social security benefit (ssa.gov), investment distributions (USNews.com), and wages for part-time work.*

*\*The federal government taxes SSI on a rate based on income. In this case, the taxpayer's income is over \$34,000, so the federal government only taxes 85% of the SSI benefit. (\$15,528\*85%=\$13,199).*

*\*\*Rhode Island income tax is based on tax year 2014 rates.*

**Increased Collections from Tax Compliance Contract****\$1.8 million**

The Governor includes \$1.8 million for enhanced collection of owed taxes, interest, fines, and penalties. The proposal allows the Division of Taxation to enter into performance-based contracts with third-party vendors assist in developing new compliance programs. The Division of Taxation lacks resources to expand and enhance compliance programs. Using an outside vendor will allow Taxation to accelerate current compliance programs while creating new compliance initiatives. Examples of potential projects include using Taxation's data sources to identify fraudulent refund requests and implement a more data-driven audit selection.

Taxation manages four programs which compare RI taxpayer data to data collected by the Internal Revenue Service (IRS). When there is a discrepancy, Taxation sends out a notice billing the taxpayer for owed taxes. Taxation estimated the number of notices which would be sent out by the contracted vendor and applied the most recent collections rate for each program. This initiative is anticipated to increase personal income taxes by \$962,500 and increase collections of fines and penalties by \$787,500.

**Taxation Self-Audit Program****\$500,000**

This proposal implements an audit program managed within the Division of Taxation permitting businesses to perform self-audits. This type of audit would replace the traditional field-audit program, which, according to the Governor, allows the Division of Taxation to dedicate auditing resources to other Division programs. Under this proposal, businesses enter into an agreement with the Division to perform self-audits and voluntarily declare unreported or underreported sales or use taxes and receive reduced interest and penalties on those underpaid taxes. Pennsylvania recently implemented a similar program. During the first full year, \$10.0 million in new revenue was generated. The Office of Management and Budget expects the Rhode Island program to generate \$500,000, based on a ratio of the State's comparable population and revenue data to that of Pennsylvania.

**Changes to Earned Income Tax Credit****(\$3.0 million)**

The Governor modifies the calculation of the earned income tax credit (EITC), authorizing eligible taxpayers to claim 12.5 percent in TY2016 and 15.0 percent in TY2017 of the allowable federal credit EITC amount. The changes are expected to reduce revenues by \$3.0 million in FY2016 and \$9.4 million in FY2017.

<b>Changes to Earned Income Tax Credit</b>					
	<b>TY2013</b>	<b>TY2014</b>	<b>TY2015</b>	<b>TY2016</b>	<b>TY2017</b>
	<b>(Prior)</b>	<b>(Current)</b>	<b>(Current)</b>	<b>(Proposed)</b>	<b>(Proposed)</b>
Income*	\$37,870	\$38,511	\$39,131	\$39,131	\$39,131
Maximum EITC	3,250	3,305	3,305	3,359	3,359
Allowable Federal Credit Amount	25.0%	10.0%	10.0%	12.5%	15.0%
Deduction Allowable from RI Tax Owed	122	331	331	420	504
Refundable Amount	15.0%	100%	100%	100%	100%
<b>Total Refunded to Taxpayer</b>	<b>\$18</b>	<b>\$331</b>	<b>\$331</b>	<b>\$420</b>	<b>\$504</b>

\*Single filer, one qualifying child.

Note: TY2016 and TY2017 income amount reflects TY2015 limit as this income level is set annually by the IRS.

The EITC is a refundable tax credit for low and moderate income working individuals whereby the credit may reduce an individual's tax liability to below zero, producing a credit that is greater than the amount of tax owed, thus representing a cash payment to the filer.

**Eliminate Surcharges on Net Patient Revenues for Imaging Services****(\$574,399)**

The Governor proposes phasing out the 2.0 percent surcharge on net patient services revenue generated by outpatient healthcare facilities and imaging services providers in equal increments over four years (FY2016 through FY2019). The initiative is expected to reduce revenues by \$574,399 in FY2016.

<b>5-Year Revenue Impact</b>					
<b>Surcharge Item</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>
Imaging Service	(\$386,908)	(\$768,660)	(\$1,118,834)	(\$1,500,964)	(\$1,529,760)
Outpatient Healthcare	(187,492)	(375,799)	(559,750)	(745,924)	(746,613)
<b>Total</b>	<b>(\$574,399)</b>	<b>(\$1,144,459)</b>	<b>(\$1,678,584)</b>	<b>(\$2,246,888)</b>	<b>(\$2,276,373)</b>

Under current law, Rhode Island imposes a monthly surcharge of 2.0 percent upon the net patient revenue received by every outpatient health care facility and every imaging services provider. Additionally, any outpatient health care facility or imaging services provider which fails to pay the surcharge within the time required is assessed a penalty of 10.0 percent plus interest on any overdue amount.

**Eliminate Enterprise Zone Wage Tax Credit****\$356,347**

The Governor eliminates the Enterprise Zone Wage tax credit, which provides employment-based tax incentives for businesses located in certain defined areas of the state. Fewer than 10 taxpayers have claimed the credit annually over the past 5 years.

**Enterprise Zone Wage Tax Credits****Business Corporations**

<b>Fiscal Year</b>	<b>Taxpayers</b>	<b>Amount</b>
2011	6	\$370,000
2012	6	320,000
2013	7	508,607
2014*	3	546,328
2015*	6	548,987

*\*Estimates provided in the 2014 Tax Expenditures Report.*

*Source: Office of Revenue Analysis*

Qualified businesses in an enterprise zone are eligible for the Enterprise Zone Wage tax credit equal to 50.0 percent of wages paid to newly-hired workers, capped at \$2,500 per worker (75.0 percent of wages paid capped at \$5,000 if the newly hired worker resides in a designated Enterprise Zone). To be eligible, companies with 20 or more employees must hire at least 5.0 percent more employees than the previous year. For companies with less than 20 employees, they must hire at least 1 new employee. The credits may be carried forward for up to 3 years. A business can get the credit as many times as it meets the criteria to earn it.

This tax expenditure may be applied against the business corporations tax, public service corporations tax, bank tax, and insurance companies tax. To calculate the fiscal impact, ORA used an average of the tax credits used over the past 4 years and estimated out-year growth using the growth rate adopted at the 2014 November Revenue Estimating Conference for business corporations taxes.

Enterprise zones are economically distressed areas, or more specifically, United States bureau of the census divisions, in need of expansion of business and industry. The following municipalities have areas designated as enterprise zones under RIGL 42-64.3-5:

- Cranston (which includes the site of the former Narragansett Brewery and the census blocks that are along the following streets: Hartford Avenue to the Johnston town line, Plainfield Street to the Johnston town line, and Pocasset Avenue to the Cranston city line)
- Providence (Providence II enterprise zone)
- Cumberland (Highland II Corporate Park and Woonsocket/Cumberland enterprise zone)
- East Providence
- Middletown
- Newport
- Pawtucket
- Richmond
- Portsmouth
- Woonsocket (Singleton Street Mill District and Ashton/Berkeley Mill Village area)
- Warren (Mount Hope enterprise zone)
- West Warwick

*Analyst's Note: The proposed legislation eliminates the credit entirely. The legislation is silent as to whether businesses certified prior to this date would be allowed to receive new credits under this program and whether or not the carry forward provisions for issued but unused but earned credits would be allowed.*

## Article 12: Relating to Tobacco Settlement Financing Trust

This article reallocates the appropriation of proceeds received from refinancing tobacco bonds. The FY2015 enacted budget assumed \$20.0 million in proceeds would be received in FY2015. Of the funds, \$10.0 million was expected to be deposited into the Information Technology Investment Fund (ITIF); \$5.0 million was to be deposited into the Municipal Road and Bridge Fund; and, \$5.0 million was to be absorbed into the General Fund.

The actual refinancing yielded \$36.3 million in proceeds. The Governor proposes using \$19.0 million of the proceeds to close the deficit in the General Fund in FY2016; \$5.0 million for the General Fund in FY2015; \$5.0 million for the Municipal Road and Bridge Fund; and, \$7.3 million for the Information Technology Investment Fund. This proposal reduces the FY2015 allocation to the ITIF by \$2.7 million from what was estimated in the FY2015 Budget as Enacted.

### FISCAL IMPACT

The Governor recommends appropriating \$19.0 million of this one-time revenue source as general revenue in FY2016. The Governor does not specify the use of these funds. The proposal will decrease funds to the ITIF by \$2.7 million in FY2015.

### ANALYSIS AND BACKGROUND

The FY2015 Budget as Enacted appropriated \$20.0 million in proceeds anticipated to be received in FY2015 from refinancing tobacco bonds. These bonds were issued by the Tobacco Settlement Financing Corporation (TSFC) in anticipation of settlement payments the State receives from various tobacco companies each year. Recently, the TSFC issued new debt of \$620.9 million to refund and refinance previously issued bonds. The transactions resulted in \$36.3 million in proceeds, though only \$20.0 million was included in the FY2015 Budget as Enacted.

The Governor proposes allocating \$19.0 million of the increased proceeds to the General Fund in FY2016 for unspecified use. The Governor reduces the FY2015 allocation to the ITIF to \$7.3 million, a reduction of \$2.7 million which is shifted to the general fund.

Agency	Reallocation of Tobacco Bond Refinancing Proceeds		
	FY2015 Enacted	FY2015 Governor	FY2016 Governor
General Fund	\$5.0	\$5.0	\$19.0
Information Technology Investment Fund*	10.0	7.3	-
Municipal Road & Bridge Fund (Clean Water Finance Agency)	5.0	5.0	-
<b>Total</b>	<b>\$20.0</b>	<b>\$17.3</b>	<b>\$19.0</b>

\$ in millions

\*Amount was based on an estimated balance of funds from available bond proceeds.

**Information Technology Investment Fund:** The General Assembly established the ITIF restricted receipt in 2014 for acquisition of technology improvements including, but not limited to, hardware, software, consulting services, and ongoing maintenance and upgrade contracts. All proceeds from the sale of state land and building, 10.0 percent of revenues from E-911 Uniform Emergency Telephone System surcharges, and money received from sales or disposal of IT equipment are deposited into the fund. In the FY2015 Budget as Enacted, the General Assembly included an estimated \$10.0 million of one-time tobacco bond refinancing proceeds for the Fund.

**Municipal Road and Bridge Fund:** The FY2014 Budget as Enacted established the Municipal Road and Bridge Revolving Fund. Loans began in FY2014, and future capitalizations combined with the revolved funds allow state-sponsored financing on an ongoing basis. This fund is administered by the Rhode Island Clean Water Finance Agency (CWFA). Applications are submitted to the Rhode Island Department of Transportation (RIDOT), based on regulations development by RIDOT. RIDOT uses a project priority list to rank projects based on 6 criteria:

- The extent to which the project generates economic benefits.
- The extent to which the project would be able to proceed at an earlier date.
- The likelihood the project will provide mobility benefits.
- The cost effectiveness of the project.
- The likelihood that the project will increase safety.
- The readiness of the project to proceed during the next calendar year.

## Article 13: Relating to Restricted Receipt Accounts

This article exempts two new and four existing restricted receipt accounts from the 10.0 percent indirect cost recovery provisions under RIGL 35-4-27. The proposed exemptions would impact the “Miscellaneous Donations/Grants from Non-Profits” account and the “State Loan Repayment Match” account in the Department of Health; the “Rhode Island Health Benefits Exchange” account in the Department of Administration; the “Defined Contribution – Administration - RR” account in General Treasury; the “Rhode Island Judiciary Technology Surcharge” account in Judiciary; and, the “Davies – National School Breakfast and Lunch Program” account in the Department of Elementary and Secondary Education.

### FISCAL IMPACT

This article exempts approximately \$7.2 million in potential FY2016 revenues from the indirect cost recovery provisions, thereby reducing general revenue receipts by approximately \$717,175. The bulk of the funds are associated with the proposed Rhode Island Health Benefit Exchange account.

Three of the accounts, State Loan Repayment Match, the RI Judiciary Technology Surcharge account, and the Defined Contribution – Administration – RR Account, are already treated as exempt accounts but needed the change in statute to match the law with current practice. The Miscellaneous Donations/Grants from Non-profits account in the Department of Health and the Rhode Island Health Benefits Exchange Account are proposed accounts and therefore, have no funds yet dedicated towards the accounts.

According to the Budget Office, the Davies – National School Breakfast and Lunch Program account is the only account that currently levies the indirect cost recovery surcharge.

*Analyst’s Note: Exempting the Davies account would reduce general revenue collections by an estimated \$32,000 in FY2016. This is not reflected in the proposed revenue changes in the Governor’s budget.*

### ANALYSIS AND BACKGROUND

**Miscellaneous Donations/Grants from Non-Profits:** This is a new account proposed to capture all private grant funds the Department of Health receives to support specific activities. Previously, when the Department received these donations and grants, the funds were deposited as general revenues across a number of accounts. The fiscal impact of this proposal is indeterminable at this time, because the Department does not presently have donations to place into the account.

**State Loan Repayment Match:** This is an existing account in the Department of Health used to support the repayment of student loans for healthcare professionals that meet certain criteria. The Department receives donations from various sources including non-profit organizations to support this action, such as the RI Foundation, Delta Dental of Rhode Island Fund, and United Healthcare Community Plan, Passage of this article would forgo general revenue collections by approximately \$17,500.

**Rhode Island Health Benefits Exchange Account:** This is a new account established in the Department of Administration to fund personnel and operations of the Health Benefits Exchange (HealthSource RI). The Governor proposes to impose a Health Reform Assessment on health insurance carriers (Article 29) and use the proceeds to finance the HealthSource RI personnel and operations. Passage of this article would forgo general revenue collections by approximately \$618,056.

**The Defined Contribution – Administration – RR Account:** This account was established as a separate account in the Office of the General Treasury to administer the Defined Contribution Program. Under Internal Revenue Service regulations, the Defined Contribution Program must be separate from the Employees’ Retirement System and, therefore, cannot be funded through the State Retirement Trust. Funds received into this account are generated by the \$8.00 participant fee charged to approximately

31,090 state and municipal employees. The fee is collected by TIAA-CREF and transferred to the restricted receipt account. Passage of this article would forgo general revenue collections by approximately \$31,620.

**Rhode Island Judiciary Technology Surcharge Account:** This restricted receipt account was established by P. L. 2014 Chapter 34 and 42 for the purpose of collecting a new \$25.00 technology surcharge for each case filed in the state court system. The fees collected are used by the Judiciary in support of its technology infrastructure and case management system. Passage of this article would forgo general revenue collections by approximately \$18,000.

**Davies – National School Breakfast and Lunch Program:** This is an existing program under the Department of Elementary and Secondary Education. The Davies Career and Technical School receives federal funds from the United States Department of Agriculture to cover the annual operating and maintenance costs associated with the breakfast and lunch program at Davies. The federal Office of Management and Budget circular (OMB Circular A-87 revised May 2004) prohibits an indirect cost recovery charge on the federal funds if the charge does not directly benefit the school breakfast and lunch program. Passage of this article would forgo general revenue collections by approximately \$32,000.

## Article 14: Relating to State Budget

This article makes a number of changes to the state budget and revenue and caseload estimating processes, including: extends the Governor’s budget submission dates by one month; changes the revenue estimating processes and adds a “legislative economist” to the process, replacing House and Senate finance staff input; removes cash assistance caseloads and associated expenditures from the caseload estimating process; adds a third revenue and caseload estimating conference in February; bypasses the requirement that excess revenues from FY2014 be transferred to the State retirement fund; and, allows that future transfers of excess revenues to the retirement fund be subject to an evaluation by the director of the Office of Management and Budget who may nullify a transfer if there is a projected deficit in the current budget year.

### FISCAL IMPACT

The FY2015 Supplement Budget includes \$13.8 million in general revenue expenditure savings to reflect the removal of the requirement to transfer excess FY2014 revenues to the State retirement fund. The transfer is scheduled to take place in FY2015.

### ANALYSIS AND BACKGROUND

The article makes a number of changes to the state budget process:

#### **Revenue Transfer to State Retirement Fund**

The FY2008 Budget as Enacted required the transfer of general revenue receipts in excess of adopted estimates to the Employees’ Retirement System of Rhode Island (ERSRI). The transfer occurs regardless of whether general revenue expenditures exceed budgeted amounts for the fiscal year. The State Controller, upon closing the fiscal year, determines the amount of the required transfer to the retirement fund.

The Governor’s proposal stipulates that no transfer would occur in FY2015 (FY2014 revenues), saving \$13.8 million in general revenue expenditures in the current year. Actual revenues exceeded estimated collections by \$14.2 million; however, 3.0 percent is required to be transferred to the rainy day fund. The Budget makes the required rainy day fund transfer but reflects the net savings by not making the retirement fund transfer.

#### **Transfers to ERSRI from General Fund Excess Revenue**

<b>Fiscal Year</b>	<b>Amount of Transfer</b>
2008	\$0.0
2009	\$0.0
2010	\$0.0
2011	\$0.0
2012	\$12.9
2013	\$0.2
2014*	\$13.8
<b>Total</b>	<b>\$26.9</b>

*\$ in millions*

*\* Not yet transferred*

Future transfers would be subject to a “determination by the director of the Office of Management and Budget that there is no projected deficit in the current fiscal year.”

#### **Budget Submission Requirements**

The Governor proposes to amend the date when the budget is required to be submitted to the General Assembly. Current law requires that the Governor submit the Budget on or before the third Thursday in January, except in cases of a newly inaugurated Governor, when the date is the first Thursday in February.

The proposal moves the requirement to the third Thursday in February, except in cases of a newly inaugurated Governor, when the date is the second Thursday in March. Of note, budget submission deadlines have been statutorily extended six times since 2005, including this year, when the deadline was extended to March 12, 2015.

**Revenue and Caseload Estimating Conference Processes**

The proposal makes a number of changes to the Revenue and Caseload Estimating Conferences processes, including adding a third required conference in February. The Revenue Estimating Conference (REC) and Caseload Estimating Conference (CEC) provide the Governor and the General Assembly with adopted consensus estimates of general revenue collections and Medicaid and cash assistance costs. The general revenue budget must balance based on the most recent REC estimates, plus any legislative adjustments included in the Budget. The CEC estimates caseloads and funding for entitlement programs for which funding is mandated by statute rather than at the discretion of state lawmakers. The Governor’s proposals must incorporate November conference changes, while the budgets adopted by the General Assembly must balance based on May conference results. Principals of the Conferences include the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Two conferences are currently required by law (November and May), however, any principal may convene a conference at any time.

**Revenue Estimating Conference**

This article makes the following changes to the semi-annual Revenue Estimating Conference:

- Current law provides that departmental testimony related to conference estimates is required, if requested by the REC chair. The proposal eliminates the requirement for state departments and agencies to participate.
- Currently economic testimony and an economic forecast are provided by contracted economists. The proposal would require the Department of Revenue and a “legislative economist” (currently nonexistent) to develop or obtain an economic forecast and develop revenue estimates.
- Instead of preparing three discrete revenue estimates and debating and adopting a consensus estimate, REC principals would “reconcile” the estimates of the Department of Revenue and the legislative economist. The reconciliation definition and process are not provided.
- The Governor’s budget proposal adds a third REC/CEC that would convene in the first ten days of February each year.
- The legislation removes language requiring that the chair of the conferences provide staff support for the conferences.

*Analyst Note: Under the current REC process, Rhode Island is one of 13 states that meet 5 out of 5 criteria for “best revenue forecasting practices”.<sup>1</sup> In a study of median revenue estimating error rates between 1987 and 2009, Rhode Island ranked 8<sup>th</sup> best nationally under current practices.<sup>2</sup>*

**Caseload Estimating Conference**

This article makes the following changes to the semi-annual Caseload Estimating Conference:

- The article removes the estimating of cash assistance expenditures from the Caseload Estimating Conference (CEC). The CEC currently estimates expenditures for the following cash programs:

<b>FY2016 Cash Assistance Estimates</b>	<b>General Revenue</b>	<b>All Funds</b>
TANF	-	\$33.3
Child Care Subsidies	9.7	55.3
SSI - State Supplement	18.7	18.7
General Public Assistance	1.4	-
<b>Total Cost</b>	<b>\$29.8</b>	<b>\$107.3</b>

*\$ in millions*

The Governor maintains that, given the decreased appropriation of general revenue to cash assistance programs, these programs are more appropriately budgeted through the standard budget process rather than through the CEC.

<sup>1</sup> “Improving State Revenue Forecasting: Best Practices for a More Trusted and Reliable Revenue Estimate.” Elizabeth C. McNichol. Center on Budget and Policy Priorities. August 7, 2014.

<sup>2</sup> “States’ Revenue Estimating: Cracks in the Crystal Ball.” Pew Center on States / The Nelson A. Rockefeller Institute of Government. March 2011.

- The article also changes the process for reaching consensus estimates for the Medical Assistance program (Medicaid). Currently, the Executive Office of Health and Human Services (OHHS) begins the CEC with testimony regarding current and anticipated program costs. The CEC concludes in a second public meeting with the principals offering proposed estimates for each program, discussing each proposed estimate and reaching consensus based upon that discussion.

This article changes the current process. Under the article, the CEC begins as customary with Department’s public testimony, followed by the formulation of “provisional” consensus estimates by analysts from the Senate Fiscal Office, House Fiscal Staff, and State Budget Office in consultation with OHHS. The CEC concludes with a second public meeting in which the principals adopt final estimates after considering the provisional estimates and taking into account any objections to these estimates presented by OHHS.

The new process, therefore, will allow for discussion and provisional consensus outside of public meetings. It will also allow OHHS a voice in the continued development of consensus estimates, rather than providing testimony at the commencement of the CEC.

The CEC currently estimates expenditures for the following medical assistance programs:

- The article eliminates the ability of principals to call an interim CEC Impact Meeting; however, the ability to call an interim REC remains unchanged.

<b>FY2016 Medical Assistance Estimates</b>	<b>General Revenue</b>	<b>All Funds</b>
Hospitals	\$109.7	\$218.8
Long-Term Care	132.4	266.6
Managed Care	461.4	961.4
Pharmacy	54.9	56.0
Other Medical Services	46.2	117.6
Integrated Care	144.2	290.1
Medicaid Expansion	-	547.1
<b>Total Cost</b>	<b>\$948.7</b>	<b>\$2,457.7</b>

*\$ in millions*

**Other Changes**

- The legislation strikes language that required a feasibility study to be conducted to evaluate the benefits of adopting a two-year budget cycle. This was required by January 2, 1994, and is outdated language in the law.
- The article removes references to past years in which the Governor was granted a budget submission deadline extension.

## Article 15: Relating to Local Agriculture and Seafood Act

This article increases the commercial feed registration fee from \$60 to \$100 per year and requires the \$40 increase be restricted to fund the local agriculture and seafood grant program.

### FISCAL IMPACT

The Budget Office projects that the fee increase will generate an additional \$300,000 per year, netting \$270,000 for the program after the 10.0 percent indirect cost recovery. The FY2016 Budget includes \$100,000 in restricted receipts to support program, as that is the amount the Department expects to spend in FY2016.

### ANALYSIS AND BACKGROUND

This article increases the annual commercial feed registration fee from \$60 to \$100 and requires the \$40 increase be restricted to fund the local agriculture and seafood grant program. Current law provides a \$20,000 cap on individual grants disbursed through the program. The article increases that cap to 10.0 percent of the total yearly funding available from all sources, including federal, state, local agencies, private foundations, and private donors, or \$20,000, whichever is greater.

Current Annual Commercial Feed Registration Fees						
State	CT	NH	MA	ME	RI <sup>1</sup>	VT
Amount	\$80	\$75	\$100	\$80	\$60	\$85

<sup>1</sup> Article 15 increases fee to \$100.

Source: Rhode Island Budget Office

The Budget Office projects that the fee increase will generate an additional \$300,000 per year, from about 7,500 filers. "Commercial feed" refers to all materials except whole seeds unmixed or physically altered entire unmixed seeds, which are distributed for use as feed or for mixing in feed.

The Local Agriculture and Seafood Grant program was established to support the growth, development, and marketing of local food and seafood within Rhode Island. The program was launched in FY2014 and is co-administered by the Division of Agriculture, within the Rhode Island Department of Environmental Management, and the Rhode Island Food Policy Council. Grants are awarded through a competitive process open to farmers, fishermen/women, non-profits, and producer groups based in Rhode Island. The grants are awarded based on the following priorities:

1. Projects that support the growth and sustainability of small or beginning agriculture producers (including aquaculture) and fishermen/women.
2. Projects that foster new collaborations or share new information among Rhode Island food businesses, organizations, or enterprises.
3. Projects that support new products or new sales channels with clearly defined markets.

In FY2014, 92 applicants totaling \$1.5 million in requests competed for \$210,000 in available funding. 17 grants were awarded to farmers and fishermen/women across the State in amounts ranging from \$5,000 for materials used to increase the oyster harvest to \$19,840 for the Young Farmer Network to develop a short courses curriculum and enhance outreach efforts. DEM and RI Seafood Marketing Collaboration were awarded \$20,000 for a statewide seafood branding and marketing campaign. The grant awards for FY2015 will be announced in late April or early May.

The increased funding would allow for more grant awards to assist in marketing local agricultural products and seafood, enhancing the economic competitiveness of Rhode Island products, providing financial and technical assistance for programs that enhance the development of a locally-based, safe, and sustainable food system.

## Article 16: Relating to Bays, Rivers and Watersheds

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This article eliminates the Bay, Rivers, and Watersheds Coordination Team and creates the Bays, Rivers and Watersheds Fund, a restricted receipt account within the Department of Environmental Management (DEM). DEM is empowered to use the funds to further the purposes of The Comprehensive Watershed and Marine Monitoring Act of 2004, Water Pollution, and the Resilient Rhode Island Act of 2014 – Climate Change Coordination Council, subject to appropriation by the General Assembly. The article further expands The Comprehensive Watershed and Marine Monitoring Act of 2004 to include freshwater habitats and environmental problems that may arise from climate change.

### FISCAL IMPACT

The proposed budget does not specify savings or reduce the Department's FTE cap. Information provided by the Budget Office, however, states that, as a result of this article, 2.0 FTE positions associated the BRWCT will be eliminated and responsibilities associated with this article will be performed by full-time employees in DEM, resulting in the shift of some personnel costs from general revenue to restricted receipts.

### ANALYSIS AND BACKGROUND

This article repeals the enabling statute for the Rhode Island Bays, Rivers, and Watersheds Coordination Team (BRWCT) and creates the Bays, Rivers and Watersheds Fund (BRWF), a restricted receipt account within DEM. The use of the restricted receipt account is limited to the purposes of The Comprehensive Watershed and Marine Monitoring Act (RIGL 46-23.2-1); Water Pollution (RIGL 46-12); and, the Resilient Rhode Island Act of 2014 – Climate Change Coordination Council (RIGL 46-6.2).

The BRWCT was established in 2004, pursuant to RIGL 46-31-3, to coordinate the development and implementation of system-level policies and plans for the management, preservation, restoration, and monitoring of the bays, rivers, and watersheds; and to promote sustainable economic development of businesses that rely directly or indirectly on the bays, rivers, and watersheds. The BRWCT is funded with receipts from septage disposal fees, totaling about \$400,000 annually, collected pursuant to RIGL 46-12.11. A disposal fee of \$1.00 per every 100 gallons of septage delivered to a disposal facility is paid by septage transporters and collected by disposal facility operators. In addition, an annual distribution of \$250,000 from the Oil Spill Prevention, Administration, and Response (OSPAR) Fund, provided pursuant to RIGL 46-12.7-13, is provided to the BRWCT. The OSPAR Fund is supported by a fee of \$0.05 per barrel of petroleum brought into Narragansett Bay. The article would require all these funds to be deposited into the BRWF restricted receipt account and would transfer the responsibility for research, development, and monitoring of marine pollution associated with the OSPAR funds to DEM. The article also extends the period for the Rhode Island environmental monitoring collaborative to review and update the statewide monitoring strategy from three to five years: the BRWCT is not a member of this collaborative.

The FY2015 Annual Work Plan for the BRWCT reports that the funds allocated to the team are used for operating expenses for the Office of the Chair totaling \$246,453, including \$242,703 in personnel costs for 2.0 FTE positions. An additional \$20,500 is budgeted for three advisory committees including the RI Environmental Monitoring Collaborative (\$15,000), Integrated Stormwater and Wastewater Management Planning (\$5,000), and the Narragansett Bay Science Advisory Committee (\$500). The work plan provides a total of \$890,000 in project funding to support the five systems level plan (SLP) priorities that have formed the basis of the BRWCT work plan since FY2013. The priority areas include:

- Manage stormwater
- Sustain baseline water monitoring programs and databases

- Sustain and advance Rhode Island's maritime ports and economic sectors
- Foster climate resiliency
- Conduct science for estuarine and ocean management

The article would eliminate the Office of the Chair and allow DEM to use the funds for the purposes enumerated in the following statutes:

- The Comprehensive Watershed and Marine Monitoring Act, as amended to extend to freshwater habitats and environmental monitoring, instead of only marine habitats and monitoring
- Water Pollution
- The Resilient Rhode Island Act of 2014 – Climate Change Coordination Council

The BRWCT was established within the Office of the Governor; however, the offices of the chair and the budget of the coordination team are currently located within DEM. The chair is selected from outside the member agencies and appointed by the Governor, with the advice and consent of the Senate. The BRWCT consists of representatives from the Department of Environmental Management (DEM), the Water Resources Board, the Rhode Island Rivers Council, the Rhode Island Commerce Corporation, the Narragansett Bay Commission, the Coastal Resources Management Council, and the Division of Planning. Instead of making decisions about the use of funds through the team, the article would empower the Director of DEM to decide how the funds are used, within the delineated purposes and subject to appropriation by the General Assembly.

## Article 17: Relating to Department of Children, Youth, & Families

This article permits the director of the Department of Children, Youth, and Families (DCYF) to reallocate funding among existing department programs through June 30, 2017, despite appropriations limits in the annual budget. This may include, but is not limited to expanding unspecified innovation and performance-based contracting. Additionally, if approved by the Office of Management and Budget, DCYF may, without legislative approval, reinvest savings achieved through its own fiscal controls in technology, infrastructure, and other related services through June 30, 2017.

### FISCAL IMPACT

There is no direct fiscal impact in FY2016 associated with this article.

### ANALYSIS AND BACKGROUND

Although the director of DCYF is not explicitly directed to do so within the article, these changes would provide the director greater flexibility in funding operations, services, and activities associated with the System of Care (SOC) networks.

#### *System of Care*

In 2012, DCYF entered into three-year agreements with two independent, non-profit organizations (Ocean State Network (OSN) and Rhode Island Care Management Network (RICMN)) to form the SOC networks. Under the terms set forth in the contracts, each network coordinates placements and contracts independently with service providers for certain youth involved with DCYF. This shifted the majority of case management and financial responsibility associated with most youth in community-based placements and residential treatment from DCYF to the lead agencies. The network contracts are set to expire at the end of FY2015, and DCYF is currently in negotiations to determine whether or not the contracts will be extended.

The initial contract awarded in 2012 totaled \$71.3 million annually and was to be split evenly between the two networks each year for three years (or \$35.7 million per network, per year). However, each year since the inception of the SOC networks, the networks have incurred deficits and were provided additional funds to offset increased costs of care as caseloads for high-cost residential placements exceeded projections used to build the initial SOC contracts.

	<b>SOC Contract</b>	<b>FY2013 Final</b>	<b>FY2014 Final</b>	<b>FY2015 Governor</b>	<b>3-year Difference Contract vs. Final/Gov</b>
<b>OSN</b>	\$35.7	\$37.5	\$40.9	\$42.6	(\$14.0)
<b>RICMN</b>	35.7	36.3	\$38.5	39.3	(7.0)
<b>Total</b>	<b>\$71.4</b>	<b>\$73.8</b>	<b>\$79.5</b>	<b>\$81.9</b>	<b>(\$21.0)</b>

*\$ in millions. Totals may vary due to rounding.*

For FY2015, the Governor proposes to increase total funding for the System of Care networks by \$10.1 million in general revenue from the enacted level to offset increased network costs as caseloads for residential placements continue to exceed initial projections. For FY2016, however, the Governor returns funding to the FY2015 Enacted level. At the date of this publication is it unknown whether or not the contracts with OSN and RICMN will be renewed beginning in FY2016, and if so, at what funding level. Assuming the networks continue to contract with DCYF in FY2016, this article provides DCYF the authority to reallocate funding from other programs and services to the SOC networks.

**DCYF Programs**

In addition to the SOC contracts, funding allocated to DCYF supports a number of programs, including foster care, adoption services, tuition assistance for former foster care youth, and juvenile corrections. The table below portrays the funding allocated from all sources at the program level within DCYF:

<b>DCYF Programs</b>	<b>FY2014 Final</b>	<b>FY2015 Enacted</b>	<b>FY2015 Governor</b>	<b>FY2016 Governor</b>
Central Management	\$7.9	\$6.9	\$8.2	\$7.9
Child Welfare	173.3	166.1	178.6	168.6
<i>System of Care Network Contracts</i>	<i>79.5</i>	<i>71.8</i>	<i>81.9</i>	<i>72.6</i>
Children's Behavioral Health Services	11.9	13.0	13.1	10.3
Higher Education Incentive Grants	0.2	0.2	0.2	0.2
Juvenile Correctional Services	26.3	24.4	26.5	25.9
<b>Total</b>	<b>\$219.7</b>	<b>\$210.6</b>	<b>\$226.7</b>	<b>\$212.8</b>

*\$ in millions. Funding from all sources.*

## Article 18: Relating to Division of Advocacy

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This article consolidates the four advocacy agencies (Governor's Commission on Disabilities, the Commission on the Deaf and Hard of Hearing, the Office of the Mental Health Advocate, and the Office of the Child Advocate) into a single, new Division of Advocacy within the Executive Office of Health and Human Services.

### FISCAL IMPACT

This consolidation is for administrative purposes only and is anticipated to result in operational efficiencies over time. The Governor's budget transfers 17.0 FTE positions, along with current services funding, from the four agencies to the Executive Office.

The Budget Office anticipates that, through this consolidation, overlaps in administrative functions, including purchasing, finance, and grant administration, will be identified. Future turnover among FTE positions will allow for the Secretariat to reevaluate personnel needs of the consolidated Division.

### ANALYSIS AND BACKGROUND

**The Governor's Commission on Disabilities** advocates for people with disabilities, expands economic opportunities for businesses owned by or employing people with disabilities and their families, and ensures that people with disabilities have access to government. The Commission is responsible for coordinating compliance by state agencies with federal and State disability rights laws.

**The Office of the Mental Health Advocate (OMHA)** ensures the legal, civil, and special rights of people with mental illness in Rhode Island. This includes providing legal representation at involuntary commitment proceedings, monitoring procedures and policies at in-patient treatment facilities and community-based mental health programs, proposing and evaluating legislation, and litigating civil rights and treatment rights disputes. The Office also advocates for improvements in the mental health system by monitoring and evaluating the quality of services available to clients of the mental health system. The Office seeks to close gaps in the services and programs administered by mental health providers including shortcomings in service related to emergency hospitalizations, psychiatric care for prison inmates, and homelessness among individuals with chronic serious mental illness.

**The Office of the Child Advocate (OCA)** protects the legal, civil, and special rights of all children and youth involved in the care of the Department of Children, Youth and Families (DCYF). The Office strives to improve conditions and circumstances through monitoring, compliance, and advocacy. It seeks to prevent child abuse by scrutinizing the manner in which the State protects and cares for children by examining system-wide issues and by taking any necessary action to protect the rights of children in DCYF care.

**The Commission on the Deaf and Hard of Hearing (CDHH)** advocates and coordinates the promotion of an environment in which deaf and hard of hearing persons in Rhode Island are afforded equal opportunity in all aspects of their lives. The CDHH develops policy and recommends programs and legislation to enhance cooperation and coordination among agencies and organizations that now serve, or have the potential to serve, the deaf and hard of hearing. CDHH's budget reflects its extensive use of contracted interpreters and translators, including staff for public hearings. According to the Budget Office, this use of contract staff continues to be more cost-effective than hiring in-house state employees to fulfill this role.

## Article 19: Relating to Consolidation of Department of Health Boards

This article consolidates 25 non-prescribing health professional boards into a single board to streamline processes associated with Department of Health (DOH) health professional licensing. This article also renames the Division of Professional Regulation the Division of Professional Regulation and Licensing.

### FISCAL IMPACT

The Governor eliminates 2.0 FTE positions responsible for staffing existing health professional boards, and as a result, assumes approximately \$200,000 in general revenue savings for FY2016.

### ANALYSIS AND BACKGROUND

The Governor consolidates a majority of the non-prescribing health professional boards overseen by DOH into one new board, the Health Professions Board of Review, which will convene a minimum of six times per year. The Governor excludes from consolidation the Board of Pharmacy, Optometrists, and Emergency Medical Services (EMS) due to their ability to distribute prescribed medications. Sanitarians and nursing assistants are also excluded as no professional board exists for either profession.

The board will be chaired by the Director of Health and comprised of 10 additional members appointed by the Governor, based upon recommendations provided by the Director of Health. The article also defines the appointment terms of each member, which vary between members. The Governor also specifies that the new board will be comprised of four professionals licensed in any of the professions for which the board oversees, three members of the general public, and three professionals from the healthcare industry. Currently, health professionals from each category impacted by this consolidation have at least one member of its board that is a practitioner of that art, science, or calling. The article requires the director to designate non-voting technical experts to the board for each profession impacted by this proposal on an as-needed basis.

This board will be responsible for disciplining health professionals and appeals of disciplinary actions, and may also serve in an advisory capacity to the Director of Health, similar to the responsibilities tasked to the 25 existing boards. Given the current number of licenses issued by DOH for these professions, this consolidation would impact nearly 30,000 licensees. The table included provides an overview by category of profession the types of licensees that will be impacted by this proposal.

Under current statute, licenses are approved by individual boards and then processed

<b>Professions by Category</b>	<b># of Licenses</b>
Cosmetology/Barbering	13,064
Social Work	2,313
Physical Therapy	1,981
Radiologic Technology	1,855
Clinical Laboratory Science	1,220
Occupational Therapy	1,174
Massage	1,061
Psychology	843
Speech Language Path./Audio	727
Marriage & Fam. Ther./Mental Health Counselor	665
Respiratory Care	571
Optometry	539
Dietitian/Nutritionist	448
Chemical Dependency Profession	393
Embalming/Funeral Directing	347
Chiropractic	253
Nursing Home Administrator	218
Athletic Trainer	190
Assisted Living Residence	188
Electrology	104
Interpreters for the Deaf	67
Hearing Aid Dealers	43
Prosthetist/Orthotist	41
<b>Total</b>	<b>28,305</b>

**Source: Department of Health**

through DOH. However, under current practice, some boards have tasked DOH with routine license approval, and report to the health professional board the number and type of licenses issued when the individual board convenes.

The Governor's proposal codifies this practice in law and requires DOH to approve routine licenses and requires the new Health Professions Board of Review to oversee license denial appeals and discipline.

According to DOH, the change in the name of the Division of Professional Regulation to the Division of Professional Regulation and Licensing clarifies that the Division makes all final determinations regarding licensing and disciplinary actions. No substantive changes to the Divisions' current practices are anticipated.

## Article 20: Relating to Professional Licenses

This article eliminates licensing requirements for 32 professional licenses issued by the Department of Business Regulation (DBR), Department of Health (DOH), Department of Elementary and Secondary Education (RIDE), and the Department of Environmental Management (DEM).

### FISCAL IMPACT

Eliminating the licensing and associated fees reduces revenues by \$365,906 in FY2016 and \$218,051 in FY2017. The difference in revenue between fiscal years is attributable to the biennial renewal schedule of some professional licenses issued by the Department of Health.

### ANALYSIS AND BACKGROUND

Based upon the results of a review conducted by the Office of Regulatory Reform (ORR), this article eliminates licensing requirements for 32 professional licenses issued by DBR, DOH, RIDE, and DEM. This proposal is part of a larger effort undertaken by ORR to repeal unnecessary, duplicative, or burdensome regulatory requirements.

ORR worked with these agencies to identify which professional licenses are burdensome, unnecessary due to other requirements that demonstrate professional competence, if there were a small number of license holders, or whether the occupation is licensed in Connecticut and Massachusetts.

With the exception of RIDE, agencies impacted by this proposal, may perform additional inspections or services for these licensees, however, some of these inspections or other services assess a separate fee. This is the case with barber apprentices, demonstrators, and instructors who may be employed in a barber shop, which is regulated, licensed, and assessed a fee (\$170.00) separately from the individuals impacted by these proposals. In the case of the lifeguard license within DEM, the \$10.00 fee is insufficient to provide for the cost of training required to obtain licensure, and according to ORR, DEM will no longer be required to provide these training services under this initiative. Instead, those seeking to become lifeguards can obtain certification from outside, independent organizations such as the American Red Cross and local YMCAs (such is the case in Massachusetts). In addition, some of the licensees who work in facilities that may require inspection, administrative support, or other services from departments will still be required to

Agency/License Type	Resident Licensing Fee
<i>DOH</i>	
Acupuncture Assistant	\$310
Athletic Trainer	60
Audiologist Support Person	50
Barber Apprentice	50
Barber Demonstrator's Permit	N/A
Barber Instructor	25
Electrologist Apprentice	50
Electrologist Instructor	25
Esthetician Demonstrator's Permit	N/A
Esthetician Instructor	25
Hairdresser/Cosmetologist Demonstrator's Permit	N/A
Hairdresser/Cosmetologist Instructor	25
Manicurist Demonstrator's Permit	N/A
Manicurist Instructor	25
Clinical Histologic Technician	60
Clinical Laboratory Scientist	60
Clinical Laboratory Technician	60
Cytotechnologist	75
Music Therapist	90
Occupational Therapist Assistant	140
Orthotist	120
Physical Therapist Assistant	50
Prosthetist	120
Radiologist Assistant	85
Sanitarian	25
Speech-Language Pathologist Support Person	50 late fee
<i>DBR</i>	
Auctioneer/Auctioneer Apprentice	600/75
Professional Kickboxer	N/A
Line Cleaner	50
<i>DEM</i>	
Fur Buyer	10
Lifeguard	10
<i>RIDE</i>	
Athletic Coach Permit	100

work under a licensed professional. For example, within DOH, barber and electrologist apprentices work under the guidance and supervision of licensed barbers and electrologists, whose licensure requirements are not eliminated by the Governor's proposal.

*Analyst's Note: According to ORR, this assessment was a collaborative process in which agencies and ORR achieved consensus on eliminating each of the aforementioned licensure types. Additionally, ORR requested agencies determine what staffing, if any, was responsible for licensure of the impacted professions to determine whether or not FTE positions could be eliminated entirely, or reallocated to staff other functions within the departments (specifically to other licensing or regulatory functions). However, ORR was unable to collect this data from DEM, RIDE, DBR, and DOH.*

Of the 32 licenses included in the Governor's proposal, 9 (line cleaners, lifeguards, clinical laboratory scientists, cytotechnologists, clinical laboratory technicians, clinical histologic technicians, music therapists, orthotists, and prosthetists) are not licensed in Connecticut or Massachusetts.

## Article 21: Relating to Transportation

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This article suspends the transfer of certain motor vehicle-related fees into the Rhode Island Highway Maintenance Account (HMA) for FY2016 only. Fees assessed pursuant to 31-47.1-11, and chapters 3, 6, 10, and 10.1 of title 31 were to be deposited into the HMA, as follows: 25.0 percent in FY2016, 75.0 percent in FY2017, and 100.0 percent in FY2018. This article suspends the 25.0 percent transfer in FY2016, but does not alter the transfers in later years. Under Article 1, the Governor proposes to use \$20.0 million of additional Rhode Island Capital Plan funds in lieu of the transferred fees in FY2016. The Rhode Island Public Transit Authority (RIPTA) will receive \$600,000 less than estimated as it receives a percentage of HMA funding.

### FISCAL IMPACT

Article 21 suspends the transfer of 25.0 percent of fees assessed pursuant to § 31-47.1-11 (Motor and Other Vehicles), and Chapter 3 (Registration of Vehicles), Chapter 6 (Registration Fees), Chapter 10 (Operators' and Chauffers' Licenses), and Chapter 10.1 (Special License for Motorcycles, Motor Scooters, and Other Motor Driven Cycles) of title 31, which were to be deposited into the Rhode Island Highway Maintenance Account on a phase-in basis as follows:

- From July 1, 2015, through June 30, 2016, twenty-five percent (25%) will be deposited
- From July 1, 2016, through June 30, 2017, seventy-five percent (75%) will be deposited
- From July 1, 2017, and each year thereafter, one hundred percent (100%) will be deposited

The Governor's proposal would resume the transfers for FY2017.

The suspension of the phase-in results in a revenue loss for the Department estimated at \$13.2 million for FY2016.

*Analyst's Note: The Governor's proposal includes an additional \$20.0 million from Rhode Island Capital funds for transportation projects that can be started in FY2016. This results in net new funds of \$6.8 million in FY2016.*

*The FY2015 Budget as Enacted included a provision that RIPTA would receive 5.0 percent of available proceeds deposited into the HMA. For FY2016, this was estimated to be \$2.7 million; however, due to the suspension of the transfer of 25.0 percent of motor vehicle related fees into the HMA, RIPTA's allocation from the fund is estimated to be \$2.1 million, a decrease of \$600,000.*

### ANALYSIS AND BACKGROUND

The 2014 General Assembly made several changes in the way transportation is funded. The State's gas tax, a declining source of revenue, had been used as the primary source of funds to repay debt costs, as well as all the source of funds for maintenance activities, including winter operations and highway preservation. The General Assembly took the following initiatives to provide additional funding:

- Transfers revenue from inspection stickers, motor vehicle title, and car rental surcharges from the general fund to the Rhode Island Highway Maintenance Account, beginning in FY2015.
- Adjusts the gasoline tax every two years according to the consumer price index to the nearest cent beginning in FY2016; however, the tax cannot go below the current amount of 33 cents per gallon.
- Transfers 3.5 cents of the gasoline tax to the Rhode Island Turnpike and Bridge Authority for operations and debt service in lieu of tolls on the Sakonnet River Bridge.

- Transfers a percentage of the proceeds annually allocated to the Rhode Island Public Transit Authority for operational support.
- Imposes a surcharge of \$25 on all dismissals based upon a good driving record, in addition to the current \$35 administration fee. The additional funds will be deposited into the Rhode Island Highway Maintenance Account.
- Increases the vehicle inspection fee from \$39 to \$55, with the additional revenue directed to the Rhode Island Highway Maintenance Account.
- Phases in the transfer to all vehicle license and registration fees, beginning in FY2016, to the Rhode Island Highway Maintenance Account.
- These changes are expected to result in an additional \$50.0 million for infrastructure projects when fully implemented in FY2018.

## Article 22: Relating to Personnel Reform

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This article amends several statutory provisions pertaining to the State personnel system in an attempt to modernize the system.

### FISCAL IMPACT

Most of the statutory items selected for amendment have no direct savings attached to them. Only the freezing of longevity benefit at the dollar amount has an identified savings amount. Both the retiree medical and non-union medical plan changes will have savings, but the savings is unknown at this time because new rates will need to be established for those impacted by the change.

The Governor proposes to achieve \$22.0 million in savings from personnel reforms. However the Governor anticipates that the most of the savings from personnel reforms will not require legislative action, but require negotiation with the unions related to collective bargaining agreements.

### ANALYSIS AND BACKGROUND

**Personnel/Merit System Reforms:** Section 1 amends RIGL 16-59-22 and transfers all employees who are employed by the State's three institutions of higher education and at the Office of Postsecondary Education, from classified service to non-classified service, and requires all employees of these institutions hired after July 1, 2015, to be employed in the non-classified service. There are approximately 1,322 FTE positions employed by the State's three institutions of higher education that will be transferred from classified service to non-classified service. In addition, these employees will no longer be subject to the personnel rules administered by the State Personnel Administrator or of the State's merit system law, thus eliminating multi-layered personnel procedures and the need for the Council of Postsecondary Education to negotiate with multiple collective bargaining units. The purpose of this is to create uniform employment policies and procedures for all employees within the institutions of higher education. According to the Department of Administration, there is no direct savings anticipated with passage of this section.

However, passage of this act will have an impact on the Employees' Retirement System (ERSRI). Current employees who are transferred from classified service to unclassified service will have the option pursuant to RIGL 16-17.1, to remain in ERSRI, or convert to the higher education retirement system (TIAA-CREF). However, new employees hired into the higher education system after July 1, 2015, will be required to join TIAA-CREF and will not be contributing members into ERSRI. The Department anticipates that most current classified employees will opt to remain in ERSRI. Upper management employees who are relatively new and who are not anticipated to be long term employees are likely to convert from ERSRI to TIAA-CREF.

This article amends RIGL 36-3-10 in section 2 and 36-4-42 in section 3 regarding employee appeals to the State's Personnel Appeal Board. The Personnel Appeal Board hears appeals by any person with provisional, probationary, or permanent status in a position in the classified service aggrieved by an action of the Administrator of Adjudication for the Department of Administration on matters of personnel administration. Passage of this section limits the authority of the Board to reverse or modify actions taken by the Personnel Administrator or appointing authority only to those occasions the appointing authority's action are found to be capricious, arbitrary, or contrary to a rule or law. According to the Department of Administration there is no direct savings anticipated with passage of this section.

Section 3 amends numerous sections of RIGL 36-4 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 Governor's amendments include:

- Adds the director, deputy director, administrative assistant, senior policy analyst a chief strategic planning monitoring and evaluation positions employed under Healthsource RI as state employees in the unclassified service. This item will not impact any collective bargaining agreement.
- Removes the layoff preferences for classified state employees having full status. Current law prohibits the layoff of a classified employee with full status while probationary, provisional, or temporary employees are employed by the appointing authority. Language related to the personnel layoff “bumping” requirements contained in some collective bargaining agreements.
- Amends RIGL 36-4-29 by making the restoration of dismissed promoted employees to their former position optional rather than mandatory, as required under current law. Similar language exists in some of the collective bargaining agreements.
- Eliminates the preferred reemployment list to rehire employees for vacant positions. Similar language exists in some of the collective bargaining agreements.
- Extends the probationary period new and promoted appointments to the classified service from 6 months to 12 months. This will make it easier to dismiss a probationary employee for under performance of service. This item is contained in some of the collective bargaining agreements.

Section 4 creates RIGL 36-4-2.2 to permit the Director of Administration to deem a vacant senior level position unclassified prior to filling the position. Generally these positions are deemed ineligible for union membership because they are managerial or administrative positions. According to the Department of Administration there is no direct savings anticipated with passage of this section.

**Department Directors’ Salaries:** Section 5 repeals RIGL 36-4-16.4, eliminating the 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 6 amends RIGL 36-6-3 and 36-6-5 to allow the Director of the Department of Administration to set the salaries of directors of state departments. The current range of salaries for the various state agency directors is \$94,769 for the State Adjutant General to \$198,900 for the new 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.

**Longevity Savings:** Amends RIGL 36-4-17.2 in section 1 and 36-6-22 in section 6, to freeze longevity payments beginning July 1, 2015, at the dollar amount earned by the employee for the last pay period in June 2015 (June 30, 2015, for union employees) rather than the percentage of salary earned by classified, unclassified, and non-classified employees. The Department of Administration projects an annualized all funds saving of \$977,163 (actual savings in FY2016 is projected at less than \$500,000), but the savings would grow in subsequent years as the longevity dollar value remains a fixed rate.

The table summarizes the number of state employees who receive longevity, the annual cost of longevity, and the projected annual savings if the proposed change to freeze all longevity at a fixed dollar amount and not include it in the base. Of the 6,485 employees detailed in the table, 390 or 6.0 percent have a total base salary rate greater than \$110,000 per year.

	Number of Employees	Annualized Cost of Longevity	Projected Annualized Savings
<b>Affected Employees</b>			
Union Employees	5,022	\$32,976,074	\$659,521
Non-union Employees	1,463	15,882,123	317,642
<b>Total</b>	<b>6,485</b>	<b>\$48,858,197</b>	<b>\$977,163</b>

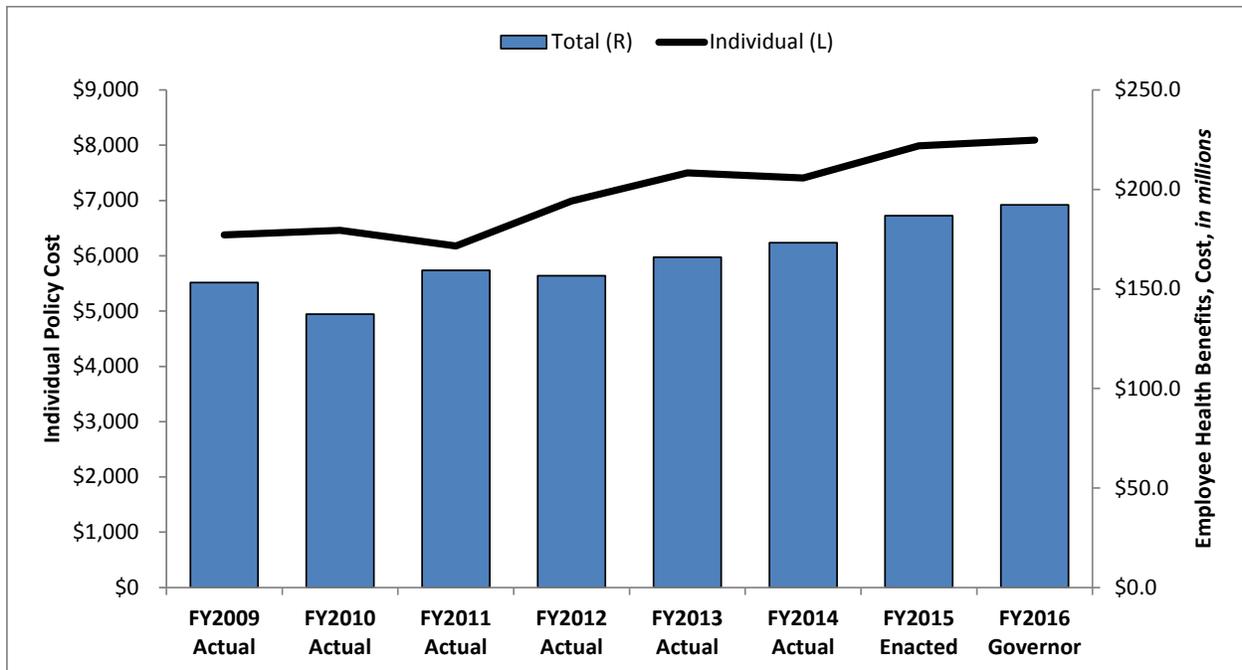
*Analyst's Note: Freezing the longevity amount at the dollar level earned rather than the percentage earned will cause the total compensation to employees to decrease over time, thereby reducing the wage amount available for the calculation of the retirement deduction into the State Retirement Trust and reducing the future pension amount available to the employee upon retirement.*

**Insurance Benefits:** Section 7 eliminates the requirement that non-Medicare eligible retiree health insurance be equivalent to semi-private hospital care, surgical/medical care, and major medical with a \$175 calendar year deductible. This section also eliminates the requirement that non-union state employees receive “substantially equivalent” health benefits as those received by state employees under collective bargaining agreements. Lastly, this section amends RIGL 36-12-2.2 and 36-12-4 to eliminate the requirement that non-Medicare eligible state retirees and state retirees receiving a disability benefit receive the same medical coverage and rates as active state employees.

According to the Department of Administration the proposed changes to the retiree medical and non-union medical plan changes will have savings, but the savings are unknown at this time because new, yet to be determined, rates will need to be established for those impacted by the change.

Rhode Island offers three forms of health benefit coverage to state employees: medical coverage (through UnitedHealthcare), dental coverage (through Delta Dental), and vision coverage (through Vision Service Plan). The plan rates for UnitedHealthcare and Vision Services are determined each fiscal year and are effective every July 1. The plan rates for Delta Dental are determined on a calendar year basis and are effective every January 1.

The FY2016 proposed total employer expenditure for state employee health plan costs is \$192.3 million, of which \$97.8 million is general revenue. This is \$2.6 million higher than the FY2015 Budget as Enacted, and \$6.8 million more than the Governor’s proposed FY2015 Supplemental Budget. Retiree health costs are projected at \$48.4 million in FY2016 (\$31.1 million general revenue). The following chart shows the magnitude of medical costs to the State.



## Article 23: Relating to Corrections

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This article requires correctional officers to qualify with their service weapons every two years instead of every year. The proposed amendment to the current weapons qualification statute states that correctional officers “shall not qualify on an annual basis but instead shall qualify every two (2) years only.”

### FISCAL IMPACT

The Governor includes general revenue savings of \$500,019 in FY2016.

### ANALYSIS AND BACKGROUND

In 2007, the General Assembly amended the weapons qualification statute to require correctional officers qualify with their service weapons every two years instead of the then-current practice of annual weapons qualification, achieving \$500,000 in general revenue savings. The Rhode Island Brotherhood of Correctional Officers (RIBCO) challenged the amendment as a violation of its training requirements under the Collective Bargaining Agreement (CBA), which required annual qualification. The challenge went to arbitration.

The arbitrator ruled that while the amended statute allowed for qualifying every other year, it did not prohibit correctional officers from qualifying every year, thus, finding in favor of RIBCO. The annual weapons qualification requirement was restored, despite two attempts by the Department of Corrections (DOC) to appeal in higher courts.

Based on the aforementioned decisions, the Governor proposes amending the law to clarify the intent of the 2007 amendment to require, and not merely allow for, biennial qualification. Under this article, the statute would read: “All law enforcement officers... will repeat this qualification at periods of not more than one year, except for correctional officers who shall not qualify on an annual basis but instead shall qualify every two (2) years only.”

*Analyst Note: In FY2008, DOC purchased a virtual weapon training simulation program to implement some form of training in the years qualification did not occur. DOC then sought approval from the CBA Training Committee, which oversees the CO training program, to incorporate this simulator into the training program. However, the committee members were unable to reach a decision on whether this system should be implemented in the off years. The deadlock between this four-person committee was the issue that brought the yearly weapons requirement decision to arbitration.*

The FY2015 Budget as Enacted includes \$500,019 in general revenue for the annual Correctional Officer weapons qualification. This includes rental of a firing range, transportation, ammunition for practice and qualifying rounds, and staffing of the range by training personnel.

## Article 24: Relating to Infrastructure Bank

This article renames the Clean Water Finance Agency (CWFA) the Rhode Island Infrastructure Bank (RIIB), and expands the agency's functions to include the administration of a residential and commercial Property Assessed Clean Energy program, as expanded to include commercial properties; a new Efficient Buildings Fund; a potential brownfields revolving fund; and a storm water loan program for private commercial borrowers, consistent with changes to the federal program.

### FISCAL IMPACT

The article has no determinable fiscal impact on the State; however, savings could be realized through increased energy efficiency programs in public buildings and more favorable borrowing rates for projects. The article is also expected to increase jobs in the construction and energy industries.

*Analyst's Note: While the law changes in the article do not have a specific fiscal impact, the Governor provides a one-time transfer to the RIIB in the FY2016 Budget, including \$3.0 million from Regional Greenhouse Gas Initiative (RGGI) proceeds, and \$2.0 million from the Renewable Energy Revolving Funds at the Rhode Island Commerce Corporation: these funds will capitalize the Efficient Buildings Fund. According to the Office of the Treasurer, the \$5.0 million in capitalization will leverage a \$23.0 million program. An additional \$2.0 million in general revenue will be transferred to RIIB for unrestricted use.*

### ANALYSIS AND BACKGROUND

The goals of this article are to centralize management of new and existing green infrastructure financing opportunities; create a marketable brand that maximizes economic growth, job creation, and a better business climate; build upon the CWFA's existing fiscal success; and create a long-term policy framework focused on addressing Rhode Island's energy needs through cost effective and environmentally-conscious policies.

#### **Renewable Energy Development Fund**

Section 6 of the article amends the Renewable Energy Development fund to require the Rhode Island Commerce Corporation to administer the funds in coordination with the Office of Energy Resources and RIIB. The section amends the allowable uses of the fund to add the implementation and support of commercial and residential property assessed clean energy projects.

#### **Property Assessed Clean Energy – Residential Program**

Sections 7 and 8 of the article rename and expand the Property Assessed Clean Energy – Residential Program to include commercial properties. The Property Assessed Clean Energy (PACE) program is a voluntary financing mechanism that allows property owners to access affordable, long-term financing for energy upgrades on their property. The current residential program provides financing for energy upgrades through a special assessment tied to the property. Unlike a loan, when a transfer of ownership of the property takes place, the PACE assessment obligation stays with the property, not the property owner.

In expanding to commercial property owners, the article specifies that a PACE lien on a commercial property is senior to all liens on the property, whether in existence at the time the PACE lien is created or after, "on parity" with a municipal tax lien.

*Analyst's Note: For a commercial property, the order of payout of the PACE lien relative to a municipal lien is unclear from the language in the bill.*

The article also specifies in the legislative findings section of the statute that PACE financing can be used for renewable energy and energy efficiency upgrades including system reliability upgrades, alternative fuel infrastructure upgrades, other environmental, and health and safety upgrades.

In section 10 the article requires RIIB, in consultation with the Office of Energy Resources, to promulgate regulations establishing application requirements, procedures, and project parameters for the PACE program. The office is also responsible for promulgating the forms and agreements necessary to effectuate the program.

### ***Rhode Island Clean Water Finance Agency***

Sections 16 and 17 of the article rename the Rhode Island Clean Water Agency (RICWFA) as the Rhode Island Infrastructure Bank (RIIB). The Rhode Island Clean Water Finance Agency was created in 1989 through RIGL 46-12.2 to administer revolving loan funds to provide low-cost financing for the construction of facilities and projects for the abatement of pollution caused by wastewater. In 1993, the Agency's powers were expanded to include the administration of the Safe Drinking Water Revolving Fund. In 2013, the Agency's powers were expanded to include the administration of the Municipal Road and Bridge Revolving fund. The article expands the RIIB's powers to include the administration of programs to facilitate renewable energy and energy efficiency, to support infrastructure improvements, and to encourage job and business growth in Rhode Island.

Pursuant to current law, the powers of the RICWFA are vested in a five-member Board of Directors. Four of the Board members are appointed by the Governor, subject to the advice and consent of the Senate. In making these appointments the Governor must give due consideration to persons skilled in law, finance, and public administration; furthermore, the Governor must give due consideration to a recommendation by the General Treasurer for one of the positions. The General Treasurer, or a designee, serves on the Board as an ex-officio member. Board members must be residents of Rhode Island and are not compensated for their service. The article expands the board to directors to seven members, adding the Commerce Secretary, or a designee, and the Director of the Department of Environmental Management, or a designee.

The article expands the definition of "approved project", as used in the chapter, from projects that have been issued a certificate of approval by the Department of Environmental Management to include projects that have been issued "other comparable evidence of approval by any other agency or political subdivision or instrumentality of the state...". This language is also used to expand the statutory definition of "certificate of approval". The section defines "corporation" to include bodies politic, societies, associations, and political subdivisions of the state. "State" is not defined in the chapter. The article defines "energy efficiency savings" as savings derived from upgrades to public buildings: private buildings are not included in the definition.

The powers of the RIIB are expanded to include those necessary to effectuate the PACE program, and to be the sole issuer of Qualified Energy Conservation Bonds (QECBs). QECBs enable qualified state, tribal, and local government issuers to borrow money at subsidized interest rates to fund energy conservation projects. The United States Department of the Treasury subsidizes the issuer's borrowing costs.

The article provides that any restrictions or regulation found in charters, other laws, or ordinances governing the power of a municipality to lease or sell property would not apply to leases or sales made with the RIIB. This appears to loosen restrictions on municipal borrowing to encourage access to the funds. In order to allow municipalities to participate in the efficient buildings fund, the article allows the chief executive or city or town council to lease, lend, grant, or convey to the RIIB any real or personal property, including public roads and other property devoted to public use, to the RIIB without advertisement or formality. Any trust agreements between a municipality and an insurance company, bank, trust company, or other financial institution will continue to be subject to the applicable voter approval requirements.

***The Efficient Buildings Fund***

Section 18 authorizes the RIIB to establish the efficient building fund and, in consultation with the Office of Energy Resources, develop a priority list and provide technical, funding and administrative assistance to public entities for energy efficiency and renewable energy upgrades to public buildings and infrastructure. Local governments would be authorized to issue limited obligations payable solely from the energy efficiency savings pledged as payment.

*Analyst's Note: Under the programs currently managed by CWFA, the respective agencies, such as DEM or DOT, set the priority list and CWFA follows that list to provide financing. This article allows RIIB to set the priority list "in consultation with" the Office Energy Resources.*

The Governor provides a one-time transfer to the RIIB in the FY2016 Budget, including \$3.0 million from Regional Greenhouse Gas Initiative (RGGI) proceeds, and \$2.0 million from the Renewable Energy Revolving Funds at the Rhode Island Commerce Corporation: these funds will capitalize the Efficient Buildings Fund. According to the Office of the General Treasurer, the \$5.0 million in capitalization will leverage a \$23.0 million program.

***Brownfields Revolving Fund***

The article identifies the RIIB as the sole Rhode Island governmental provider of financial assistance for water pollution abatement projects concerning brownfields revolving funds and expands the definition of "water pollution abatement project" to projects related to brownfields remediation or development, subject to consultation with the Rhode Island Commerce Corporation and the Department of Environmental Management.

There is currently a brownfields revolving fund at the Small Business Loan Fund Corporation. Since the article does not transfer the management of this fund to RIIB, it is unclear how the existing fund would be impacted by this legislation.

***Utility Base Rate for Demand Side Management and Renewables***

Section 5 of the article extends the period of implementation for demand side charges from 10 to 30 years. The charge was implemented in January 1, 2008, and funds programs such as the EnergyWise Home Assessments to provide rebates on replace inefficient lighting and appliances, and the ENERGY STAR® products and lighting programs. This article extends the sunset of the charge from 2018 to 2038. Demand-side management involves reducing electricity use through programs that promote electric energy efficiency or conservation, or more efficient management of electric energy loads. The article does not change the 10-year period for the charge associated with the renewable energy programs.

The article would require each electric and gas distribution company to remit 5.0 percent of the monthly proceeds of the current demand side charge to the RIIB. These charges would be deposited into a separate account to be used only to secure debt or prevent a default incurred in connection with the efficient buildings fund, as established in Section 8 of this article. The balance of this fund would be at, or above, twice the balance needed to make all debt service payments on debt secured by the account and coming due within 185 days. Any funds not needed to meet the requirements of the debt service obligations would be returned to the distribution companies.

The article repeals the authority of the Executive Director of the Rhode Island Commerce Corporation to contract out the administration of the renewable energy program; however, the distribution companies will continue to administer the demand side programs, subject to review by the Public Utilities Commission.

*Analyst's Note: A Governor's amendment is expected to replace the repealed language with the current law.*

## Article 25: Relating to State Police Pensions

This article creates a pension trust fund for State Police troopers hired prior to 1987 who are currently receiving benefits through a pay-as-you-go (pay-go) system. Members' benefits will remain unchanged; but the proposal transitions the current system to a more traditional retirement fund whereby contributions are amortized, in this case, over 18 years. The Governor uses one-time funding from the Google settlement to seed the fund. Leveraging this investment at a 7.5 percent rate of return will achieve \$157.2 million general revenue savings over the 77-year life of the plan.

### FISCAL IMPACT

The Governor recommends an initial deposit in FY2016 of \$31.7 million, including \$15.0 million in Google forfeiture funds and \$16.7 million in general revenue. On average, the State pays benefits of \$17.6 million in general revenue per year; thus, this proposal would save approximately \$1.0 million in FY2016.

The schedule continues with an appropriation of \$16.7 million in general revenue per year from FY2016 through FY2033, at which point the trust will be fully funded. The State would realize general revenue savings in each of the first five years, and would save \$157.2 million in general revenue overall based on rate of return assumptions.

#### Fiscal Impact of Pension Trust Deposit Schedule

Fiscal Year	Estimated	Proposed	General Revenue Cost
	Payments to Beneficiaries	State Contributions	
2016	\$17,872,862	\$31,743,504	(\$1,129,358)
2017	17,642,128	16,743,504	(898,624)
2018	17,401,106	16,743,504	(657,602)
2019	17,149,895	16,743,504	(406,391)
2020	16,888,212	16,743,504	(144,708)
2021	16,642,566	16,743,504	100,938
2023	16,148,070	16,743,504	595,434
2024	15,836,146	16,743,504	907,358

*Note: Savings will decline over the first five years of the establishment of the trust. At that point, general revenue payments into the trust will exceed the projected pay-go payments through year 18, at which point the trust will be fully funded.*

### ANALYSIS AND BACKGROUND

Pay-as-you-go-pensions, typically known as “pay-go” pensions, are unfunded defined benefit plans paid out to retirees either directly from current workers' contributions or state general revenue as the benefits are due, rather than paid from a pre-funded account or trust. Rhode Island State Police (RISP) troopers who were hired prior to July 1, 1987, completed twenty years of service, and retired upon twenty-five years of service are eligible. The current Superintendent of the State Police is the remaining member to be added to this cohort upon his retirement. Pensions for troopers hired after 1987 are managed by the ERSRI.

This pension plan is typically funded annually through the Department of Public Safety general revenue budget and payments to retirees have increased over time as more retirements occur. On average, the State distributed \$17.6 million to approximately 275 beneficiaries over the last four years.

To fund the plan and ensure its sustainability and affordability the Governor proposes to establish a pay-go trust to allow the State to make contributions in amounts which will reduce the annual liability associated with the current pay-go system. The Governor's proposal seeds the trust in FY2016 with \$15.0 million in Google forfeiture funds and \$16.7 million general revenue. If the State makes the proposed contributions for the next 18 years, realizes an annual rate of return on the contributions of 7.50 percent, and life expectancy is consistent with the most recent actuarial valuation for the trust, the liability for the pay-as-you-go retirement benefits will be advance funded. Proceeds are expected to save the State \$157.2 million over the 80-year life of the trust, with the bulk of the savings incurred in the latter years.

### **Google Forfeiture Funds**

On August 24, 2011, Google, Inc. reached a settlement agreement with the United States Department of Justice (DOJ) to forfeit \$500.0 million for allowing online Canadian pharmacies to place advertisements through its AdWords program, targeting U.S. consumers. The forfeiture, one of the largest ever in the United States, represents the gross revenue received by Google as a result of Canadian pharmacies advertising through Google's AdWords program, plus gross revenue made by Canadian pharmacies from their sales to U.S. consumers.

Rhode Island received a \$230.0 million share of this award for State and local law enforcement agencies that helped investigate Google's role in placing the online ads for illegal pharmacies. Of the total award, the State directly received \$110.0 million, of which \$60.0 million was allocated to the Office of the Attorney General, \$45.0 million allocated to the State Police, and \$5.0 million to the Rhode Island National Guard. The City of East Providence and Town of North Providence each received \$60.0 million.

The Department of Justice (DOJ) requires that the funds forfeited as a result of this matter need to be approved and expended in accordance with DOJ guidelines. These funds have significant restrictions and are allowed to be used for law enforcement purposes only. While pension liability is not specifically acknowledged in DOJ guidelines, precedent has been set for using Google forfeiture funds toward unfunded pension liabilities as a permissible use. In 2013, the DOJ approved use of these funds in two communities, elevating their police pension funds out of critical status.

*Analyst Note: The Budget Office commissioned a new study to update the 2013 actuarial projections in the table below. For unknown reasons, the State did not pursue using the Google funds for the purpose of establishing a pay-go pension trust at the time. The Budget Office intends to submit the results of the new study, expected to be completed March 2015, to DOJ for spending approval.*

## Article 26: Relating to Division of Motor Vehicles

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This article delays the issuance of new reflective license plates from September 2015 until September 2016. Under current law, the Division of Motor Vehicles (DMV) is required to issue new reflective license plates for all registered vehicles beginning September 1, 2015, and no less than every 10 years thereafter. The requirement was originally twice delayed, first to FY2013 and then again to FY2015.

### FISCAL IMPACT

The Governor includes a revenue loss of \$2.6 million which would have been generated from a \$6 fee imposed per new set of license plates. The delay will also save \$2.6 million in FY2016 expenditures.

### ANALYSIS AND BACKGROUND

The Governor proposes delaying license plate reissuance until September 2016 to permit DMV staff to continue to implement the Rhode Island Motor Vehicle System (RIMS) information technology (IT) database. The RIMS IT system is a database designed to provide a real-time and customer-centric computer system to replace the DMV's current legacy system. According to the Governor, the personnel assigned to RIMS would need to be reassigned to the license plate reissuance project to ensure it is successfully coordinated, which would continue to delay implementation of the RIMS system.

Under RIGL 31-3-33, the DMV is required to issue new reflective license plates for all registered vehicles beginning September 1, 2015, and no less than every 10 years thereafter. 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, which did not occur. In the FY2012 Budget as Enacted, the General Assembly changed the first full reissuance requirement from 2011 to 2013 and the FY2014 Budget as Enacted delayed the reissuance again until September 2015. The Governor's proposal would shift the timeline out for reissuance by one year to September 2016, or FY2017.

The cost of license plate reissuance was anticipated to be offset by a \$6 fee on each new set of license plates. According to the Department, this was charged during the last plate reissuance and generated \$2.6 million in general revenue. Both the fee and the costs associated with a reissuance are removed for FY2016.

## Article 27: Relating to Legal Notices

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This article authorizes the posting of any statutorily required legal notices and advertisements initiated by any State, municipal, or other public body to be posted on-line, in lieu of the current print media requirement. The article requires public entities to follow certain steps; including the posting of “transitional notices” in print media, prior to posting notices on-line. The article requires the Department of Administration to promulgate rules and regulations to implement the new public posting provisions, and establishes the Office of the Attorney General as the entity to process any complaints from aggrieved individuals regarding the posting of these public notices.

### FISCAL IMPACT

The Budget Office does not have a specific savings attached to the article. However, fewer postings of these notices in newspapers should decrease expenses for State, local, and other public bodies.

### ANALYSIS AND BACKGROUND

State and municipal government entities, as well as other public bodies, are statutorily required to post legal notices and advertisements within various newspapers throughout the State. The posting must be in a publication having a statewide circulation for items reflecting a statewide importance or impact, or if the item is geographically limited in its applicability, then the posting can be limited to a publication having a general circulation in that area.

Passage of this article authorizes the State, municipalities, and other public bodies to post required notices on-line, rather than in newspapers and other print media. According to the State’s Office of Management and Budget, trends showing an increasing in-home and mobile device internet usage as a news source, while the use of print media is declining.

The article requires that, prior to posting legal notices on-line, a public entity must inform the public of its intention to do so by posting a “transitional notice” at least three times a week for three consecutive weeks in the print media where the legal notice is required to be published.

*Analyst’s Note: The intent of the transitional notice requirement is unclear given the legislative findings section of the article that cites the decline in print journalism as a news source. In addition, the article requires the Department of Administration to develop rules and regulations and designate an authorized web site other than one administered by the Office of Secretary of State. This requirement is ambiguous as it is unclear whether the Department must create an authorized web site, and no funds appropriated in the proposed budget to develop a web site.*

In addition, this article requires the Department of Administration to promulgate rules and regulations concerning the implementation of the new chapter within 120 days after passage of this article. The article designates the Office of the Attorney General as the agency to investigate allegations of violations of this chapter and is authorized to file complaints in Superior Court on behalf of parties aggrieved as a result of a violation of this chapter.

## Article 28: Relating to Health Reform Assessment

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This article establishes an assessment on certain health insurance premiums that will be used to fund the operational costs of HealthSource RI (HSRI), the state-based health benefits marketplace for individual and small group health insurance and the avenue through which Rhode Islanders access federal health insurance subsidies.

Under this article, the Secretary of the Executive Office of Health and Human Services is authorized to establish a “health reform assessment” to be assessed as a percent of premiums for all small employer and individual health insurance policies beginning January 1, 2016, and used solely to fund HSRI. The article allows for advance use of assessment funds to cover costs incurred prior to that date.

HSRI anticipates that the CY2016 assessment will be 4.7 percent on individual premiums, 1.0 percent on small group premiums, and will generate \$11.8 million, \$6.2 million of which is budgeted in FY2016. The assessment is expected to be lower in future years due to higher enrollment and increased premiums.

### FISCAL IMPACT

The budget includes \$6.2 million in restricted receipts from the new assessment for HSRI’s operational costs in FY2016, supplementing \$24.7 million in federal funds that will be expended for design, development, and implementation costs before their December 31, 2015, expiration. The restricted receipts included in the Governor’s FY2016 proposal represent the first non-federal funds ever budgeted for HSRI.

### ANALYSIS AND BACKGROUND

The article establishes a revenue stream to fund HSRI operations, though the assessment is levied on insurers’ revenue on individual and small group plans sold both on and off of the exchange. The assessment is levied as a percent of premiums sold and takes into account the following:

- There will be two separate rates, one levied on the small group market and a separate rate levied on the individual market.
- The **assessment amount** will equal the HSRI budget and will be allocated between the individual and small group markets according to the proportion of total HSRI enrollment generated by each market.
  - Enrollment in HSRI is currently approximately 90 percent in the individual market; thus most of the assessment amount will be collected from insurers in the individual market.

	as of Feb 23, 2015
HSRI Enrollment - Individual market	30,001
HSRI Enrollment - Small Group market	3,282

- An **assessment rate** will be set for each market so as to generate the amount apportioned to it. It will be levied on carriers in proportion to their total market share (both on and off of the exchange).

The assessment is established annually by the Secretary of Health and Human Services rather than through the legislative process, as other State health care assessments are set. It is administered by the Executive Office of Health and Human Services and collected in a HSRI-specific restricted receipt account at the Department of Administration.

The Governor has required that HSRI’s operating cost be no greater than if the State were to switch to the federal health exchange, which assesses insurers 3.5 percent of the cost of policies sold on the federal

exchange. HSRI reports that the following assumptions underlie the funding included in the Governor's Budget.

	Projected CY16	Projected FY17
HealthSource RI Budget	\$11.8 million	\$11.2 million
HSRI Average Premium - Individual market	\$4,428	\$4,560
HSRI Average Premium - Small Group market	\$5,904	\$6,084
HSRI Enrollment - Individual market	31,866	34,724
HSRI Enrollment - Small Group market	10,515	14,515
Assessment - Individual market	4.74%	3.76%
Assessment - Small Group market	0.98%	1.05%

This assessment is in addition to taxes and fees already assessed on small group and individual health insurance policies by both the State and federal governments. Currently, the State levies on health insurance premiums a gross premiums tax, a children's health assessment, and child and adult immunization assessments. The federal government levies a Patient-Centered Outcomes Research Institute fee and a reinsurance program fee, both introduced by the Affordable Care Act. According to Blue Cross Blue Shield of RI, its annual premiums in 2015 include an average of \$432 in federal and state taxes and fees. The new health reform assessment proposed in this article would be in addition to these other taxes and fees.

*Analyst's Note: HSRI's projected assessment rates are highly dependent on its enrollment assumptions, which include a 220.4 percent increase in small group enrollment in CY2016.*

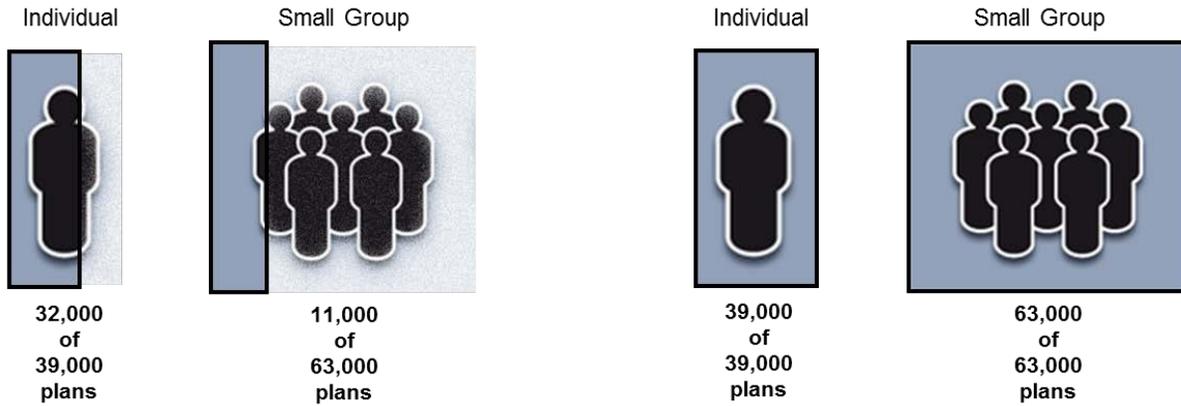
Enrollment	Current 2/23/15	CY2016 Projected	Change to Current	FY2017 Projected	Change to Current
Individual	30,001	31,866	6.2%	34,724	15.7%
Small Group	3,282	10,515	220.4%	14,515	342.3%

#### FEDERAL-STATE EXCHANGE COST COMPARISON

The following analysis compares the CY2016 operating costs of HSRI with that of participating in the federal exchange and is based on HSRI projected enrollment and HSRI estimate of individual and small group markets. Though the method of calculating the assessment varies by exchange, the resulting total assessment generated by either exchange is allocated across all insurance carriers and incorporated into market-wide rates, effectively spreading the total assessment generated across all small group and individual plans.

The **federal assessment rate** of 3.5% is calculated on individual and small group plans ***sold on the exchange***, or on about 43,000 plans

**Article 28's assessment rate** equals the rate necessary to fund HSRI's budget, which is calculated on individual and small group plans ***sold both on and off exchange***, or on about 102,000 plans



- Generates **\$7.1 million**

- Generates **\$11.8 million**

*Analyst's Note: Though the anticipated assessment rate of the Article 28 is similar to that of the federal assessment rate, these percentages are applied to the different bases shown above. As a result, once these assessments are allocated across all plans on and off of the exchange, the **effective rate** of each is markedly different.*

*For example, the federal exchange will apply a 3.5 percent assessment rate on exchange small group plans in CY2016 and the resulting assessment will be allocated across all plans on and off of the exchange. When the resulting assessment is spread across all plans, the effective rate of the assessment drops to 0.6 percent.*

*Because the HSRI assessment rate is calculated on the same base over which the resulting assessment is allocated, its assessment rate and effective rate are the same.*

	Current		CY2016		FY2017	
	Federal		Federal		Federal	
Individual	HSRI	Exchange	HSRI	Exchange	HSRI	Exchange
Assessment Rate	4.7%	3.5%	4.7%	3.5%	3.8%	3.5%
Effective Rate	4.7%	2.7%	4.7%	2.9%	3.8%	2.9%
Small Group	HSRI	Exchange	HSRI	Exchange	HSRI	Exchange
Assessment Rate	1.0%	3.5%	1.0%	3.5%	1.1%	3.5%
Effective Rate	1.0%	0.2%	1.0%	0.6%	1.1%	0.8%

The option for the State to transition from a state-based exchange to the federal exchange remains open. HSRI reports that the State would incur one-time costs of \$2.7 million in both FY2017 and FY2018 to transition to the federal exchange. Ongoing costs associated with the federal exchange include a 3.5 percent federal assessment on policies sold within the exchange, which totals \$8.6 million at enrollment levels assumed for FY2017 and FY2018, as well as \$240,000 in ongoing state costs.

**EXPIRATION OF FEDERAL FUNDS**

To date, the design, development, and implementation of HSRI has been funded with a total of \$169.8 million in federal grants. The Governor’s revised FY2015 budget includes a newly awarded grant. Use of federal funds for operations is precluded after CY2014.

HealthSource RI	FY2013 Actual	FY2014 Actual	FY2015 Enacted	FY2015 Gov	FY2016 Gov
Federal Funds	\$21.8	\$47.3	\$23.4	\$52.5	\$24.7
Restricted Receipts					6.2
<b>Total</b>	<b>\$21.8</b>	<b>\$47.3</b>	<b>\$23.4</b>	<b>\$52.5</b>	<b>\$30.9</b>

*in millions*

*Analyst’s Note: Federal funds cannot be used to fund HSRI operations after CY2014. As noted above, however, the Governor’s FY2015 Budget is comprised exclusively of federal funds.*

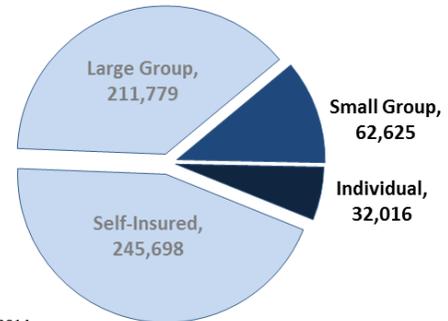
**HEALTHSOURCE RI**

As part of the Affordable Care Act (ACA) and national health care reform, the Rhode Island Health Benefits Exchange was created by Executive Order in 2011 as a federally-funded program within the Office of the Governor. The FY2014 Budget as Enacted transferred the program to the Department of Administration. Rhode Island’s health benefits exchange, HSRI, became operational in October 2013 and is an online marketplace for individual and small group health insurance and an avenue through which Rhode Islanders can access federal health insurance subsidies. As of February 23, 2015, 30,001 individuals were enrolled in plans sold through the individual HSRI market and 3,282 enrolled in plans sold through HSRI’s Small Business Health Options Program (SHOP).

More than just an online health insurance marketplace, HealthSource RI is envisioned as a driver of healthcare reform through negotiating lower-cost insurance options for individuals and small businesses, increasing accountability through new quality measures for plans and providers, and providing industry-wide transparency of costs and prices. It will allow for broader regulatory authority over the health insurance market and will support larger health care system reform goals.

HealthSource RI is a marketplace for individuals and small group (defined as 1-50 employees) health insurance. The individual and small group markets together make up about 17 percent of the State’s entire commercial health insurance market.

HealthSource RI offers insurance to individuals and small employers, about 17% of the commercial market



*As of April 2014  
Source: RI Office of the Health Insurance Commissioner*

*Analyst’s Note: The US Supreme Court is expected to rule in June 2015 on King v Burwell, which will decide whether the Affordable Care Act’s language allows people to access federal subsidies for insurance purchased through the federal exchange as well as through state-based exchanges. While a decision to restrict subsidies to insurance purchased only through state-based exchanges will not impact Rhode Islanders’ ability to access subsidies through HealthSource RI, it is likely to make the option of joining the federal exchange less appealing because Rhode Islanders will lose that ability.*

## EXCHANGE TYPES

Though Rhode Island has elected to establish a state-based exchange, the federal government allows states to comply with the Affordable Care Act through other types of exchanges:

- **State-based exchanges (14 states)** perform all marketplace functions and tend to be activist exchanges that aim to influence the price, design, and quality of the health insurance options available and that take steps to support consumers' ability to choose among these options.
- **Federally-supported state-based exchanges (3 states)** are responsible for performing all marketplace functions as above but use the federal marketplace IT platform (healthcare.gov).
- **Partnership exchanges (7 states)** allow states to retain responsibility for in-person customer service and to decide which plans can be sold through the marketplace. The federal government handles all other functions.
- **Federal exchange (27 states)** functions as an electronic insurance clearinghouse that aims to bring about market-driven reforms by empowering consumers to compare options and purchase health insurance from a number of insurers.

## STATE-BASED MARKETPLACE FINANCING MECHANISMS FOR INDIVIDUAL MARKETPLACES

Rhode Island is one of the last states to establish a financing mechanism for its state-based exchange. The assessment proposed by Article 28 assesses plans both inside and outside of the exchange, making the mechanism similar to that of Colorado, Connecticut, the District of Columbia, Kentucky and Maryland.

State-Based Marketplace Financing		
Long-Term Revenue Source to Fund Marketplace Operations	States	Additional Info
Assessment only on plans offered through the marketplace	California, Idaho, Massachusetts, Minnesota, Washington	Minnesota added general revenue to its assessment after assessment generated insufficient revenue.
Broad-based assessment on plans inside and outside of the marketplace	Colorado, Connecticut, District of Columbia, Kentucky, New Mexico, Maryland, <b>Rhode Island (proposed)</b>	New Mexico among other States has raised its assessment after initial rates failed to generate sufficient revenue and/or enrollment fell short of projections.
Broad-based assessment plus State appropriation	New York, Hawaii	Hawaii is pursuing bond financing for support until projected sustainability in FY2022.
Claims Tax	Vermont	Vermont sustainability plan not finalized since the collapse of its effort to institute a statewide single-payer system.
Abandon state-based IT platform, default to federal healthcare.gov	Oregon, Nevada	Financing mechanism not finalized.

Source: *The Commonwealth Fund*, updated by Senate Fiscal Office

## Article 29: Relating to Commerce Corporation and Economic Development

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This article authorizes several new tax incentives and economic capital programs to be administered through the Rhode Island Commerce Corporation (Commerce Corporation) to promote and expand economic development opportunities in the State.

### FISCAL IMPACT

#### ***Tax Credit Incentives***

There is no fiscal impact regarding the Rebuild RI Tax Credit in FY2016. However, the “out-year” costs are \$65.3 million from FY2017 to FY2020. Tax increment financing foregoes new tax revenue generated by new economic activity.

#### ***Tax Stabilization Incentive***

There is no fiscal impact in FY2016; however, the Governor plans to establish a fund for reimbursements in FY2017. It is estimated that this fund will cover costs for two years. Beyond that, funds would be available subject to appropriation.

#### ***Economic Development Incentives***

The Governor includes \$44.5 million in general revenue to create and fund an Economic Development Initiatives Fund under the Executive Office of Commerce.

### ANALYSIS AND BACKGROUND

The 2013 General Assembly created the Executive Office of Commerce headed by a new Secretary of Commerce. The General Assembly intended to have the Executive Office of Commerce become the State’s lead agency for economic development and to ensure commerce is consistently promoted throughout the state and that the Secretary of Commerce be responsible for unifying and directing functions that relate to the state’s economy. The authorizing legislation states in part; *“to promote the economic viability of the Rhode Island economy, and ensure the efficient use of all available resources by the departments/divisions responsible for the regulation of growth within the state and the provision of labor and training programs serving all Rhode Islanders, and to provide and promote and encourage the preservation, expansion and sound development of new and existing industry, business, commerce, agriculture, tourism, recreational, and renewable energy facilities, promoting thereby the economic development of the state and the general welfare of its citizens.”*

To that end, the Governor proposes various incentives, business assistance, and development programs to create, expand, and assist businesses.

#### ***Tax Credit Incentives***

**Tax Incentive Reporting:** This section establishes state reporting requirements for any person or entity receiving a business tax credit, modification, or incentive. The article requires the Secretary of Commerce to establish rules and regulations regarding the type of information to be provided relating to the use and effect of funds made available by reducing business tax liabilities. These rules will be applicable to all business tax credits, new and existing. The article also establishes a provision that all information reported to the secretary will be considered confidential by the Executive Office of Commerce and not subject to the State’s Access to Public Records Act.

All entities receiving an incentive must comply with an information request within 60 days or the Secretary of Commerce will send a notice of failure to cooperate and will notify the Division of Taxation to suspend the credit. Suspensions may be lifted at the discretion of the Secretary of Commerce, either

after a successful appeal under the State's administrative procedures act, or if the type of information provided does not exist or cannot be compiled.

*Analyst Note: Existing tax incentive and credit programs have numerous public reporting requirements. The legislation would require all incentives to be reported to Commerce (confidential), but it is unclear if this is in addition to, or in lieu of, existing public reporting requirements.*

**Rebuild Rhode Island Tax Credit:** The Governor creates a new tax credit to be administered by the Commerce Corporation, intended to promote investment in real estate development for commercial and/or residential use.

In order to qualify to the credit, a company must:

- Commit at least 20.0 percent of the total project cost in capital or equity investments at a qualified business facility at which it will employ at least 25 full-time employees in retained full-time jobs, or any additional number of jobs deemed appropriate by the Commerce Corporation.
- Demonstrate a financing gap through an inability to obtain any other public or private funding, and that, without the tax credit, the project will not be accomplished.
- Demonstrate that the real estate project is a new or rehabilitated development, residential project, mixed use project, or located in a Hope Community, defined as a community where the poverty level exceeds the state median. (Currently, this would include Providence, Central Falls, West Warwick, Pawtucket, and Woonsocket.)

The project must fulfill the State's policy and planning objectives in that a tax stabilization agreement must be obtained from the host municipality; and it is a:

- Commercial development consisting of at least 25,000 square feet and 25 full-time employees or any number of new employees as the secretary deems appropriate.
- Multi-family residential development consisting of at least 20,000 square feet with 20 residential units in a Hope Community; or, mixed use development consisting of at least 25 square feet.
- Total project cost must be greater than \$5.0 million, with the exception of projects in a Hope Community or designated redevelopment area.

The article allows the Secretary of Commerce to issue a tax credit based on the lesser of 30.0 percent of the project cost or the amount needed to close demonstrated financing gap. Tax credits are issued once a certificate of occupancy has been obtained. If the amount of credit exceeds the taxpayers' liability in a given year, the credit may be carried forward up to four years or until the full credit is used (whichever occurs first). Credits may be used against the following taxes: business corporations, financial institutions, insurance companies, public service corporations, and personal income taxes. Any use against sales and use taxes may be permitted at the discretion of the Secretary of Commerce. Prior to assignment of the credit, the State would have the right to redeem (purchase) the credits at 90.0 percent of the credit value.

The Division of Taxation may adopt guidelines to administer this program; however, the Commerce Corporation will establish which industries qualify for the credit, manage the rules and procedures to apply for the credit, and establish provisions for tax credit applicants to be charged an administrative fee.

The following table shows the estimated five-year impact as determined by the Governor through a third-party consultant. No information was provided to determine how these estimates were calculated.

Revenue	5-Year Projected Revenue Impact					5-Year Total
	*FY2016	FY2017	FY2018	FY2019	FY2020	
Personal Income Tax	-	(\$3.0)	(\$5.9)	(\$8.3)	(\$10.7)	(\$27.9)
Business Corporations Tax	-	(0.2)	(0.5)	(0.6)	(0.8)	(2.2)
Insurance Companies Gross Premiums Tax	-	(3.4)	(6.5)	(9.2)	(12.0)	(31.1)
Financial Institutions Tax	-	(0.5)	(0.9)	(1.2)	(1.6)	(4.1)
<b>Total</b>	-	<b>(\$7.1)</b>	<b>(\$13.7)</b>	<b>(\$19.4)</b>	<b>(\$25.1)</b>	<b>(\$65.3)</b>

*\*The provisions of this credit take effect upon passage of the enacted budget; however, the Governor does not include a revenue impact in FY2016, stating that there are no plans to issue credits in this fiscal year.*

*\$ in millions*

**Tax Increment Financing (TIF):** This proposal allows the Commerce Corporation to enter into an agreement to close a demonstrable financing gap for a redevelopment project, funded by a rebate of new tax revenue generated by this project. The proposal requires the State to pay, or exempt in some cases, the developer's business and sales taxes directly realized from new business operations up to 75.0 percent of the amount that would otherwise be due to the State. For example, if a new hotel is developed under this program, the State will not receive up to 75.0 percent of sales tax revenue that would have been generated by sales tax on room rentals; instead, the Division of Taxation will pass through revenues from the business to the developer. The agreement will obligate the State to pay back new revenue for up to 20 years. One caveat is that "significant taxpayers" (undefined in the legislation) may instead be required to contribute to a payment-in-lieu-of-taxes (PILOT) fund, established by the Commerce Corporation to be used for TIF redevelopment projects. These payments will be up to 75.0 percent of the amount that would normally be due to the State. The Commerce Corporation is permitted to issue revenue bonds secured by this fund without legislative approval.

TIF agreements are defined as an agreement between the Commerce Corporation and a real estate developer, under which, in exchange for the tax liability exemption, the developer agrees to undertake all necessary work for the project. This type of work may include the clearance, development or redevelopment, construction, or rehabilitation of any commercial, industrial, or residential structure. Qualified structures also include preexisting, municipally-owned stadium of 10,000 seats or greater or utilities within a qualifying TIF area.

Designation of a qualified TIF area is determined by the Commerce Corporation, defined as a redevelopment given priority because of its potential to generate jobs or housing units. The Commerce Corporation is required to take into account, but not limited to, the following factors in determining if the redevelopment project is a priority:

- Generation or preservation of manufacturing jobs;
- Promotion of (unspecified) targeted industries; location in a port or airport district;
- Location in an industrial or research park; location in a transit-oriented development area;
- Location in a Hope Community;
- Located in a designated redevelopment area; or,
- Located in a community within land approved for closure under the federal military Base Realignment and Closure (BRAC) commission.

The Commerce Corporation is solely authorized to enter into TIF agreements, and to specify the amount of award up to 30.0 percent of the total cost of the project. Developers entering into a TIF agreement are not required to disclose this agreement to any entity aside from the Commerce Corporation. Developers may use revenue made available through the TIF to secure financing, such as a loan; and, notice of how the award is used needs to be filed with the Commerce Corporation. Once the TIF agreement is in place, the payment amount is binding.

The article requires the Division of Taxation to provide the Governor with a sum of revenue foregone resulting from the TIF agreement. The Governor will include this cost as part of the budget appropriations process. Through the rulemaking process, the Commerce Corporation will impose fees on developers for administration of the program.

*Analyst Note: This article allows Commerce to enter into a TIF agreement with a pre-existing municipally-owned stadium and specifically notes that public infrastructure, a pre-existing municipally owned stadium of 10,000 seats or more, or utilities, are exempt from a 30.0 percent cap on reimbursements.*

### **Tax Stabilization Incentive**

This section creates the Tax Stabilization Incentive Program whereby municipalities can apply to the Rhode Island Commerce Corporation for partial reimbursement of personal/and or real estate tax revenue forgone due to the granting of a tax stabilization agreement by that community for a qualified construction or rehabilitation project. The Corporation will provide a partial reimbursement of no more than 10.0 percent of the property tax revenue that would have otherwise been collected.

Under this program a community can grant a stabilization agreement for the rehabilitation of an existing structure where the total cost of development budget exceeds 50.0 percent of the adjusted basis in the property, or for a new construction project that begins within twelve months of the approval of the tax stabilization agreement, and the project is completed within 36 months. The qualifying property must be used or intended to be used for offices or commercial enterprises or residential purposes. The terms of the stabilization agreements must be for a minimum of twelve years; and reimbursements will cease upon any termination of the underlying tax stabilization agreement or upon exhaustion of funds appropriated to the reimbursement fund.

The capital investment may include any capital investment made or acquired within twenty-four months prior to the date of the community's application to the Commerce Corporation so long as the amount of capital investment made or acquired by the business, any affiliate of the business, or any owner after the date of application equals at least 50.0 percent of the amount of capital investment.

The stabilization agreement granted by the community can also include furnishings and machinery, apparatus, or equipment for the operation of the business (personal property).

The aggregate value of the reimbursements approved by the Commerce Corporation cannot exceed the lesser of ten percent of the property tax revenue that would have otherwise been collected or the annual appropriations received by the Commerce Corporation for the program.

The tax stabilization agreement can be granted for a project meeting one of the following criteria:

- Results in the creation of at least 50 new full-time jobs, and the developer must commit a capital investment of not less than \$10.0 million towards the project.
- Results in the creation of at least 25 new full-time jobs, and the developer must commit a capital investment of not less than \$5.0 million towards the project. (Hope Community only)
- For the re-use of a historic structure that results in the creation of at least twenty units of residential housing, 20.0 percent of which must be affordable or workforce housing.
- For the creation of at least twenty units of residential housing. (Hope Community only)

A Hope Community is defined as a community where family poverty level exceeds the state median. Currently, Providence, Central Falls, West Warwick, Pawtucket, and Woonsocket meet this definition. A qualified community is defined as any community that is not a Hope Community.

There is no fiscal impact in FY2016; however, the Governor plans to establish a \$500,000 fund for reimbursements in FY2017 using funds that will become available from debt refinancing. It is estimated

that this fund will cover costs for two years. The Governor’s Office states beyond that, funds would be available subject to appropriation.

**Regulatory Reform Incentive**

- **State Building and Fire Code Initiative:** The article allows all capital investment projects receiving incentives from the Rhode Island Commerce Corporation to bypass local building and fire codes. Projects would be subject to state building and fire codes, and required inspections would be conducted by the State Building Commissioner. In addition, the article authorizes municipalities with a population exceeding 150,000 (Providence), to have the State Building Commissioner or State Fire Marshal assume responsibility for the review and inspection of any projects. However, if this is done, only the state building and fire code would be applicable to those projects in that municipality. The Governor includes \$250,000 in general revenue to fund this initiative.

*Analyst Note: It is unclear whether these funds are intended to compensate the State Building Commissioner and State Fire Marshal for expenses incurred on these projects.*

**Economic Development Incentives**

The 2013 General Assembly enacted legislation as part of an economic development package. This included reforming the former Economic Development Corporation and establishing the Executive Office of Commerce headed by a Secretary of Commerce, creating an Economic Council of Advisors and an Economic Development Planning Council. The enacted legislative package also included greater tax credit accountability amongst other initiatives.

The Governor includes \$44.5 million in general revenue in FY2016 and \$19.4 million in FY2017 to create and fund an Economic Development Initiatives Fund under the Executive Office of Commerce. In addition, Article 1 contains language granting the Secretary of Commerce authority to reallocate funding between initiatives within the Economic Development Initiatives Fund. Written notice is required to be provided to the Office of Management and Budget, and the chairpersons of the Senate and House Finance Committees in advance of any transfer of funds.

<b>Economic Development Initiatives Fund</b>	<b>FY2016</b>
First Wave Closing Fund	\$5.0
I-195 Development Fund	25.0
Small Business Assistance Program	5.4
Main Street RI Streetscape Improvements	1.0
Innovation Initiative	0.5
Competitive Sector Grants	0.8
Anchor Tax Credit	1.8
Affordable Housing Fund	3.0
Infrastructure Bank	2.0
<b>Total</b>	<b>\$44.5</b>
<i>\$ in millions</i>	

Passage of Article 29 creates the following Economic Development Initiatives Fund programs:

- **First Wave Closing Fund:** Section 6 authorizes the creation of a First Wave Closing Fund program to attract, expand, or retain businesses, and create jobs in the state, by providing a “gap financing” mechanism to close deals on projects. The proposed statute defines “gap financing” as the portion of the project cost that remains to be financed after all other sources of capital have been considered or the amount that the State needs to invest in a project to gain a competitive advantage over another state. One particular note, the recommended article contains no language establishing thresholds on the amount a particular project can receive. The Commerce Corporation will promulgate regulations establishing criteria to approve awards from the First Wave Closing Fund. The Governor capitalizes the fund with \$5.0 million in general revenue in FY2016. Before making an award, the Commerce Corporation shall consider such factors, such as:
  - The economic impact benefit of the project to the state
  - The amount of “gap financing” required to complete the project closing
  - The strategic importance of the project
  - The quality of the industry and jobs created by the project

Awards may be in the form of a loan, conditional grant or other form of investment as determined by the Commerce Corporation board. Funds awarded will be used to provide working capital; or be used for construction costs, assistance to purchase structures or real estate, purchasing equipment, permanent financing, or for other purposes as authorized by the Commerce Corporation.

According to Commerce, this type of business assistance program exists in at least two dozen states, including New Jersey.

*Analyst Note: Other than containing language requiring the Commerce Corporation to provide a report to the Speaker of the House of Representatives and the President of the Senate on the fund within 60 days of the close of each fiscal year, the section contains no language requiring the corporation to publicly disclose project analyses or program thresholds.*

- **I-195 Development Fund:** Section 7 authorizes an I-195 Development Fund to serve as a catalyst for real estate development on the former highway land. The Governor includes \$25.0 million in general revenue in FY2016 to capitalize this fund. Additional resources from federal programs, private contributions, loan repayments, and from the sale of assets and collateral can be deposited into this Fund. The I-195 Redevelopment District Commission will be sole administrator of the Fund to be used to:

<b>I-195 Redevelopment District</b>	<b># of Parcels</b>
Total number of parcels	21
Parcels dedicated for park land	3
Parcels under agreement	2
<b>Number of parcels remaining</b>	<b>16</b>

- Provide gap financing on real estate projects within the district
- To acquire adjacent (abutting parcels) or proximate land (land in the area of the I-195 District owned land but not an abutting parcel, this could include areas around the Garrahy Courthouse Garage and the South Street Landing project, or further away from the District)
- To finance public infrastructure and facilities that will enhance the District

The proposed statute defines “gap financing” similar to the definition contained under the proposed language establishing the First Wave Closing Fund, as the portion of the project cost that remains to be financed after all other sources of capital have been considered or the amount that the State needs to invest in a project to gain a competitive advantage over another state. Again the recommended article contains no language establishing thresholds on the amount a particular project can receive.

Language requires the I-195 Commission to promulgate the rules and regulations of the program and to provide a report to the Speaker of the House of Representatives and the President of the Senate on the commitment and use of funds allocated to the I-195 Development Fund at the close of each fiscal year.

*Analyst Note: The legislation does not require the corporation to publicly disclose project analyses or program thresholds. There is language in the section stipulating that I-195 Development Funds cannot be expended to finance a stadium or a facility primarily used for sports. However, there is no language prohibiting the use of the funds on indirect infrastructure costs to support a stadium or sports facility, nor is there language establishing a funding cap for a project.*

- **Small Business Assistance Program:** The article creates a state-backed Small Business Assistance Program to help small businesses under (200 employees) gain access to capital. The Governor proposes \$5.4 million in general revenue in FY2016 and \$2.2 million in FY2017 to capitalize this initiative. According to the Executive Office of Commerce, this program will offer more operating flexibility than the current Small Business Loan Fund, which is subject to federal regulations from the U. S. Economic Development Administration. The Commerce Corporation is authorized to partner with a private lending institution to administer the applications and program. The loans may be used to:
  - Provide additional capital to businesses

- Provide direct lending for subordinated and mezzanine debt (debt that is associated with acquisitions and buyouts where it may be used to prioritize new owners ahead of existing owners in case of bankruptcy, or be used to convert a debt into a stock option)
- Provide collateral support and enhancement

Approximately 10.0 percent of the funds will be allocated for “micro loans” of \$2,000 to \$25,000.

*Analyst Note: The proposed statute does not set limits to the non-micro small business loans and it is not stated in the legislation whether the program is intended to be a revolving or perpetual program like the SBLFC or whether it will require future infusions of capital beyond FY2018. In addition, the section requires the private lending institutions to provide annual program reports to the Commerce Corporation. There are no provisions to report to the General Assembly, or public disclosure requirements for the program.*

- **Student Loan Reimbursement Fund:** The budget establishes a competitive Student Loan Reimbursement Fund to reimburse awardees 100.0 percent of the educational loan expenses incurred and paid by an awardee during a twelve month period for up to four consecutive years. The Governor includes \$1.8 million in general revenue in FY2016 to fund this initiative. Approximately two-thirds of the eligible candidates must be either a Rhode Island resident or a graduate of a school in Rhode Island where the student loan debt occurred. To receive a reimbursement award eligible candidates must:
  - Undergo a competitive application process which is not defined in the authorizing language
  - Possess a post-secondary degree
  - Reside and be employed in the state with a career in the life, natural, or environmental sciences, computer technology, engineering, or other technological field, medicine or a field that promotes the state’s economic strategic plan that is determined by the Commerce Corporation during the period of eligibility in receiving the loan repayment.

*Analyst Note: The legislation does not limit loan repayments to scheduled repayments versus actual payments made. Commerce indicates that additional limits would be set through rules and regulations.*

- **Main Street RI Streetscape Improvement Program:** Section 10 creates a statewide Main Street Rhode Island Streetscape Improvement Fund. The Governor designates \$1.0 million in general revenue to fund this initiative in both FY2016 and FY2017. The purpose of the program is to provide loans, matching grants, or other forms of financing to upgrade streetscapes in local business districts. The article contains language requiring the Commerce Corporation to promulgate the rules and regulations of the program.

*Analyst Note: Several components of the program are not specified in the authorizing language. Specifically: there is no language delineating who or what entity may receive the funding (individual, entity, or community awards); award limits are not stated; and, there is no language indicating whether the program will be a revolving or perpetual loan program, or will it require annual appropriations or whether it will become an internal program of the Commerce Corporation.*

- **Innovation Voucher and Network Program:** The article (section 11) establishes an Innovation Voucher and Innovation Network program. The Governor includes \$500,000 in general revenue for the program in FY2016 and recommends another \$500,000 in FY2017.
  - The Voucher Program will provide financial assistance to small businesses (under 500 employees) to purchase research and development technical assistance from state or regional higher education institutions, or other providers. The award amounts to business will range from \$5,000 to \$50,000.
  - The Innovation Network Program will provide matching fund grants to small businesses in industry sectors and in an amount to be determined by the Commerce Corporation. Small business will use these funds to access technical assistance, obtain business operating space,

and to access capital from private and non-profit organizations. Grants will be issued only when matched with private or non-profit funds.

The Commerce Corporation is authorized to promulgate the rules and regulations to administer the program and to create the criteria governing matching funds. Also the Commerce Corporation is required to provide an annual report to the Speaker of the House of Representatives and the President of the Senate on the fund December 31 each year, detailing the amount and number of innovation vouchers and innovation network matching awards provided during the year, the services provided to the eligible businesses, and other information as deemed necessary by the Corporation. The Commerce Corporation would not be required to publicly disclose the project analyses of each award.

- **Competitive Sector Cluster Grants:** Section 12 creates a new Industry Cluster Fund to provide matching grants to start or improve industry sector partnerships or “clusters” to exchange technology and share personnel resources. The Governor includes \$750,000 in general revenue in FY2016 to support this fund and recommends \$1.2 million in general revenue in FY2017. Language in the article requires the Commerce Corporation to promulgate the rules and regulations to administer the program and to create the criteria governing matching funds. Clusters are created by pooling labor forces, collaborative problem solving, and sharing technology. The fund will be divided into two sub-grant programs. They are:
  - Startup and technical assistance grants between \$75,000 to \$250,000 to eligible in-state or regional organizations to support or enable the development of an industry cluster
  - Competitive program grants between \$100,000 to \$500,000 to support activities to overcome identified problems that impede the cluster growth or effectiveness
- **Anchor Institution Tax Credit:** Section 13 establishes an Anchor Institution Tax Credit program to entice businesses that supply component goods or services to existing Rhode Island companies to relocate to the State. The amount of the credit shall be based on criteria created by the Commerce Corporation, and include factors such as:
  - The number, types, and compensation of jobs created
  - The industry sector of the business
  - Whether the relocation benefits an area designated as a “Hope Community”, which under the legislation would include Providence, Central Falls, West Warwick, Pawtucket, and Woonsocket

The Governor recommends \$1.8 million in general revenue to fund this initiative in FY2016 and another \$1.8 million in FY2017. According to the Budget Office, the appropriation will be used to pay the actual “credit.” The Rhode Island business will redeem the tax credit to the Division of Taxation. The Division of Taxation will redeem the tax credit in exchange for payment by the State, subject to annual appropriation by the General Assembly.

*Analyst Note: The legislation does not require the corporation to publicly disclose project analyses or program thresholds.*

## **Article 30: Relating to Effective Date**

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This article provides that the Act will take effect on July 1, 2015, except as otherwise provided herein.



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