SENATE FISCAL OFFICE
REPORT

GOVERNOR'S FY2017
AND
FY2016 SUPPLEMENTAL BUDGET

2016-H-7454

ARTICLE SUMMARIES

FEBRUARY 25, 2016

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Article 1: Relating to Making Appropriations in Support of FY2017

Article 1 outlines the appropriation amounts from all fund sources for FY2017. 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.
- Allows all unexpended balances associated with license plate reissuance to be reappropriated to FY2018.
- Requires that internal student financial aid not be reduced below the FY2016 levels. The President of each institution is required to report to the chair of the Council of Postsecondary Education that student aid levels have been maintained, prior to the commencement of the 2016-2017 academic year. The article does *not* require that tuitions be frozen.
- Caps the amount the Judiciary may charge to five state agencies (Public Defender’s Office, Office of the Attorney General, Department of Corrections, DCYF, and Department of Public Safety) for public courthouse occupancy costs at $1.1 million.
- Requires that Rhode Island Housing continue to provide resources to support the Neighborhood Opportunities Program; an amount, however, is not designated. The Article requires a report on the number of housing units produced and funding be provided to the Director of Administration, chair of the Housing Resources Commission, State Budget Officer, and the chairs of the House and Senate Finance Committees.
- Requires the following transfers be made to the State Controller by June 30, 2017: $1.5 million from Resource Recovery Corporation; $8.0 million from the Rhode Island Infrastructure Bank; $1.5 million from Narragansett Bay Commission; $5.0 million from Rhode Island Health and Educational Building Corporation; and, $275,000 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, 2017.

Expenditures by Source	**FY2015 Final**	**FY2016 Enacted**	**FY2017 Governor**	***Change to Enacted***	***% Change***
General Revenue	$3,453.9	$3,552.0	$3,676.8	*$124.8*	*3.5%*
Federal Funds	2,895.2	2,947.3	2,967.2	*20.0*	*0.7%*
Restricted Receipts	236.0	245.5	261.9	*16.4*	*6.7%*
Other Funds	1,807.4	1,920.7	2,058.9	*138.2*	*7.2%*
Total	**$8,392.5**	**$8,665.4**	**$8,964.8**	***$299.3***	***3.5%***

$ 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.

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

Internal Service Account	FY2016 Enacted	FY2017 Governor
State Assessed Fringe Benefits	$38,930,194	$41,699,269
Administration Central Utilities	17,782,800	14,900,975
State Central Mail	6,203,680	6,190,285
State Telecommunications	4,122,558	3,017,521
State Automotive Fleet	13,830,623	12,543,165
Surplus Property	2,500	2,500
Health Insurance	251,175,719	251,723,462
Other Post-Employment Benefits	64,293,483	63,934,483
Capital Police	1,252,144	1,172,421
Corrections Central Distribution Center	6,768,097	7,094,183
Correctional Industries	7,228,052	7,304,210
Secretary of State Records Center	813,687	907,177
Total	**$412,403,537**	**$410,489,651**

FUND TRANSFERS

Rhode Island Resource Recovery Corporation: The article requires the Resource Recovery Corporation to transfer $1.5 million to the State Controller by the end of FY2017. According to the Corporation, transferring these funds will increase the municipal tipping fee by $5.00 per ton. On January 27, 2016, the Corporation's Board of Commissioners voted to authorize the Executive Director to file the revised municipal solid waste disposal fee pricing and procedure rule with the Secretary of State. The rule expected to become effect at the end of February 2016; however, pursuant to the rule, the tipping fee will not be adjusted unless the Corporation's cash balances fall below the minimum requirements, which include enough funds cover one-year worth of debt services (currently $5.0 million). This fee increase is expected to happen in FY2018. The transfer of funds is not going to accelerate the schedule; however, tipping fee was projected to be around $47.00 per ton, or less, the transfer of $1.5 million would increase the tipping fee to about $52.00.

Rhode Island Infrastructure Bank: The article requires the Rhode Island Infrastructure Bank (RIIB) to transfer $8.0 million to the State Controller by the end of FY2017. According to RIIB, if the funds were transferred, planned and proposed projects for FY2017 would have to be reduced. The new Efficient Building fund (EBF) is a revolving fund designed to provide municipalities, schools, and state entities with low-cost financing for energy efficiency and renewable energy projects. As a new revolving fund the EBF requires seed money, and although RIIB has identified a $25.0 million in potential resources, applications have been received totaling $60.0 million in projects. It had been anticipated that RIIB would provide as much as $12.0 million in additional seed money in late FY2017; however, the transfer of funds would force RIIB to slow or stop lending after the initial $25.0 million. The Community Septic System Loan Program, which provides zero-interest loans to towns that then make loans to homeowners at 1.0 to 2.0 percent for replacement of cesspools and failed septic systems, would not be expanded to address the 400 or more loans in annual unmet demand. Other programs under development that would have to be cut or eliminated included the Residential PACE program and Brownfields Revolving Fund.

Narragansett Bay Commission: The article requires the Narragansett Bay Commission (NBC) to transfer $1.5 million to the State Controller by the end of FY2017. The NBC estimates that the transfer will result in a rate increase of about 1.5 percent (about $7.05 annually for the average single family home). This increase, however, would be in addition to an anticipated increase of about 3.0 percent to meet capital improvement and debt service requirements. NBC also expressed concerns about the impact of the transfer on the Commission's bond rating and whether such a transfer would be legal given the constraints of the Trust Indenture.

Rhode Island Health and Educational Building Corporation: The article requires the Rhode Island Health and Educational Building Corporation (RIHBC) to transfer $5.0 million to the State Controller by the end of FY2017. RIHEBC has indicated that the transfer of these funds would eliminate the ability of RIHEBC to continue its Financial Assistance program in any significant way. The Financial Assistance program provides fixed rate loans to institutions for equipment, facility improvements and real estate. The maximum amount of loans per institution is $800,000 with a maximum loan term based on the useful life of the project, but in no case will the term exceed ten (10) years. The program is also used to provide other assistance such as the $1.0 million to fund the assessment being done by the School Building Authority to document the conditions of the schools.

Rhode Island Airport Corporation: The article requires the Rhode Island Airport Corporation (RIAC) to transfer $275,000 to the State Controller by the end of FY2017. RIAC has indicated that the transfer is payment for the remaining principal due from the RIAC to the State for airport related general obligation bonds. RIAC has confirmed that the $275,000 equals the remaining, scheduled principal payments for 2018-2023. If this payment is made in 2017 it would reduce the amount owed from RIAC to the State to $0 in FY 2017.

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 108.9 FTE positions from the FY2016 Budget as Enacted. Following are the changes included in the Governor's proposal:

FTE Position Authorization

Function	FY2016 Enacted	FY2017 Governor	*Change to Enacted*
General Government	2,330.2	2,391.7	*61.5*
Human Services	3,747.6	3,753.6	*6.0*
Education	3,884.6	3,918.6	*34.0*
Public Safety	3,229.6	3,246.6	*17.0*
Natural Resources	428.0	430.0	*2.0*
Transportation	752.6	741.0	*(11.6)*
Subtotal	**14,372.6**	**14,481.5**	***108.9***
Higher Ed. Sponsored Research	745.8	745.8	-
Total FTE Positions	**15,118.4**	**15,227.3**	***108.9***

Major FTE changes include:

- **An increase of 34.6 FTE positions for Public Higher Education:** The increase reflects a total increase of 35.6 FTE positions for professorships and advisors at the University of Rhode Island (33.0 FTE positions) and Rhode Island College (2.6 FTE positions), partially offset by a decrease of 1.0 FTE audit due to the centralization of audit functions under the Office of Management and Budget.
- **An increase of 32.0 FTE positions in the Department of Administration:** The Governor proposes standardizing audit functions across executive agencies by consolidating the Bureau of Audits with similar units from the Departments of Transportation, Human Services, and from Higher Education into the Office of Internal Audit within the Office of Management and Budget. The consolidation merges 28.0 FTE positions, as well as an increase of 3.0 FTE positions for performance management functions in the Office of Management and Budget, and an increase of 1.0 FTE position to enhance cyber security protection.

- **An increase of 13.0 FTE positions for the Department of Corrections:** This reflects an increase of 13.0 FTE positions, of which 8.0 new FTE positions in discharge planning to replace contracted services and 5.0 new FTE probation officer positions and operating costs related to the Justice Reinvestment initiative. The Justice Reinvestment working group identified changes needed in the management of the pre-trial population, including diversion tools that could reduce the length of stay for certain defendants, thus reducing the awaiting trial population.
- **An increase of 13.0 FTE positions in the Department of Health:** The Governor transfers the Women, Infants and Children's program and the associated FTE positions from the Department of Human Services to the Department of Health.,
- **An increase of 6.5 FTE positions in the Department of Labor and Training:** The Governor adds FTE positions to bolster monitoring and workforce development initiatives at the Department. This includes 3.0 FTE positions for the Misclassification Task Force, 3.0 FTE positions for grant monitoring and evaluation, 1.0 FTE position for the State Workforce and Education Alignment project, and an offset of a 0.5 FTE position due to a retirement.
- **An increase of 9.0 FTE positions in the Department of Revenue:** The Governor adds 6.0 new Revenue Officer I positions in the Division of Taxation to provide analytical and operational support for the proposed nexus program, which will identify and register entities that have not paid appropriate corporate, withholding, and/or sales and use taxes, and identify and collect back taxes owed.
- **A decrease of 2.6 FTE positions in the Council on the Arts:** The reduction in FTE positions represents the elimination of the Rhode Island Film and Television Office and the transfer of responsibility for marketing the State to production companies and overseeing the film tax credit to the Commerce Corporation.
- **An increase of 2.0 FTE positions in Elementary and Secondary Education:** The Governor recommends two new FTE positions within the Department of Elementary and Secondary Education. One position would support and manage the Department's performance management system. The other position would support the Rhode Island evaluation model by developing and implementing professional training for teacher evaluators.

CAPITAL APPROPRIATIONS

Article 1 authorizes amounts from the Rhode Island Capital Plan (RICAP) Fund, not otherwise appropriated, to be expended during the fiscal years ending June 30, 2018, June 30, 2019, and June 30, 2020. These amounts supersede appropriations provided for FY2017 within the FY2016 Budget as Enacted.

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

Article 2: Relating to Public Finance Management Board

This article strengthens and expands the Public Finance Management Board's oversight of debt issuance in the State, including debt issued by municipalities and quasi-public agencies. The article authorizes a new reporting requirement for State, municipalities, authorities, boards, commissions and quasi-public agencies to the Public Finance Management Board and allows the Board to charge a per diem penalty to any entity failing to file the reports.

FISCAL IMPACT

The Budget Office projects that the changes proposed in the article will increase general revenues received by the Public Finance Management Board (PFMB) by $295,871 per year.

ANALYSIS AND BACKGROUND

There are numerous public and quasi-public entities in Rhode Island that possess the authority to issue debt with minimal oversight from the State. In 2014, State, quasi-public entities and local municipality supported general obligation and capital lease debt reached $6,438.4 million.

The Public Finance Management Board acts as a clearing-house for information regarding various State and local bond issues, and allocates the private-activity volume cap for the issuance of private-activity tax-exempt debt. The Board also provides advice and assistance to all State departments, authorities, agencies, boards, commissions, and public and quasi-public corporations having authority to issue revenue or general obligation bonds or notes with respect to issuance of and financial planning related to all those bonds and notes. The nine-member Board was created in 1986 in response to changes in the federal tax code, which placed limitations on tax-exempt bonding authority.

The Governor strengthens the Public Finance Management Board's oversight of debt issuance in the State, including debt issued by municipalities and quasi-public agencies, by removing "upon request" from RIGL 42-10.1-2(2), thereby requiring the PFMB to provide debt management services to municipalities, authorities, boards, commissions and quasi-public agencies. RIGL 42-10.1-5 authorizes the PFMB to impose a fee for its services upon the lead underwriter or purchaser of any affected debt issue, bond, or note in an amount equal to one-fortieth of one percent (0.004 percent) of the issued principal amount. The amount of service fees collected by the PFMB will increase due to the Board's expanded oversight over State departments, authorities, agencies, boards, commissions, and public and quasi-public corporations having authority to issue revenue or general obligation bonds or notes.

Over the past five years, the revenue collected from the fee has ranged between $203,330 in FY2011 to $87,647 in FY2015. The Office of the General Treasurer projects fee receipts of $132,900 for FY2017. Using an eight-year average, the projected average revenue is $428,771, $295,871 more than originally projected by Treasury. The additional revenue will allow the Board to use to fund the proposed Office of Debt Management within the Office of the General Treasurer.

Bond Issuer	Bond Issuance Amount	Refunding Bond Issuance Amount	Taxable Bond Issuance Amount	Article 2 Projected PFMB Fee	Treasury Budget Request	*Change*
State and Quasi Agencies	840,938,284	419,233,591	162,603,040	$355,694	$132,900	*$222,794*
Municipalities	233,126,414	47,025,206	12,155,503	$73,077	$0	*73,077*
Total				**$428,771**	**$132,900**	***$295,871***

Source: Office of the General Treasurer

In addition, the article requires the State, municipalities, authorities, boards, commissions and quasi-public agencies, to provide a report on the final sale of the bonds to the PFMB within 30 days after a bond sale on forms approved by the PFMB. Any entity failing to submit the report shall be subject to a per-diem fine of $250.

Article 3: Relating to Public Officers and Employees

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

- Adds the position of Assistant Executive Officer in the Rhode Island Emergency Management Agency to the State's unclassified service.
- Adds a standard by which the Personnel Appeal Board may apply when reviewing certain actions made by appointing authority on an employee.
- Makes changes to the Merit System, including adding various employees into the State's unclassified service; extends the probationary period under the merit system from 6 months to 12 months; and, permits the Governor to delegate authority to the Director of the Department of Administration to approve changes to the pay plan for unclassified employees.
- Permits the salaries of directors of state departments to be set in the same manner as employees of the Office of the Governor.
- Eliminates the requirement that non-Medicare eligible retiree health insurance be equivalent to semi-private hospital care, surgical/medical care, and major medical.
- Permits retired employees receiving state health insurance coverage to opt to receive a cash payment in lieu of the state health insurance, providing the retiree has other non-state health insurance coverage.

FISCAL IMPACT

Most of the statutory items selected for amendment have no direct savings attached to them. Both the retiree medical and cash option payments changes will have savings, but the savings is unknown at this time because new rates will need to be established.

ANALYSIS AND BACKGROUND

Personnel/Merit System Reforms: The Article amends RIGL 30-15-5 adding the position of Assistant Executive Officer in the Rhode Island Emergency Management Agency to the State's unclassified service.

This article amends RIGL 36-3-10 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. This section requires the Board to give deference to the degree of discipline imposed on an employee by the appointing authority only if the facts of the appeal are consistent with the facts relied upon by the appointing authority and the action and discipline imposed are not 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:

- Permits the Governor to delegate authority to the Director of the Department of Administration to approve changes to the pay plan for unclassified employees.

- Extends the probationary period from 6 months to 12 months for new and promoted appointments to the classified service. This amendment 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.
- Adds the following positions to the State's unclassified service:

Position	Department
Chief Digital Officer	Administration
Cybersecurity Officer	Administration
Chief of Staff	Business Regulation
Legislative/Policy Director	Business Regulation
Chief of Staff	Environmental Management
Chief Public affairs Officer	Environmental Management
Policy Director	Environmental Management
Deputy Director	Veteran's Affairs
Chef of Staff	Veteran's Affairs
Communications/Legislative Director	Veteran's Affairs
Policy Director	Veteran's Affairs
Chief Medical Officer (Eleanor Slater)	BHDDH
Chief Medical Officer	BHDDH
Chief of Community Relations	BHDDH
Public Information Officer	Corrections
Chief Inspector	Corrections
Public Information Officer	Children, Youth, and Families
Policy Director	Children, Youth, and Families
Medicaid Program Director	Health and Human Services
Communications Director	Health and Human Services
Legislative/Policy Director	Health and Human Services

Department Directors' Salaries: Section 4 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 5 amends RIGL 36-6-3 and 36-6-5 to allow the directors' salaries to be set in the same manner as salaries for employees of the Governor's Office and to receive cost of living adjustments in the same manner as employees of the executive branch who are not covered by a collective bargaining agreement.

The current range of salaries for the various state agency directors is $118,914 for the Director of Corrections to $205,706 for the Secretary of Commerce.

Most state employee salaries are not subject to public hearing and General Assembly authorization. Consequently, in many departments there are employees who earn more than the department director. According to the Department of Administration there is no direct savings anticipated with passage of this section.

Insurance Benefits: Section 6 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. 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.

Insurance Cash Payment Option: Section 7 permits retired employees receiving state health insurance coverage to opt to receive a cash payment in lieu of the state health insurance, provided the retiree has other non-state health insurance coverage. The Director of the Department of administration is authorized to promulgate and adopt a set of rules to administer the retiree health insurance cash option procedure.

Article 4: Relating to Government Reorganization

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

- Establishes by statute the Office of Diversity, Equity, and Opportunity which was established by Executive Order 13-05 in 2013.
- Repeals the existing Bureau of Audits statutes, and establishes an Office of Internal Audit to standardize audit functions across executive agencies by consolidating the functions and merging personnel from the Bureau of Audits and similar units in the Departments of Transportation, Human Services, and Higher Education into the Office of Internal Audit within the Office of Management and Budget.
- Establishes the Independent Office of Veterans Affairs by elevating the Division of Veterans Affairs under the Department of Human Services to an autonomous office reporting directly to the Governor.
- Establishes by statute a centralized Division of Enterprise, Technology, Strategy, and Service (DETSS) within the Department of Administration to oversee the Office of Digital Excellence, the Division of Information Technology, and the Office of Library and Information Services.
- Establishes by statute the Division of Capital Asset Management and Maintenance (DCAMM) to centralize the management of the capital assets of the state including state property and state facilities.
- Transfers administrative responsibilities associated with the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) from the Department of Human Services to the Department of Health.

FISCAL IMPACT

The Budget Office does not have specific savings attached to the article.

- The formal establishment of the Office of Diversity, Equity, and Opportunity is not anticipated to generate any fiscal impact as the Office will continue at current FTE position levels and funding.
- The Governor saves $165,798 by abolishing two FTE positions as part of the centralization of executive agency audit functions into a new Office of Internal Audit.
- The Director of Veterans Affairs is a new position and the salary and benefit cost is $218,090, of which $154,844 is general revenue.
- The formal establishment of the Division of Enterprise, Technology, Strategy, and Service (DETSS) within the Department of Administration is not anticipated to generate any fiscal impact.
- The formal establishment of the Division of Capital Asset Management and Maintenance is not anticipated to generate any fiscal impact because funding for the 5.0 FTE positions being transferred into this Office from other agencies was included in the FY2016 Budget as Enacted.
- The transfer of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) from the Department of Human Services to the Department of Health reflects only a shift of federal funds between the two agencies.

ANALYSIS AND BACKGROUND

DOA - Office of Internal Audit

This Article repeals the existing Bureau of Audits and creates a new Office of Internal Audit (OIA) under the supervision of the Office of Management and Budget (OMB). The purpose for the new office is to standardize audit functions across executive agencies by consolidating the Bureau of Audits with personnel from similar units in state government. The OIA is authorized to conduct audits on any state agency, state entity, or private entity receiving state funding or grants. The OIA may evaluate the efficiency of an agency's operations and internal controls; and prevent or detect fraud and mismanagement. Copies of audit reports shall be submitted to the chairperson's of the Senate and House Finance Committees. In addition, the OIA shall produce an annual report summarizing the activities of OIA during the fiscal year. The annual report will be presented to the Director of OMB and posted on the office's website.

As part of the reorganization, the audit functions and personnel from the Bureau of Audits (12.0 FTE positions), Department of Transportation External Audit (7.0 FTE positions), Department of Human Services Fraud Unit (9.0 FTE positions), and 2.0 FTE positions from Higher Education shall transfer into the newly established Office of Internal Audit within the Office of Management and Budget. The consolidation abolishes two vacant positions (Department of Transportation and Department of Human Services) resulting in $165,798 savings.

Analyst's Note: The DOT External Audit Unit was transferred to the Bureau of Audits under 2016-S-2246 Sub A as Amended (Rhodeworks).

DOA - Office of Diversity, Equity, and Opportunity

This article codifies in law the Office of Diversity, Equity, and Opportunity within the Department of Administration, which was established by Executive Order 13-05 in 2013. The Office of Diversity, Equity, and Opportunity consists of the following subprograms: the State Equal Opportunity Office, Minority Business Enterprise Compliance Office, and the Outreach and Diversity Office. The mission of the Office is to create and support a diverse and inclusive state government culture that values and reflects the changing demographics of Rhode Island by advancing equitable and fair opportunities for all Rhode Island citizens to be employed by or doing business with the State of Rhode Island.

DOA - Division of Enterprise, Technology, Strategy, and Service

This article codifies in law the Division of Enterprise, Technology, Strategy, and Service (DETSS) within the Department of Administration to oversee the Office of Digital Excellence, the Division of Information Technology, and the Office of Library and Information Services. This is an internal reorganization to align technical expertise across executive branch agencies. There is no fiscal impact.

DOA - Division of Capital Asset Management and Maintenance

This article codifies in law the Division of Capital Asset Management and Maintenance (DCAMM) within the Department of Administration to centralize the management of the capital assets of the state including state property and state-owned facilities. In addition, the Governor proposes to transfer 3.0 FTE positions from the Department of Transportation (DOT) Maintenance Division into DCAMM. These three positions are involved in maintaining DOT related buildings. The new division will oversee the following areas:

- Office of Planning, Design and Construction (PDC) will manage new construction and rehabilitation projects.
- Office of Facilities Management and Maintenance (OFMM) will maintain the state facilities.
- Contractors' Registration and Licensing Board will continue to register every contractor, remodeler, and most subcontractors who are in the business of building or repairing residential

and commercial structures. Also anyone who demolishes or moves a residential/commercial structure must register so that claims filed against them can be heard and settled.

- State Building Code
- Office of Risk Management
- Fire Safety Code Board of Appeal and Review
- Office of State Fleet Operations will continue to administer the purchase, repair, and disposal of state vehicles and operates 15 state fuel depots.

Office of Veterans Affairs

This article establishes an Office of Veterans' Affairs (OVA) by elevating the Division of Veterans Affairs under the Department of Human Services to an autonomous office reporting directly to the Governor. A Director of Veterans' Affairs will be appointed and report directly to the Governor; however, OVA will remain under the Department of Human Services for administrative purposes. The Director of Veterans Affairs will be a new position and the salary and benefit cost is $218,090, of which $154,844 is general revenue. The new Director will have authority to promulgate and adopt rules as well as apply and administer grants from the federal government and private entities.

Analyst's Note: The section establishing the new position of Director of the Office of Veterans' Affairs does not include language requiring the new position receive the advice and consent of the Senate.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

This article transfers the Women, Infants, and Children (WIC) Program into the Department of Health, from the Department of Human Services, to comply with federal statutes and regulations requiring that the WIC program be administered by a state agency with direct responsibility for maternal and child health, immunization, and other public health programs. The transfer of the program reflects a shift of $25.8 million in federal funds and 13.0 FTE positions to the Department of Health.

Analyst's Note: This program, along with personnel and federal funds, was transferred to the Department of Human Services on October 1, 2010, under P.L. 2010 Chapter 23 Article 7(2).

Article 5: Relating to Capital Development Program

This article submits a total of $257.5 million in ballot referenda to Rhode Island voters for their approval. Proposed as six questions on the November ballot, the following projects are included.

November 2016 Bond Referenda		Amount
Leveraging Higher Education to Create 21st Century Jobs		$45.5
University of Rhode Island College of Engineering	*25.5*	
Innovation Campus	*20.0*	
Port of Davisville at Quonset		70.0
Green Economy		35.0
Historic State Park Development Program	*7.0*	
State Land Acquisition - Open Space	*4.0*	
State Bikeway Development Program	*10.0*	
Brownfield Remediation and Economic Development	*5.0*	
Stormwater Pollution	*3.0*	
Local Recreation Development Matching Grant Program	*2.0*	
Local Land Acquisition Matching Grant Program	*4.0*	
Housing Opportunities		40.0
School Construction		40.0
Veterans Home		27.0
Total		**$257.5**

$ in millions.

FISCAL IMPACT

The article permits $257.5 million in bond referenda to be placed on the November 2016 ballot including $45.5 million in bonds for higher education, $70.0 million in bonds for the Port of Davisville at Quonset, $35.0 million in bonds for the Green Economy, $40.0 million for Housing Opportunities, $40.0 million for School Construction, and $27.0 million in bonds for the Veterans Home. Assuming full issuance in bond year 1, as shown in the voter pamphlets, 4.0 percent interest on issuances in FY2016, and 5.0 percent interest on issuances in FY2017 through FY2020, debt service payments begin in FY2017 at $19.6 million.

ANALYSIS AND BACKGROUND

Leveraging Higher Education to Create 21st Century Jobs

- **University of Rhode Island College of Engineering:** The Governor recommends a $25.5 million bond referendum to renovate and construct an addition to Bliss Hall on the Kingston Campus, as the second phase of the Engineering School project. The project will upgrade building systems, improve classroom space, modernize teaching laboratories, and provide advanced research facilities, as well as the addition to Bliss Hall. In 2014 a $125.0 million bond referendum was approved by voters to begin a comprehensive overhaul of physical space dedicated to engineering programs at URS. The 2014 bond provided for the renovation of Kirk Hall and the demolition of Crawford Hall, Gilbreth Hall, Kelly Hall and Annex, and Wales Hall.

- **Innovation Campus:** The Governor recommends a $20.0 million bond referendum to build one or more innovation campuses through a university-business collaboration for cutting-edge research, product, service and business development. The proposal is based on recommendations from the 2016 Brookings "Rhode Island Innovates" report. The State will conduct a competitive process to determine the location and type of campus or campuses. Minimal proposal requirements include the involvement of a Rhode Island-based university, a greater investment of private or federal funds that state funds, at least one business partner, and the creation of a substantial number of jobs at a variety of skill levels. Priority will be given to proposals that include a state university as a sponsor.

Port of Davisville at Quonset

The Governor recommends a $70.0 million bond referendum for infrastructure modernization and repairs at the Port, including Pier 2. Pier 2 was built in 1956 and has outlived its original design lifespan of 50 years. According to the Quonset Development Corporation, the improvements will add another 50 years of design lifespan to the pier and create an additional berth capable of docking the auto carriers, allowing an additional 100,000 more units per year. The Corporation projects the auto carrier business will increase by 4.5 percent per year over the next 6 years, with import volumes growing to 295,600 units. In addition to autos, the Port handles various cargoes, including timber pilings from South America, wind turbine components, defense industry manufactured goods, and cogeneration equipment.

The total project cost is $82.0 million for the Pier 2 Improvements, and $8.0 million for port improvements, including work to Pier 1. The remaining $20.0 million is provided through Article 6 which authorizes the Rhode Island Commerce Corporation to issue special obligation bonds of not more than $20.0 million in General Assembly approved debt.

Green Economy

The Governor recommends a $35.0 million general obligation bond authorization be placed on the November 2016 ballot for environmental and recreational purposes to be allocated as follows:

- **Historic State Park Development Program:** The referendum provides $7.0 million for major capital improvements to state-owned properties that will leverage funding from other sources such as the National Park Services's Land and Water Conservation Fund. Priority projects include renovation of the bathroom pavilion, a new golf course facility building, historic roof replacement and landscaping at Goddard Park; a new restroom facility and maintenance building at Fort Adams; restoration of the historic stone barn at Colt Park; barn replacement and a visitor center at Coggeshall Farm, restoration of the restroom facility and visitor center at Brenton Point; restoration of the historic barn at Snake Den; and barn improvements at Urban Edge Farm.

- **State Land Acquisition – Open Space:** The referendum adds $4.0 million for state land acquisition. Since 1985, the State has acquired or protected more than 20,250 acres of open space through the purchase of land, development rights and conservation easements statewide. The State has adopted a goal to protect 3,000 acres annually through the land acquisition program. On average, DEM is able to leverage 75.0 percent of funding from federal and/or local sources. The November 2004 ballot included $10.0 million, the November 2008 ballot included $2.5 million, and the November 2012 ballot included $2.5 million in general obligation bond funds for this program. The 2004 and 2008 bond proceeds were exhausted in FY2014, and the 2012 bond proceeds are expected to be exhausted in FY2016.

- **State Bikeway Development Program:** The referendum provides $10.0 million to design and construct bikeways, including the completion of the Blackstone River Bikeway, and the South County Bikeway.

- **Brownfield Remediation and Economic Development:** The referendum provides $5.0 million to provide up to 80.0 percent in matching grants to public, private or non-profit entities for brownfield remediation projects. According to the Department of Environmental Management (DEM), brownfields comprise between 100,000 and 120,000 acres of land across the State, much of it in prime commercial or industrial locations within urban areas. The clean-up and re-purposing of these sites will remove hazards, attract jobs, and protect the urban environment. The federal Environmental Protection Agency estimates that brownfield clean-up increases adjacent property values by 2.0 to 3.0 percent. As part of the $53.0 million bond referendum for Clean Water, Open Space, and Healthy Communities initiative on the November 2014 ballot, the voters approved the initial $5.0 million in general obligation bond for brownfield remediation projects. DEM recently awarded $3.8 million of these grant funds to support 14 projects across the State. Another round of awards will be held in the spring of 2016 to award the remaining $1.3 million. The 2016 bond funds will be used to grow this program.

- **Stormwater Pollution:** The referendum provides $3.0 million to provide up to 75.0 percent in matching grants to public, private or non-profit entity projects that reduce stormwater pollution. Pollution caused by the contaminants carried by storm water cause closures of beaches and shell fishing beds, as well as other degraded conditions that impair the use of rivers, lakes and coastal waters. Much of the State's developed landscape lacks proper storm water controls. The State's water quality restoration plans will provide the technical basis for prioritizing stormwater controls.
- **Local Recreation Grants:** The referendum provides $2.0 million to municipalities to match grants of up to 80.0 percent of project costs to acquire, develop, or rehabilitate local recreational facilities such as sports fields, tennis courts, and playgrounds. The grant applications will be evaluated and ranked by the State Recreation Resources Review Committee, which is comprised of state and local government officials and representatives of non-profit agencies. DEM is scheduled to exhaust the remaining $4.0 million in 2014 bond funds for grant awards in 2016. The new bond would be used to continue the program in FY2017.
- **Local Land Acquisition:** The referendum provides $4.0 million for grants to municipalities, local land trusts, and non-profit organizations to acquire fee-simple titles, development rights, or conservation easements of open spaces throughout the state. Through this program, DEM will provide up to 50.0 percent of project costs, and applications are reviewed by the Governor's Natural Heritage Preservation Commission. Over 160 conservation projects preserving over 10,000 acres of land have been acquired including Sunset Farms in Narragansett, Weetamoe Woods in Tiverton, Glacier Park in Westerly, and Mount Hope Farm in Bristol. For the first time in the 30 year history of this program, DEM has depleted all the available funds.

Housing Opportunities

The Governor recommends $40.0 million in bond proceeds to promote affordable housing programs through redevelopment of existing structures, new construction, and/or foreclosure assistance. The funding will be allocated through Building Homes Rhode Island for the development of apartments, for-sale homes and supportive housing. The bond is expected to finance the development of 800 homes for low-income Rhode Islanders with special needs, working families and provide home ownership opportunities.

Affordable housing bond referenda were approved in the amount of $25.0 million in FY2012 and $50.0 million in FY2006. These previous bond issuances have financed the development of 1,944 homes in 30 communities.

School Construction

The Governor recommends $40.0 million in bond proceeds to fund the School Building Authority Capital Fund. The proceeds would be used to repair, upgrade, and modernize public schools, focusing on projects that demonstrate an urgent health and safety need or an investment in science, technology, engineering, arts/design, and math (STEAM), as well as career and technical education learning spaces.

Veterans Home

The Governor recommends $27.0 million in bond proceeds for the construction of a new Veterans Home and renovation of existing facilities in Bristol. This authorization is in addition to the ballot approved in 2012 providing $94.0 million; however, due to an increased federal reimbursement, the cost to the State will decrease by $12.4 million.

The original design was estimated to cost approximately $94.0 million; consequently, the 2012 bond referendum was written to allow the full use of the $94.0 million, net federal reimbursement, in case federal funds were not awarded. After voter approval of the 2012 referendum, the federal Veterans Administration approved a different design with a community living center and clusters of private rooms arrayed around the common areas, instead of the semi-private rooms included in the original design. This new design is consistent with modern VA nursing home standards, and is estimated to cost $120.5 million, including $59.9 million in state funds and $60.6 million in federal reimbursements. The language of the 2012 bond referendum, however, only allows the State to issue $33.4 million ($94.0 million minus the $60.6 million federal reimbursement) leaving a shortfall of $25.5 million. The new bond referendum will address this shortfall to fully fund the new Veterans Home at a reduced cost to the State.

Veterans Home Project

	Original Estimate	Revised Estimate	Difference
State Funds	$72.3	$59.9	($12.4)
Federal Funds	21.2	60.6	39.4
Total	**$93.5**	**$120.5**	**$27.0**

$ in millions.

Article 6: Relating to Debt Management Act Joint Resolution

This article serves as a joint resolution for the issuance of up to $20.0 million in debt required pursuant to RIGL 35-18-1, commonly known as the Kushner Act. The proposed project includes pier and port improvements to Pier 2 at the Quonset Davisville Port in the Town of North Kingstown.

FISCAL IMPACT

Total debt service on the bonds, including principal and interest, is not expected to exceed $1.5 million annually, at a 4.5 percent borrowing rate over a 20-year repayment period.

ANALYSIS AND BACKGROUND

This article serves as a joint resolution required pursuant to RIGL 35-18-1 for the issuance of debt for the Quonset Harbor, Pier, and Port Improvements Project at the Quonset Development Corporation (QDC) business park in the Town of North Kingstown. The article authorizes the Rhode Island Commerce Corporation to issue special obligation bonds of not more than $20.0 million in General Assembly approved debt. The article authorizes the repayment of these bonds through a loan repayment agreement using revenues from port and business park rents and fees.

This article coincides with the Governor's Article 5 Bond Referenda proposal for voter approval of a $70.0 million bond for the Pier 2 and port improvement project. Pier 2 was built in 1956 and has outlived its original design lifespan of 50 years. According to the QDC, the improvements will add another 50 years of design lifespan to the pier and it will create an additional berth capable of docking the auto carriers which will provide an additional 100,000 more units per year. The Corporation projects the auto carrier business will increase by 4.5 percent per year over the next 6 years, with import volumes growing to 295,600 units. In addition to autos, the Port handles various cargoes, including timber pilings from South America, wind turbine components, defense industry manufactured goods, and cogeneration equipment.

The total project cost is $82.0 million for the Pier 2 Improvements, and $8.0 million for port improvements, including work to Pier 1. The projected cost of the Pier and Port Improvements are as follows:

Description	Cost Estimate
New Anchored HZ-M Bulkhead from Seafreeze Ltd. to Southeast Corner of Pier 2	$37.8
New Anchored HZ-M Bulkhead from Southeast Corner to Northeast Corner of Pier 2	20.3
Pier 2 Extension	16.1
Pier 1 Improvements	8.0
Design and Permitting of Pier 2 Related Work	4.0
Pier 2 Improvements Dredging	3.8
Total	**$90.0**

$ in millions

Source: Quonset Development Corporation

The Quonset Business Park has almost 200 companies with approximately 11,000 workers and has one of the top 10 automobile importers of North America. In 2014, the Port of Davisville accounted for about $333.0 million in business output for the State, with approximately 1,500 jobs and $20.7 million in household earnings.

Article 7: Related to Medicaid Reform Act of 2008 Resolution

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

The annual appropriation bill passed by the General Assembly typically includes an article that provides legal authority for Medicaid initiatives that have budgetary savings associated with them. In recent budgets, this article has also included a series of resolutions that describe changes to the Medicaid program that underlie the budget's appropriation but that do not require statutory action, rather regulatory changes. This article grants OHHS the authority to undertake all actions required to realize the funding levels included in Article 1. Article 9 includes language for the statutory changes needed to implement several of the associated initiatives.

FISCAL IMPACT

The Governor's budget includes $8.8 million ($22.7 million all funds) in savings and recommends expenditure of $2.0 million in general revenues and ($4.1 million all funds) for a net savings of $6.8 million ($18.6 million all funds) in FY2017.

Article 7 Proposals	General Revenues	All Funds
Nursing Facility Rates Freeze	($2.0)	($4.1)
Beneficiary Cost Share	(1.5)	(3.1)
MCO Administrative Rate Reduction	(3.3)	(8.8)
Re-procurement of MCO contract	(2.0)	(6.7)
Direct Care Wage Increase	2.0	4.1
Total	**($6.8)**	**($18.6)**

$ in millions

ANALYSIS AND BACKGROUND

Nursing Facility Payment Rates: This resolution eliminates the inflation-based rate increase to nursing facilities, taking effect in October, 2016, maintaining current rates for nursing facilities.

This initiative is tied to the FY2013 Budget as Enacted which included a policy adjuster to nursing homes rates to ease the transition from cost-based payment methodology to a price based methodology over 4 years. These adjuster rates are tied to the national nursing home inflation index and will constitute a two year rate freeze. The Governor's proposal for FY2017 generates $2.0 million in general revenue ($4.1 million all funds) savings.

Beneficiary Liability Collection Enhancements: EOHHS seeks authority to implement improved methods for collecting beneficiary liabilities in the Medicaid Fee-For-Service (FFS) system and the Rhody Health Options (RHO) programs. Federal law requires beneficiaries who receive long-term service and support (LTSS) to pay a certain financial contribution toward their cost of care, known as a cost share. Currently, the state does not have an effective method of collecting or reporting payments needed to comply with federal reporting requirements. This initiative gives EOHHS authority to enhance methods for collection of cost share in a timely manner. The funds collected are used for the sole purpose of offsetting the EOHHS financial contribution toward LTSS expenditures, yielding a savings of $1.5 million in general revenue ($3.1 million all funds) in FY2017.

Administrative Rate Setting for Managed Care Organizations: The article alters the manner in which Managed Care Organizations (MCO) administrative rates are set from a variable to a fixed approach. These administrative rates are based on the MCOs operating expenses and include, among other responsibilities, claims processing, patient-centered care management, member services, financial and operational oversight, provider networking, and a risk margin. Currently, the state pays a per member per month (PMPM) administrative rate to MCO's ranging from 14.5 percent for beneficiaries in substitute DCYF care to 8.6 percent for Rhody Health Options, dual eligible and long-term care beneficiaries. In FY2016 EOHHS paid $148.0 million to the MCO's for administrative rates and EOHHS expects to pay $150.0 million in FY2017.

The fixed approach will incorporate an approximate 5.0 percent decline in the MCO administrative rate compared to EOHHS' baseline estimate, however total payments will still reflect a slight increase in the net administrative dollars paid to the MCOs. Details of the fixed rate remain under development; however, EOHHS has generated the savings based on a preliminary analysis of year-over-year increases in administrative costs paid to its managed care partners It is unclear what impact this will have on MCO's when coupled with additional savings expectations proposed in the Governor's budget. This proposal yields $3.3 million in general revenue ($8.8 million all funds) savings in FY2017.

Analyst's Note: In 2015 Neighborhood Health Plan of Rhode Island (NHP) managed 65.0 percent of the overall Medicaid enrollees and exclusively manages some of the most complex and costly medical beneficiaries, Rhody Health Option Dually eligible, and children in substitute DCYF care. Declining revenues could impact NHP's ability to maintain sufficient cash reserves.

Re-procurement of the Managed Care Organization Contract: The article includes language to support the re-procurement of the State's $1.0 billion Medicaid Managed Care Organization (MCO) contract expected to take effect on September 1, 2016. EOHHS indicates savings will be achieved through creating performance-based incentive contracts.

The MCO contract includes the RIte Care plans for children and families, Rhody Health Partners plan for low-income elders and persons with disabilities, and adult Medicaid expansion under the Affordable Care Act of 2010. The re-procurement may require amendments to the state waiver and will include the need to conduct an actuarial analysis and may require amendments to agency rules and regulations to reconfigure in-plan and out-of-plan benefits. Re-procurement is estimated to generate $2.0 million in general revenue savings ($6.7 million all funds) in FY2017.

Managed Care Organization Reductions in FY2016 and FY2017

MCO Reductions	FY2016 General Revenue	FY2017 General Revenue	FY2017 All Funds
Administrative Rate Reduction	($1.0)	($3.3)	($8.8)
Reduced Contracts	($4.6)	($2.0)	($6.8)
Total	**($5.6)**	**($5.3)**	**($15.6)**

$ in millions

Long-Term Care Provider Wage Increase: The article gives EOHHS authority to establish the wage pass through program to increase wages for direct care workers providing care to long-term care beneficiaries living in the community. Through the Reinventing Medicaid public process, held in 2015, stakeholders, community providers and direct care workers expressed the need to increase wages in order to strengthen the direct care workforce in support of the effort to increase community options for individuals receiving LTSS.

The article proposes development of a wage-pass through program for personal care attendants and home health aides that support individuals living in the community. This article will require amendments to the

Medicaid State Plan and/or the 1115 Demonstration Waiver to determine payment methodologies and regulations establishing the wage-pass through program. Additionally, EOHHS intends to create a “claw back” provision to ensure the increase is flowing directly to increase wages of front-line staff. The Governor’s proposal includes a 6.0-7.0 percent (approximately $0.45 hourly) increase to direct care worker pay and is expected to increase general revenue expenditures by $2.0 million ($4.1 million all funds) in FY2017.

Mandatory Enrollment for Integrated Care Initiative (ICI): This article allows EOHHS to mandate beneficiaries of long-term services and supports and individuals who are dually eligible for Medicaid and Medicare, to enroll in the Integrated Care Initiative (ICI). Approximately 21,000 are currently enrolled and 31,700 are eligible for enrollment for various programs within ICI.

The Integrated Care Initiative (ICI) is designed to better align the care and financing of Medicare and Medicaid, promote home and community based care, and provide cost-effective care for adults with disabilities and the elderly. The program has been developed in two phases over three years, beginning in November 2013, to better align the financing of Medicare and Medicaid and integrate primary, acute, behavioral health, and LTSS for Medicare-Medicaid enrollees. Mandatory enrollment is revenue neutral and will require CMS approval for amendments to the 1115 demonstration waiver.

Alternative Payment Arrangements: This article grants EOHHS authority to leverage available resources by repurposing funds produced through alternative payment methodologies and obtaining federal financial participation for cost not otherwise matchable. This effort is intended to maximize the value and cost-effectiveness as well as tie payments to health outcomes and quality to payments and further the Reinventing Medicaid initiative.

Payment reform strategies proposed in Article 9 primarily focus on payment reform initiatives with Nursing Facilities and Hospitals. This effort to re-purpose is moving the health care delivery system from a “fee for service” model toward a “value-based”. The following table demonstrates the alternative payment initiatives within the Governors FY2017 budget proposal.

Hospital and Nursing home, DSRIP and DSH Initiatives 2017

Initiative	General Revenue	Federal Funds
Hospital Performance Based	$13.0	$13.5
Nursing Home Performance Based	8.3	8.6
Repurpose UPL Payment	(13.9)	(14.4)
Reduce Hospital DSH Payment	(7.4)	(7.7)
Total Change	**$0.0**	**$0.0**

Source: Office of Management and Budget

Implementation of Approved Authorities: The article allows EOHHS, in conjunction with the Department of Human Services, the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals, and the Department of Children, Youth, and Families, to amend the Section 1115 Waiver. The amendment would expand dementia care services for individuals up to 250 percent of the Federal Poverty Level (FPL), expedite LTSS eligibility process, promote “health home” management model, peer services and home stabilization, and promote home and community based programming to align with the overall efforts of the Reinventing Medicaid initiative.

Analyst’s Note: It is unclear if expansion of the dementia care services program expansion is fully funded in the Governor’s Budget.

This article revises and adds to the statutes governing the Medical Assistance (Medicaid) program, implementing certain initiatives set forth in the Governor’s FY2017 Budget and aligning the General

Laws with the stated goals of the Reinventing Medicaid process ensuring access to high quality, efficient health care delivery system which delivers better health outcomes for Rhode Islanders

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

Analystă Note: Clarification is needed when defining "adverse" impact on beneficiary.

Article 8: Relating to Licensing of Hospital Facilities

This article reinstitutes the annually-enacted Hospital License Fee at the rate of 5.862 percent and a discounted rate of 3.693 for hospitals located in Washington County. Licensing fees are generated upon net patient services revenue of hospitals for the hospital's first fiscal year ending on or after January 1, 2014. Through a pending waiver submitted to the Centers for Medicare and Medicaid Services, Washington County hospitals' license fee is discounted by 37.0 percent. These license fees are payable by July 10, 2017, but are accrued as FY2017 revenues by the State Controller.

FISCAL IMPACT

The fee is estimated to raise $169.1 million in revenue, consistent with FY2016 Budget as Enacted.

ANALYSIS AND BACKGROUND

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

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

Fiscal Year	Rate	Revenue
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	5.745%	157.2
2016	5.862%	169.1
2017*	5.862%	169.1

**Proposed*

$ in millions

Article 9: Relating to Medical Assistance and Uncompensated Care

This article revises and adds to the statutes governing the Medical Assistance (Medicaid) program, implementing certain initiatives set forth in the Governor's FY2017 Budget and aligning the General Laws with the stated goals of the Reinventing Medicaid process; ensuring access to high quality, efficient health care delivery system which delivers better health outcomes for Rhode Islanders.

FISCAL IMPACT

This article would increase general revenues by $4.0 million in FY2017. These adjustments are attributed to an increase general revenue expenditures of $2.0 million ($4.1million all funds) for a direct care worker wage increase, a $4.0 million increase in general revenue collections due to an assessment rate increase on commercial insurers to fund the Children's Health Account, and a reduction in general revenue expenditures of $2.0 million for elimination of funding for the Medical Graduate Program. All other initiatives are revenue neutral and/or savings will be repurposed for ongoing Reinventing Medicaid initiatives.

ANALYSIS AND BACKGROUND

Restoration of Early Intervention Reimbursement Rates: This article restores statutory language guaranteeing that providers of Early Intervention (EI) services receive reimbursements equal to the integrated Medicaid rate. During the 2015 legislative session, reimbursement language establishing reimbursement rates for EI providers was inadvertently repealed. This leaves EI providers unable to receive appropriate reimbursements from insurers.

EI provides services to children ages birth to age three who have been identified as needing supportive services due to developmental delays in one or more areas of development. Services are tailored to meet the needs of the child and may include speech therapy, physical therapy, occupational therapy, social programing, and assistive technology support. During the 2015 legislative session, the $5,000 annual cap for private insurance coverage for EI services was removed, thus requiring private insurers to fully fund EI services for covered beneficiaries. This shifted a larger portion of EI provider reimbursements from private health insurance plans, underscoring the need for reimbursement rates equal to the Medicaid rate.

Repurposing Savings Toward Alternative Care Models

EOHHS has been working to improve the delivery system for Medicaid funded services and coordinate state-wide health care reform activities. Many of the initiatives outlined within this article will be supplemented with overall state-wide policy initiatives to ensure Rhode Islanders have access to high quality, efficient health care delivery system aimed at delivering better health outcomes. Many of the policy initiatives are based on moving from "fee for service" payment models toward value-based purchasing.

- **Hospital and Nursing Home Payments:** The article caps payment rates on annual increases in fee-for-service outpatient hospital rates to no greater than the CMS Outpatient Prospective Payment System (OPPS) Hospital Price Index and sets the base year for future rate adjustments. OPPS establishes annual reimbursement rates for covered services and payment methodology for Out Patient Hospitals and Ambulatory clinics for Medicare. This initiative is expected to be revenue neutral and assist EOHHS in their efforts to move toward value-based contracting with providers.

- **Nursing Home Incentive-Based Payments:** This article eliminates the FY2017 nursing facility rate increase (or "COLA"), scheduled for October 1, 2016, generating savings of $2.0 million ($4.1 million all funds) in FY2017. The savings would be repurposed to finance an alternative incentive-based payment strategy that was established in the Reinventing Medicaid Act of 2015. This initiative is expected to be revenue neutral.
- **Disproportionate Share Payments:** Rhode Island's community hospitals receive payments from EOHHS and the federal government for uncompensated care hospitals provide to uninsured and indigent patients. These payments are commonly known as Disproportionate Share Hospital (DSH) payments. The article amends "Uncompensated Care" language, changing the definition of a base year entirely and strikes the provision establishing the disproportionate share hospital payment set to increase in FY2017. The new language reduces the state statutory ceiling, from $138.2 million to $125.0 million, producing $13.5 million in general revenue savings in FY2017. DHS Payments to Community Hospitals were $140.5 million in FY2016. The associated savings would be redirected to performance-based incentive programs for hospitals and nursing homes.
- **Upper Payment Limits:** This article repeals section 40-8.3-10 of the Uncompensated Care statute. This will eliminate both the inpatient and outpatient Upper Payment Limit (UPL) payments to community hospitals, yielding $13.7 million in savings in FY2017. UPL are payments made by the state to hospitals, matched by the federal government, to bring its total Medicaid expenditures up to Medicare upper payment limits. The savings from this initiative will be repurposed to performance-based incentive programs with hospitals and nursing homes.

Hospital and Nursing Home, DSRIP and DSH Initiatives 2017

Initiative	General Revenue	Federal Funds
Hospital Performance Based	$13.0	$13.5
Nursing Home Performance Based	8.3	8.6
Repurpose UPL Payment	(13.9)	(14.4)
Reduce Hospital DSH Payment	(7.4)	(7.7)
Total Change	**$0.0**	**$0.0**

$ in millions

Source: Office of Management and Budget

RIte Share Premium Assistance: This article modifies the RIte Share Premium Assistance program definition and expands Medicaid covered groups to include adults nineteen (19) and older as either low-income disabled or as part of the Affordable Care Act (ACA) Medicaid expansion. For qualified Medicaid beneficiaries, EOHHS will create a process to assess the most cost effective method to insure the individual, either full coverage through Rhode Island's MCO plans or through the RIte Share premium assistance program.

The RIte Share program is a health insurance premium assistance program that pays for all or part of the employee's employer sponsored insurance (ESI). The amended language sets forth the Modified Adjusted Gross Income (MAGI) based income levels determining the rules under which RIte Share participation occurs. Additionally, the article establishes a "buy-in" provision, not to exceed 5.0 percent of the individual's annual income, for beneficiaries with family income above 150.0 percent of the Federal Poverty Limit (FPL).

In instances when the ESI plan is found to be more cost effective, the eligible Medicaid members will be required to enroll in their offered ESI plan and participate in the RIte Share program. EOHHS will ensure that the average cost of subsidizing the ESI coverage and wrap around Medicaid benefits, is less than enrolling the beneficiary in the state Medicaid managed care plan. The efficiencies produced by this initiative are expected to save $200,000 in general revenues in FY2017.

Community Health Teams: Under this article, EOHHS expands the definition of Medicaid managed care benefits to include community health teams (CHT), and clarifies language regarding mandatory managed care enrollment. The State is authorized to implement a mandatory managed system of care, which is supported by the “medical home” model, placing emphasis on primary care. This article would include CHT as part of the primary care case management model.

The State Innovation Model identifies the expansion of community health teams as component of health care delivery reform. Rhode Island has begun developing the CHT model through initiatives spearheaded by the Care Transformation Collaborative (CTC), health centers and medical insurers. The CHT model is intended to support primary practices attempts to address individuals with complex medical needs within the community through a coordinated multidisciplinary team approach.

Wage Pass Through Program: The article establishes a wage pass through program to increase wages for direct care workers providing care to long-term care beneficiaries living in the community. Through the Reinventing Medicaid public process, held in 2015, stakeholders, community providers and direct care workers expressed the need to increase wages in order to strengthen the direct care workforce in support of the effort to increase community options for individuals receiving LTSS.

In response to the expressed need, this article proposes a wage-pass through program for personal care attendants and home health aides that support individuals living in the community. This article will require amendments to the Medicaid State Plan and/or the 1115 Demonstration Waiver to determine payment methodologies and regulations establishing the wage-pass through program. Additionally, EOHHS intends to create a “claw back” provision to ensure the increase is flowing directly to increase wages of front-line staff. The Governor’s proposal includes a 7.0 percent ($0.45 hourly) increase to direct care worker pay and is expected to increase general revenue expenditures by $2.0 million ($4.1 million all funds) in FY2017.

Person Centered Planning: The article ensures beneficiaries enrolling in managed care long-term care arrangement are provided with options counseling to assist them in making informed choices in the delivery of their care. This amendment requires the agency to meet new federal requirement on person centered planning and options counseling that is to be in the best interest of the beneficiary-rather than the interest of the payer or provider.

This initiative will support the ongoing Integrated Care Initiative (ICI), ensuring enrollees are made fully aware of all options and benefits of various state offered programs. There are no recognized savings with this initiative.

Duties of the Secretary: This article grants the Secretary of Health and Human Services authority to institute fiscal controls within the overall budget of the Executive Office in order to achieve the full amount of FY2016 savings attributable to the Reinventing Medicaid initiative.

Analyst's Note: It is unclear what scope of authority the Secretary of Health and Human Services will have beyond existing statutory authority to modify or change programs and benefits. Additionally, it is not clear if the authority pertains specifically to the Executive Office of Health and Human Services exclusively, or includes the budgets of agencies under the EOHHS umbrella.

Children’s Health Account: This article will increase an assessment on private and self-funded insurers to fund the Children’s Health Account (CHA). The assessment will increase from $7,500 per child per service per year to $12,500. Assessments are determined annually based on the insurance carrier number of lives covered. During the 2015 legislative session, legislation was passed to expand the assessment collection to self-insured products, broadening the base of assessment.

The CHA fund provides commercially insured children with special health care needs access to Medicaid benefits and habilitative services, not otherwise covered by commercial plans. The increased assessment will generate an additional $4.0 million in general revenues in FY2017.

Graduate Medical Education: This article repeals the statute governing appropriations for the Graduate Medical Education program. This program is currently available to Rhode Island’s academic Level I trauma center hospitals, with a minimum of 25,000 discharges per year and provides at least 250 interns and residents per year. Currently, Lifespan is the only hospital that qualifies for this funding. During the 2015 legislative session, the Governor recommended elimination of the funding for this program however the funding was reinstated in the enacted FY2016 budget. This initiative will save $2.0 million in general revenues for both FY2016 and FY2017, as the funding is also removed from the FY2016 supplemental budget.

Article 10: Relating to Making Revised Appropriations in Support of FY2016

This article makes revised appropriations for general revenues, and includes revisions to authorized expenditures from federal, restricted and other funds as well as authorized FTE levels for each agency and department for FY2016. The Governor's budget includes $24.5 million in additional general revenue spending compared to the FY2016 Budget as Enacted.

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, consistent with current law. The Governor adds language specifying that $900,000 in federal funding will be expended on the Municipal Substance Abuse Task Forces and $128,000 on the National Alliance for Mental Illness (NAMI) of RI.

APPROPRIATIONS

The article increases the total FY2016 appropriations by $309.7 million, the bulk of which is attributable to an increase in federal fund expenditures of $166.0 million. General revenue expenditures increase by $24.5 million. The article outlines funding changes at the program level by fund for each department.

Expenditures by Source	FY2015 Final	FY2016 Enacted	FY2016 Governor	*Change to Enacted*	*% Change*
General Revenue	$3,453.9	$3,552.0	$3,576.5	*$24.5*	*0.7%*
Federal Funds	2,895.2	2,947.3	3,114.2	*166.9*	*5.7%*
Restricted Receipts	236.0	245.5	288.8	*43.3*	*17.6%*
Other Funds	1,807.4	1,920.7	1,995.7	*75.0*	*3.9%*
Total	**$8,392.5**	**$8,665.4**	**$8,975.1**	***$309.7***	***3.6%***

$ 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	FY2016 Enacted	FY2016 Governor	*Change*
State Assessed Fringe Benefits	$38,930,194	$40,775,745	*$1,845,551*
Administration Central Utilities	17,782,800	14,693,275	*(3,089,525)*
State Central Mail	6,203,680	5,998,304	*(205,376)*
State Telecommunications	4,122,558	2,999,962	*(1,122,596)*
State Automotive Fleet	13,830,623	12,472,922	*(1,357,701)*
Surplus Property	2,500	2,500	-
Health Insurance	251,175,719	251,611,747	*436,028*
Other Post-Employment Benefits	64,293,483	63,934,483	*(359,000)*
Capital Police	1,252,144	1,139,497	*(112,647)*
Corrections Central Distribution Center	6,768,097	6,940,835	*172,738*
Correctional Industries	7,228,052	7,345,391	*117,339*
Secretary of State Records Center	813,687	896,250	*82,563*
Total	**$412,403,537**	**$408,810,911**	***($3,592,626)***

FTE POSITION CAP AND APPROVAL

The article establishes the authorized number of full-time equivalent (FTE) positions for each State department and agency for FY2016. 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 20.9 FTE positions over the FY2016 Budget as Enacted. The following changes are included in the Governor's proposal:

FTE Position Authorization

Function	FY2016 Enacted	FY2016 Governor	*Change to Enacted*
General Government	2,330.2	2,351.7	*21.5*
Human Services	3,747.6	3,745.6	*(2.0)*
Education	3,884.6	3,886.6	*2.0*
Public Safety	3,229.6	3,229.6	-
Natural Resources	428.0	428.0	-
Transportation	752.6	752.0	*(0.6)*
Subtotal	**14,372.6**	**14,393.5**	***20.9***
Higher Ed. Sponsored Research	745.8	745.8	-
Total FTE Positions	**15,118.4**	**15,139.3**	***20.9***

Major FTE changes include:

- **An increase of 12.0 FTE positions in the Department of Administration:** The Governor adds 12.0 FTE positions which includes the transfer of 5.0 FTE positions from other agencies for the centralization of capital projects in the Department, 4.0 new FTE positions within the Capital Asset Maintenance and Management program, and 3.0 new FTE positions within the Office of Management and Budget increased performance management functions.
- **An increase of 6.5 FTE positions in the Department of Labor and Training:** The Governor adds FTE positions to bolster monitoring and workforce development initiatives at the Department. This includes 3.0 FTE positions for the Misclassification Task Force, 3.0 FTE positions for grant monitoring and evaluation, 1.0 FTE position for the State Workforce and Education Alignment project, and an offset of a 0.5 FTE position due to a retirement.

Article11: Strengthening Neighborhood Schools

This article creates a "performance dashboard" for greater local and state school budget transparency, and amends local maintenance of effort requirements for funding schools. The article also repeals statutory language requiring that districts receive the fully-transitioned value of formula aid for student FTE positions transitioned to full-time kindergarten in the 2014-2015 school year, or after. The education funding formula statute is amended to provide a five-year review period for the funding formula, and to change the definition of poverty status of students for the purpose of calculating education aid. New aid categories are established for English Learners as well as communities that send large numbers of students to public schools of choice, and traditional district tuition rates for charter and state schools are reduced on a per-pupil basis. The article reduces the threshold to qualify for High-Cost Special Education in FY2018 from five times the core and student success amount to four times. In addition, this article creates stabilization categorical funds for Davies and the Met School and eliminates obsolete language regarding the funding of charter schools.

FISCAL IMPACT

The article repeals the statutory language requiring that districts receive the fully-transitioned value of formula aid for student FTE positions transitioned to full-time kindergarten in the 2014-2015 school year, or after. The Governor realizes $2.5 million in cost avoidance; however, since FY2017 was to be the first year of implementation for the repealed language the reduction is not a savings from the FY2016 Budget as Enacted.

Technically, the new English Learners and Public School of Choice Density Aid categoricals do not have a fiscal impact on the state because the amount of aid distributed is subject to appropriation; however, the budget does include $2.5 million and $2.6 million respectively for the new categoricals. There is also $2.0 million in stabilization aid for Davies and $297,135 for the Met; however, these funds are also subject to appropriation and not required by the article language.

The Governor does not include additional FTE positions tied to the implementation of this article, so any cost associated with managing the implementation of this article will be absorbed by the Department of Elementary and Secondary Education (Department).

The local tuition reduction is projected to save sending districts $3.6 million in tuition costs in FY2017.

ANALYSIS AND BACKGROUND

This article requires the Department of Elementary and Secondary Education (Department) to review the funding formula to ensure the predictability, equity, and accuracy of the distribution of education aid every five years, or less.

The Governor recommends the following changes to district management and education aid:

Performance Dashboard

The article calls for changes to the Uniform Chart of Accounts (UCOA) to facilitate comparisons among schools and districts. Beginning in July 2017, districts would submit a budget file to the Department for publication on the Department's website. The Department would then provide the General Assembly with a performance dashboard of per-pupil expenditures for each public school and district broken down by revenue source and expenditure category. This dashboard would also provide student performance indicators.

Commencing in FY2018, districts would be required to post on their websites in a free, downloadable format the annual district budget with information at the program and school levels, and a link to the Department's website where the district budgets and UCOA information for all the public districts is published. Districts would also be required to update the posted information within 60 days of making changes to the district budget, including any changes to an individual program or school budget.

Analyst's Note: RIGL 16-7.2-5 currently requires the Department to provide the General Assembly with performance dashboard indicating per-pupil expenditures of each district broken down by revenue sources and expenditure categories. This article appears to simply move the language.

On line 15, of page 165, there is a reference to paragraph (I) which does not exist within the section. It appears the reference should be to paragraph (1).

Maintenance of Effort

Beginning in FY2018, each community would be required to contribute to its school committee the greater of the following two options: the amount contributed in the previous fiscal year increased by the CPI-U from the most recent state fiscal year, or the amount contributed on a per-pupil basis if the district has experienced student growth of 1.0 percent or more for two consecutive years. If a district experiences an enrollment decline, it may calculate its MOE on a per-pupil basis, instead of on the aggregate; however, after deducting for the enrollment decline, the net contribution must be adjusted by the CPI-U. This article does not change the special maintenance of effort (MOE) provisions for districts with high local contributions or high per-pupil expenditures. The Governor's Fair Funding Formula Working Group recommended that maintenance of effort language be strengthened to account for inflation and enrollment increases.

Local Tuition to Charter and State Schools

The article provides a $355 per-pupil reduction in local tuition to charter and state schools. The amount of the reduction is calculated by the Department based on differences in expenses between traditional districts and charter schools. The article requires that the reduction amount be reviewed and recalculated by the Department every three years. The manner of the recalculation is determined by the Commissioner of Elementary and Secondary Education (Commissioner); however, the detail for the current $355 reduction is provided in the table below.

Calculation of Local Per-Pupil tuition Reduction

Rounded Average FY2014 Costs Incurred by:			
Traditional Districts		**Charter Schools**	
Out-of-district special education	$560	Debt Service	$510
Retiree Health Benefits	250	Rental Costs	430
Services for students age 18-21	280		
Pre-School Screening	115		
Non-public obligations	30		
Career and Technical tuition	60		
Total	**$1,295**		**$940**
Difference between total district and charter school per-pupil costs			**$355**

Source: Governor's Funding Formula Working Group Issue Brief #2.

The estimated impact of the local tuition reduction based on current FY2017 charter and state school enrollment projections is provided in the table below.

Estimated Local Savings from $355 Per-Pupil Reduction in Charter and State School Tuitions

LEA	FY2017 Projected Enrollments[1]	Estimated Savings	LEA	FY2017 Projected Enrollments[1]	Estimated Savings
Barrington	8	$2,840	North Providence	161	$57,155
Burrillville	41	14,555	North Smithfield	36	12,780
Charlestown	90	31,950	Pawtucket	1,659	588,945
Coventry	60	21,300	Portsmouth	13	4,615
Cranston	328	116,440	Providence	4,356	1,546,380
Cumberland	532	188,860	Richmond	5	1,775
East Greenwich	12	4,260	Scituate	12	4,260
East Providence	104	36,920	Smithfield	26	9,230
Foster	-	-	South Kingstown	115	40,825
Glocester	-	-	Tiverton	15	5,325
Hopkinton	8	2,840	Warwick	115	40,825
Jamestown	15	5,325	Westerly	45	15,975
Johnston	53	18,815	West Warwick	43	15,265
Lincoln	309	109,695	Woonsocket	289	102,595
Little Compton	1	355	Bristol-Warren	31	11,005
Middletown	20	7,100	Exeter-West Greenwich	37	13,135
Narragansett	29	10,295	Chariho	-	-
Newport	33	11,715	Foster-Glocester	12	4,260
New Shoreham	-	-	Central Falls	1,481	525,755
North Kingstown	144	51,120			
Total				**10,238**	**3,634,490**

[1] *Subject to change based on March 2016 student enrollment updates.*

Source: Rhode Island Department of Education

The Governor's Fair Funding Formula Working Group recommended that an approach for quantifying fixed and/or marginal cots of traditional districts facing school choice-related enrollment decline be explored.

Under current law, the local per-pupil tuition to charter and state schools is calculated by dividing the local appropriation to education, net debt service and capital projects, by the average daily membership, or enrollment. The article modifies the calculation by adding charter and state school tuitions paid in FY2014 to the items subtracted from the local education funding appropriation.

Analyst's Note: The amendment to subtract the charter and state school tuitions is intended to codify current practice by the Department; however, it is unclear why the article stipulates reference year 2014.

In line 25 on page 171, the article appears to repeal language requiring General Assembly approval of the calculation method for the local share of education funding.

Public School of Choice Density Aid

The article establishes as new category of state aid for districts where 5.0 percent of more of the average daily membership enrolls in a public school of choice, such as Davies, the Met, or a charter school. Such districts would receive an additional $300 for each student attending a public school of choice. The per-pupil amount is calculated by the Department to offset costs that must be paid by a sending district even though students are attending a different school. Examples of such costs include heating, lighting, accounting services, teachers, and building administrator. While these costs can sometimes be reduced when enrollment declines are concentrated in specific schools or classrooms, public school of choice enrollment are generally scattered across schools and grades within a district. The article requires that the Department recalculate these costs every three years, in a manner to be determined by the Commissioner. The budget includes $2.6 million in density aid to be divided among six qualifying communities: Central

Falls, Cumberland, Lincoln, Pawtucket, Providence, and Woonsocket. The Governor's Fair Funding Formula Working Group recommended providing additional support to districts with high percentages of students enrolled in public schools of choice.

Public School Choice Density Aid

Districts	Aid
Cumberland	$159,600
Lincoln	92,700
Pawtucket	497,700
Providence	1,306,800
Woonsocket	86,700
Central Falls	444,300
District Total	**$2,587,800**

High-Cost Special Education

The education funding formula provides categorical aid for districts with extraordinary costs associated with special education students. Currently, districts are reimbursed, on a prorated basis dependent on the amount appropriated, for costs exceeding five times the core foundation amount, which equals the core instruction amount plus the student success factor ($62,853 in FY2017). This article would lower this threshold, beginning in FY2018, to four times the core foundation amount. Based on FY2017 values, the new threshold would be $50,282. Since the distribution is subject to a prorated reduction based on the funds available, this change has no fiscal impact on the State; however, distributions to individual districts may experience a variance.

The Governor's Fair Funding Formula Working Group recommended adjusting the threshold for the high-cost special education categorical to broaden district and school reimbursement eligibility.

Career and Technical Education

The education funding formula provides a state grant program to help districts with certain start-up and maintenance expenditures for career and technical education programs. Under current law, the Department recommends criteria for the allocation of funds appropriated to this categorical program. This article would empower the Department to develop the criteria for the distribution of funds.

Central Falls, Davies, and the Met School Stabilization Fund

Current law provides for a stabilization fund to address concerns regarding the City of Central Falls' ability to meet the local share of education costs. This article expands the stabilization fund to include Davies and Met School to provide additional support for costs associated with a stand-alone high school offering both academic and career and technical coursework. The Department would recommend criteria for the distribution of stabilization funds.

For FY2017, the Governor includes $2.0 million for Davies, $297,135 for the Met School, and a total of $4.6 million for Central Falls (an increase of $912,961 over the FY2016 Budget as Enacted).

English Learners

This article establishes a categorical fund for English Learners (EL). The fund would provide a 10.0 percent weight on the per-pupil core instruction amount for each English learner identified by standards and assessments identified by the Commissioner. The article restricts the funds to provide services to EL students and requires that the funds be managed in accordance with requirements enumerated by the Commissioner; however, the article does not prevent the displacement of local EL funding. Distribution is subject to a pro-rata reduction based on the funds available. The Governor provides $2.5 million in FY2017, approximately one-half of the estimated full funding amount.

The Governor's Fair Funding Formula Working Group recommended providing additional support for English Language Learners to improve education outcomes.

Analyst's Note: The Department indicates that eligibility for this aid would be aimed at the English Learners at the lowest fluency levels; however, no such language is included in the article.

Full-Day Kindergarten

The Governor recommends repealing statutory language requiring that districts receive the fully-transitioned value of formula aid for student FTE positions converted to full-time kindergarten in the

2014-2015 school year or after. Language in the Executive Summary states that repealing this language will treat all classrooms equally, consistent with the transition plan. The language recommended for repeal, however, was enacted through 2014-S-2791 Sub A, to provide state support for the traditional districts that would be adding classrooms to accommodate the full-day program and treat them as if they were charter schools experiencing growth. Since the implementation of the funding formula, charter schools that add classrooms have been given the fully-transitioned value for those students.

The Governor repeals RIGL 16-7.2-7(c) to realize $2.5 million in state cost avoidance in FY2017. Since the funding was not in the budget base, the reduction is seen as cost avoidance instead of savings. The following table shows the impact of the cost avoidance by district.

Full-Day Kindergarten Formula Funding

Districts	Amount
Barrington	$36,232
Coventry	240,295
Cranston	549,602
East Greenwich	14,368
Glocester	111,182
Johnston	193,957
North Kingstown	129,723
Scituate	17,230
Smithfield	37,736
Tiverton	58,523
Warwick	261,415
Woonsocket	740,483
Exeter-West Greenwich	84,487
Total	**$2,475,235**

Source: Rhode Island Department of Education.

Analyst's Note: These numbers are based on March 2015 data and would be subject to change based on the March 2016 update. Since these numbers were presented as a "cost avoidance" it is not clear if the cost of not repealing the statutory language would be equivalent. Senate Fiscal Staff has requested further clarification on this issue.

Charter Schools

The article repeals charter school funding language that is in conflict with the current education funding formula. This includes language defining the local tuition rates and language that allows career and technical charter schools enrolling special education students from outside the district with an individual education program (IEP) to receive the average per-pupil special education cost of the sending district in addition to the local tuition calculated through the funding formula.

Free or Reduced Lunch Eligibility Measure

Since the United States Department of Agriculture (USDA) no longer requires school districts to collect eligibility data, an alternate way to identify student in poverty for the purpose of the student success factor and share ratio calculation was needed. Federal guidance suggests removing free and reduced lunch as a poverty indicator in state funding schemes. Consequently, instead of using children eligible for free or reduced lunch, the statute identifies students whose family income is below 185.0 percent of the federal poverty guidelines. This income level is the same threshold that was used for the free and reduced lunch program. This change is not expected to change eligibility numbers in the funding formula. According to the Department, a small number of RI schools are using the Community Eligibility Provision for free and reduced lunch; however, they currently continue to collect income data forms.

Article 12: Relating to Revenue (Cigarette Taxes)

This article increases the excise tax levied per pack of cigarettes by $0.25, which raises the tax from $3.75 to $4.00 per pack of twenty, or to the equivalent of $0.20 per cigarette. According to Budget Office documents, the total retail price will increase by $0.29, from $9.46 to $9.78 per individual pack. This amount is $0.40 less than the total retail price in Massachusetts and $0.05 less than Connecticut. The additional excise tax would generate an additional $7.1 million in revenue above the projections from the November 2015 Revenue Estimating Conference.

FISCAL IMPACT

The Governor includes a general revenue increase of $7.1 million in FY2017 from additional cigarette excise, sales, and floor stock taxes.

Source	Amount
Cigarette Excise	$5,685,325
Cigarette Floor Stock	803,384
Sales Tax	633,248
Total Revenue	**$7,121,957**

ANALYSIS AND BACKGROUND

The Governor recommends an excise tax increase of $0.25 per pack of cigarettes, which raises the tax from $3.75 to $4.00 per pack of twenty, or the equivalent of $0.20 per cigarette. The average retail price will increase by $0.29, from $9.17 to $9.46 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 2015 Revenue Estimating Conference. After accounting for other pricing requirements, cigarettes purchased in Rhode Island would be priced similarly to those in Connecticut, and remain approximately $0.40 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.

Impact of Cigarette Excise Increase and Regional State Comparison

	Rhode Island			Massachusetts		Connecticut	
		Current	Proposed				
Base Price per Pack in $		$4.39	$4.39		$3.95		$4.39
Excise Tax in $		3.75	4.00		3.51		3.65
Subtotal base price + Excise		8.14	8.39		7.46		8.04
Wholesale Markup	2.0%	0.16	0.17	2.0%	0.15	6.5%	0.52
Wholesale Cartage	0.75%	0.06	0.06	0.75%	0.06	0.0%	0.00
Retail Markup	6.0%	0.50	0.52	25.0%	1.92	8.0%	0.69
Total Base Cost		8.87	9.14		9.58		9.25
Sales Tax	7.0%	0.62	0.64	6.25%	0.60	6.4%	0.59
Total Price per Pack		**$9.49**	**$9.78**		**$10.18**		**$9.83**

Note: The Office of Revenue Analysis calculated base price per pack using available data on states' websites. No base price for CT was available, so it was assumed that CT would have the same base price as RI.CT is scheduled to increase excise taxes on cigarettes to $3.90 per pack on July 1, 2016. Total retail price would increase to $10.14 per pack.

Article 13: Relating to Making Work Pay

This article increases the minimum wage from $9.60 per hour to $10.10 per hour, effective January 1, 2017. Additionally, the article increases the amount of refundable earned income tax credit from 12.5 percent in tax year (TY) 2016 to 15.0 percent in TY2017.

FISCAL IMPACT

The Governor decreases general revenues by $2.7 million for modifications to the calculation of the earned income tax credit (EITC).

Analyst's Note: The Governor does not provide an expenditure or revenue impact resulting from the proposed increase in minimum wage. For example, the FY2016 Budget as Enacted provides $359,597 in general revenue for seasonal positions in the Department of Environmental Management due to scheduled wage increases; no funding for DEM seasonal employee increases has been included for FY2017.

ANALYSIS AND BACKGROUND

Minimum Wage

This article increases the minimum wage from $9.60 per hour to $10.10 per hour, effective January 1, 2017. If enacted, this will be the fifth consecutive year of minimum wage increases in Rhode Island. January 1, 2016, marked the most recent increase from $9.00 per hour to $9.60 per hour.

Similarly, Connecticut has had three consecutive minimum wage increases since 2014, increasing from $8.70 per hour to $9.60 per hour. Another increase to $10.10 is scheduled for January 1, 2017. Massachusetts recently raised minimum wage to $10.00 per hour effective January 1, 2016. Another minimum wage increase to $11.00 per hour is scheduled for January 1, 2017.

New England Minium Wage Rates

	Current	January 1, 2017
Massachusetts	$10.00	$11.00
Connecticut	9.60	10.10
Rhode Island	9.60	*10.10
Vermont	9.60	10.00
Maine	7.50	7.50
New Hampshire	7.25	7.25

Amounts in dollars per hour.
**Governor's proposed increase.*

Recent RI Minimum Wage Increases

Calendar Year	Amount	*Change*
2007	$7.40	
2013	7.75	*4.7%*
2014	8.00	*3.2%*
2015	9.00	*12.5%*
2016	9.60	*6.7%*
2017*	10.10	*5.2%*

*Governor's FY2017 Proposal

Earned Income Tax Credit

This article modifies the calculation of the earned income tax credit (EITC), authorizing eligible taxpayers to claim 15.0 percent in TY2017 of the allowable federal credit EITC amount, an increase of 2.5 percentage points over the TY2016 rate of 12.5 percent. The change is expected to reduce revenues by $2.7 million in FY2017.

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. The following table demonstrates the financial impact on a single filer with one qualifying child.

Changes to Earned Income Tax Credit

	TY2015 (Current)	TY2016 (Current)	TY2017 (Proposed)
Income*	$39,131	$39,296	$39,296
Maximum EITC ($)	3,359	3,359	3,359
Allowable Federal Credit Amount	10.0%	12.5%	15.0%
Deduction Allowable from RI Tax Owed ($)	336	420	504
Refundable Amount	100%	100%	100%
Total Refunded to Taxpayer	**$336**	**$420**	**$504**

**Single filer, one qualifying child.*
Note: TY2017 income amount reflects TY2016 limit as this income level is set annually by the IRS.

Article 14: Relating to Caregivers/Compassion Centers (Medical Marijuana)

This article proposes a number of changes to the regulation of medical marijuana. A tagging system is established which will require every medical marijuana plant in the state to be tagged and tag holders will be charged an annual fee per tag. The Governor's proposal establishes the Department of Business Regulation (DBR) as the licensing agency of compassion centers, compassion center staff, cultivators, and caregivers. The DBR will also sell plant tags and maintain a tag database. The Department of Health (DOH) will continue to have licensing authority over patients and authorized purchasers.

This article also decreases the monthly surcharge on net patient revenue levied on compassion centers from 4.0 percent to 3.0 percent, and centers will not be charged for plant tags. Additionally, changes are made to shift funding from general revenue to restricted receipt accounts in both DBR and DOH to fund administrative costs of licensing.

FISCAL IMPACT

The Governor includes a net general revenue increase of $9.7 million from new plant tag fees, patient registration fees, and compassion center surcharges.

Medical Marijuana Regulatory Fees and Changes

Governor's Recommended Changes	Rate	Revenue
Plant Tag Fees		*$10,735,630*
Patients Who Self-Grow Marijuana	$150	1,440,000
Caregivers Who Grow for Non-Medicaid Patients	350	8,253,228
Caregivers Who Grow Medical Marijuana for Medicaid Patients	150	611,902
Co-op Growers	350	399,000
Growers with Cultivator Licenses	350	31,500
Other Changes		*(983,737)*
Transfer Patient and Caregiver Registration Fees to Restricted Receipts		(901,647)
Decrease Compassion Center Surcharge from 4.0 to 3.0 Percent		(172,405)
Indirect Cost Recovery Fees		90,315
Total		**$9,751,893**

The Governor estimates $2.1 million in operating expenses for the proposal, including $926,200 for personnel and training costs and $1.2 million for one-time software costs to develop the tagging system. The net impact on general revenue totals $7.6 million for FY2017.

ANALYSIS AND BACKGROUND

Limits on Possession and Cultivation

Plant Growing Limitations

Entity	Plant Limit
Caregiver	6
Patient	6
Licensed Cultivator	24
Cooperative Cultivator (Residential)	36
Cooperative Cultivator (Non-Residential)	72
Compassion Center	No Limit

This article reduces the limit on possession of medical marijuana plants from 12 plants to 6 plants for all patients and caregivers. Except for licensed compassion centers, cooperative cultivations, and cultivators, no more than 24 plants may be grown at any one location. Licensed cultivators may not exceed limits imposed by the Department of Business Regulation (DBR) which will be set through regulation. All plants must be accompanied by a valid medical marijuana tag issued by the DBR. As of December 31, 2016, patients and caregivers must sell or destroy any plants in excess of the new limitations.

Oversight and Regulation

While the Department of Health (DOH) continues to regulate the issuance of registry cards for qualifying patients, the DBR will have oversight of licensing caregivers, cooperative cultivations, and compassion centers. The article creates a new cultivator license for growers to sell marijuana to compassion centers. The license will be regulated by the DBR, which is authorized to regulate and inspect cultivators. The article also creates another classification of caregiver, designated an "authorized purchaser," who will be allow to purchase medical marijuana from compassion centers on behalf of registered patients. Authorized purchasers will obtain registry cards from the DOH.

By January 1, 2017, the DBR is required to issue a report to include an analysis on the current number of compassion centers, evaluate how those centers are serving overall patient needs throughout the state, and make recommendations about any changes in the number of compassion centers. Additionally, a new license is established for cultivators to sell to compassion centers. The license will have an annual fee of $500.

Medical Marijuana Plant Tags

This article creates a tagging system and annual fee for each medical marijuana plant to monitor grower inventory and ensure compliance with growing limits. Although fees will be set through regulation by the DBR, the Governor's budget provides an assumed set of fees based on current prices within the caregiver and compassion center markets.

The Governor's proposal makes a number of assumptions, including current prices on the caregiver and compassion center markets, to calculate revenue from tag fees. Amounts for the restricted receipt estimates are based on the Office of Management and Budget (OMB) estimate for FY2017.

Licensing fees collected by the DOH and DBR will be deposited in restricted receipt accounts under each respective agency to support the administrative costs of the medical marijuana licensing

Revenue Projections for Changes to Medical Marijuana Program

Patient Tag Revenue	**Assumptions**
Percent of patients choosing to grow themselves*	25.0%
Number of patients choosing to grow themselves*	3,200
Number of patient self-growing tags*	9,600
Cost of patient tag	$150
Subtotal	*$1,440,000*
Caregiver Tag Revenue	
Medicaid patients*	4,079
Full-price caregiver tags*	23,581
Cost of Medicaid caregiver tags	$150
Cost of caregiver tag	$350
Subtotal	*$8,865,130*
Co-op Tag Revenue	
Total number of co-op licenses	38
Max number of tags per co-op*	60
Fraction of max tags that are actually purchased*	50.0%
Number of tags purchased per co-op*	30
Total tags purchased	1,140
Price per tag	$350
Subtotal	*$399,000*
Cultivator Tag Revenue	
Total number of cultviation licenses*	3
Assumed plant growth per cultivator*	60
Fraction of max tags that are actually purchased*	50.0%
Number of tags purchased per cultivator*	30
Price per tag	$350
Subtotal	*$31,500*
Compassion Center Surcharge Revenue	
FY2017 surcharge (OMB estimate)	$689,618
Surcharge lowered from 4% to 3%	517,214
Subtotal	**($172,405)**
Total Tag and Surcharge Revenue	**$10,563,226**
Indirect Cost Recovery	90,015
FY2017 Total Patient Registration Fees (Shift to RR)	(901,647)
General Revenue Total (Net)	**$9,751,593**

**The amount indicated is an assumed or estimated value.*

The Office of Management and Budget estimates 38,400 plant tags will be sold.

FY2017 total patient registration fees include $1,500 for 3 cultivator licenses. Registration fees are shifted to restricted receipts.

Source: Office of Management and Budget program. Any fees collected from the sale of medical marijuana plant tags will be deposited as general revenue.

Compassion Center Surcharge

The article reduces the surcharge levied on net patient revenue received each month by every compassion center from 4.0 percent to 3.0 percent, effective July 1, 2016. For FY2017, this would reduce collections by an estimated $172,000, or 25.0 percent, less than the OMB estimated amount of $689,784. The Governor modifies collections to $517,214 to account for this change.

Compassion Center Surcharge Collections History

Fiscal Year	Revenue
2013	$16,656
2014	269,156
2015	385,724
2016	608,000
2017 Nov. REC Est.	689,784
2017 Proposed*	517,214

**Total collections at 3.0% rate based on estimates provided by the Office of Management and Budget.*

Article 15: Relating to Municipalities

This article requires electronic exchange of municipal financial information, streamlines financial reporting by municipalities, requires distressed communities to participate in a debt recovery program, and modifies the current property valuation schedule.

Specifically, this article:

- Establishes a transparency portal which will require municipalities to post required financial data to the Division of Municipal Finance website. The initiative is intended to streamline preparation and submission of required financial data and make this information available in a searchable, electronic format.
- Modifies the program description of the Division of Municipal Finance, requiring the program to encourage the exchange of information using web based tools, including posting of municipal contracts. This change is intended to promote the use of shared services.
- Requires distressed communities to participate in the Income Tax Refund Offset program, which authorizes the Division of Taxation to collect debts owed to other government agencies and entities in the state, including cities and towns.
- Amends the current property revaluation schedule, which requires municipalities to update their property values every third and sixth year, and to complete a full physical revaluation every ninth year (a 3–6–9 schedule) to a fifth, tenth, and fifteenth (5–10–15) year schedule.

FISCAL IMPACT

The Governor includes a $120,000 increase in general revenue in the Department of Revenue, Division of Municipal Finance, to fund software development for the Municipal Transparency Portal.

The Governor projects $1.1 million in savings for municipalities for FY2017 ($18.7 million in total from FY2017 through FY2039).

ANALYSIS AND BACKGROUND

Transparency Portal

This article establishes a "Transparency Portal," a software program which will be implemented through and maintained and monitored by the Division of Municipal Finance (DMF). Municipalities will be required to submit "budget-to-actual financial information" three times per year (on or before the twenty-fifth day succeeding the last day of the sixth, ninth, and twelfth month of each fiscal year), replacing the currently required quarterly reports. Information must include a data report for the municipality's general fund. Additionally, each municipal budget survey and five-year forecast will be posted on the Transparency Portal.

Budget-to-actual financial information reports will be submitted by the chief financial officer (CFO) of each municipality and unlike the current quarterly reports, will not require the signatures of the chief executive officer (CEO), superintendent or CFO of the school district, the municipal council president, or the school committee chair, in order to be submitted to the DMF; however, the DMF will create a finalized report from all information submitted through the Transparency Portal which will require the aforementioned signatures. Municipalities must submit copies of this report to the commissioner of education, office of the auditor general, municipal council president, and school committee chair. Finalized reports will be posted to the Transparency Portal.

Description of Duties

The article amends the duties of the DMF from a general responsibility "to maintain a data center of information of use to municipalities" to a responsibility of encouraging the exchange of electronic information.

Mandatory Collection of Debts

This article requires distressed communities, within three months of a distressed determination, to contract with the state tax administrator to participate in the tax refund offset program. This program allows the tax administrator to collect outstanding liabilities owed to a governmental entity. The DMF will determine which liabilities will be subject to collection by the tax administrator. Nine municipalities have participated, collecting more than $1.5 million in delinquent liabilities.

Established in 1990, the Distressed Communities Relief program provides state assistance to Rhode Island communities with the highest property tax burdens relative to the wealth of the taxpayers. Four indices are used to determine eligibility: percent of tax levy to full value of property; per capita income; percent of personal income to full value of property; and, per capita full value of property.

Property Revaluation Cycle

This article amends the current property revaluation schedule, which requires municipalities to update their property values every third and sixth year, and to complete a full physical revaluation every ninth year (a 3–6–9 schedule) to a fifth, tenth, and fifteenth (5–10–15) year schedule. The article also requires the Department of Revenue to annually publish a fifteen year schedule outlining the required updates and revaluations required of each municipality in order to assist municipalities in complying with these changes. Savings to municipalities is estimated at $18.7 million over the next 23 years.

In 1997, the General Assembly enacted legislation requiring municipalities to conduct full property revaluations every nine years and statistical updates at year 3 and year 6. Communities are responsible for appropriating funds to cover the costs of full property revaluations; however, the State reimbursed municipalities for 100.0 percent of the first statistical update. Reimbursements for subsequent updates were set at 80.0 percent (up to $16 per parcel) for the second statistical update and 60.0 percent (up to $12 per parcel) for the third and subsequent statistical revaluations.

Article 16: Relating to Making It Easier to do Business in RI

This article outlines various tax and benefit proposals to the Unemployment Insurance (UI) and Temporary Disability Insurance (TDI) programs to provide employers with tax relief earlier than what would occur under current law. The proposed legislation would change the reserve ratios used in calculating the UI tax rate on employers for the following calendar year.

Other proposed changes include:

- Establishing a TDI Fraud and Program Integrity Task Force to educate the State's workforce about TDI and to reduce fraud.
- Reducing the time allowable for an employee to file a TDI claim from 1 year to 90 days.

FISCAL IMPACT

The changes proposed in the article are projected to reduce the UI cost on employers by $30.0 million a year beginning in calendar year 2017. The savings are projected to increase to $40.0 million a year starting in calendar year 2019. Projections indicate that employers could see cumulative UI tax reductions of some $169.0 million through 2025 when compared to the current system's reserve requirements.

ANALYSIS AND BACKGROUND

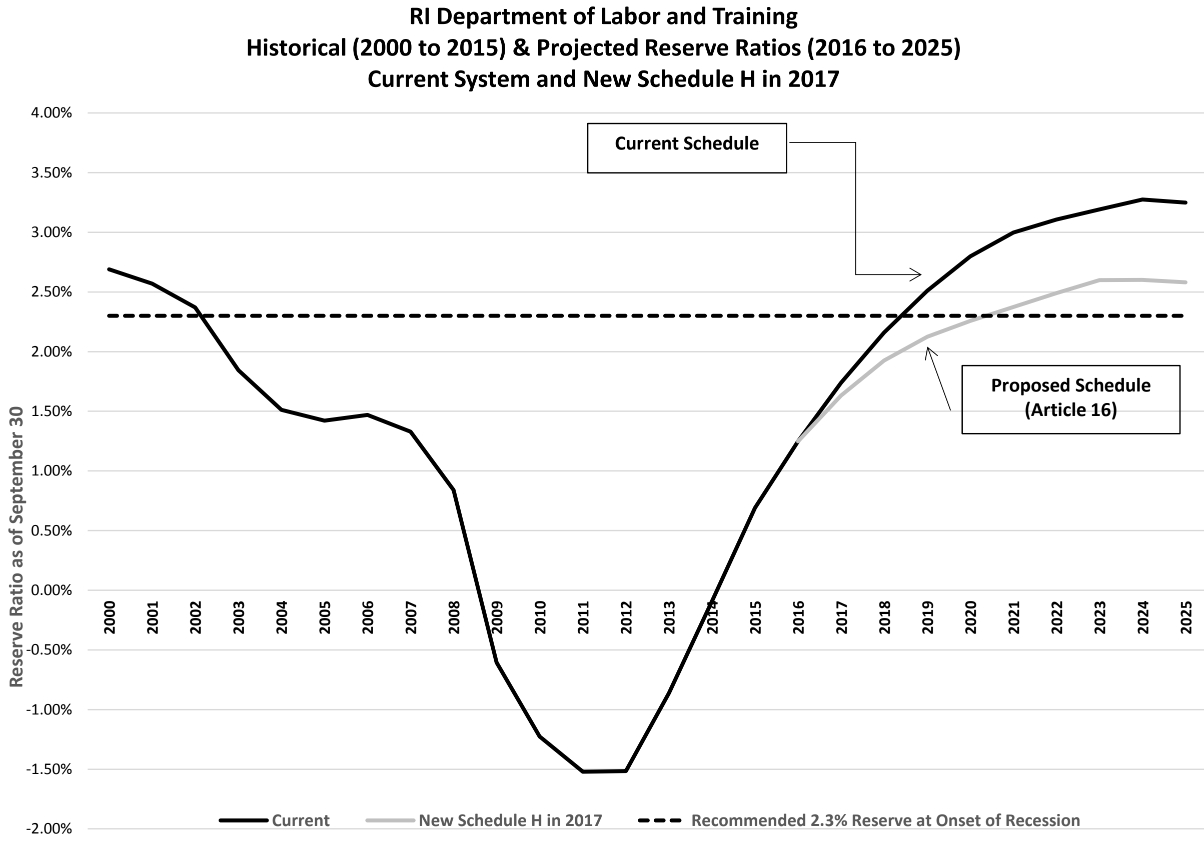
Rhode Island currently has an Unemployment Insurance Tax Rate system consisting of nine tax schedules (A thru I), each of which contains twenty-five tax rate groups. The tax schedule in effect each year depends on the reserve ratio of the fund as of September 30th of the prior year. The reserve ratio is determined by dividing the UI trust fund balance on September 30th by total wages paid to Rhode Island workers during the year. The State has been on the tax Schedule I (the highest) since 1992. Individual employer tax rates are determined by each employer's own level of reserves which indicates which tax rate in the applicable tax schedule applies to them.

Based on the State's experience over the last 20 years, the U.S. Department of Labor recommends that Rhode Island's UI system's financing goal should be a minimum reserve ratio of 3.0 percent prior to the beginning of the next recession. This represents approximately one year's worth of benefits at the average benefit payout over the highest three years out of the last 20. However, according to the Department of Labor and Training, because the State enacted significant benefit cuts in 2011 that have reduced benefit costs by approximately 23.0 percent per year, the Department believes it is appropriate to adjust the minimum recommended reserve ratio by this same factor which would result in a new minimum reserve ratio goal of 2.3 percent prior to the beginning of the next recession.

Under the current reserve ratios, the Department projects that the State will remain on tax Schedule I through 2020, dropping to tax Schedule H in 2021, and to tax Schedule G in 2022. Each drop in a tax Schedule reduces employer taxes by approximately $20.0 million per year. The State would accumulate significant reserves (a projected $821.0 million by 2025) with a reserve ratio of 3.25 percent which is safely above the minimum 2.3 percent recommended reserve ratio.

This article reduces the current reserve ratios for the tax schedules in order to facilitate the movement to the next lower tax Schedule (H) in 2017, four years earlier than projected under our current system. These changes should result in the State going to tax Schedule G in 2019 and Tax Schedule F in 2024.

The Department of Labor and Training created the following graph illustrating the projected reserve ratios under the current system and with the proposed new schedule (Article 16) and the recommended reserve ratio of 2.3 percent through 2025.



Source: RI Department of Labor and Training

This article also expands the current tax ranges to provide for lower minimum rates for employers who seldom have layoffs and who are subsidizing higher-use employers. With the exception of Tax Schedule H, these tax rate changes are designed to be revenue neutral by offsetting the new lower rates with higher rates in other rate groups. Rhode Island currently has 25 tax rate groups in each tax Schedule. This article expands the number of tax rate groups to 28, by adding three new groups to the lower end.

Article 17 – Relating to Commerce

This article makes several changes to existing tax credits managed by the Commerce Corporation. Specifically, the article:

- Automatically awards a tax credit to all Stay Invested in RI Wavemaker Fellowship applicants provided eligibility requirements are met. Businesses may also apply to reserve tax credits for new employees based on the nature of the position.
- Modifies the Tax Stabilization Agreement (TSA) incentive program to allow the Commerce Corporation to reimburse municipalities up to 50.0 percent of foregone revenue for up to five projects in any given year.
- Eliminates the $7,500 tax credit cap for each full time job created under the Qualified Jobs Incentive Act.
- Allows amounts deposited in the Rebuild Rhode Island Tax Credit fund to be used to reimburse municipalities participating in the tax stabilization agreement program.
- Allows the Executive Office of Commerce to authorize the Commerce Corporation to transfer amounts deposited in the Anchor Institution Tax Credit fund to the Rebuild Rhode Island Tax Credit fund.
- Creates the Refundable Research and Development tax credit to incentivize businesses to make multi-year commitments to conduct research and development activities in the state and invest in plant, equipment, or personnel in order to accomplish these research activities.

FISCAL IMPACT

The Governor includes $30.6 million in additional funding FY2017 for the following tax credit programs:

- $20.6 million for the Rebuild Rhode Island Tax Credit program, an increase of $13.5 million over the expected expenditure level of $7.1 million in FY2017 as planned the Governor's FY2016 Budget.
- $5.0 million for the refundable Research and Development tax credit.
- $5.0 million to fund the Stay Invested in RI Wavemaker program.

ANALYSIS AND BACKGROUND

Wavemaker Fellowship

This article automatically awards a tax credit to all Stay Invested in RI Wavemaker Fellowship applicants provided eligibility requirements are met. Eligibility requirements include:

- A "B+" average in one of the following fields: life, natural, or earth sciences; computer, information, or software technology; advanced mathematics or finance; engineering; or industrial design or commercially related design field.
- Application for the credit within one year of completion of a higher education degree, or within three months of applying for the credit, received an offer of employment in the aforementioned fields.
- Has received a bachelor's or graduate degree from a Rhode Island institution of higher education, or has graduated from a Rhode Island high school, within one year of applying for the credit.

Maximum credit amounts previously allowed according to level of college degree ($1,000 for an associate's degree, $4,000 for a bachelor's degree, and $6,000 for a graduate or post graduate degree holder) have been removed, capping new credit amounts at a maximum of 100.0 percent of the total loan repayment expenses. The maximum amount of credits Commerce may award is subject to the appropriated amounts; there is no cap on the amount of awards eligible for a single year provided the amount is within the appropriated level.

Additionally, businesses may apply to reserve Wavemaker tax credits for employees of that business. Commerce Corporation may reserve tax credits for the business providing the positions are new to the state and with regard to the nature of the positions. Businesses for which tax credits are reserved may nominate applicants (only new full-time employees or employees who were nominated the previous year) for tax credits on an annual basis. Commerce Corporation may allocate up to 15.0 percent of available Wavemaker credits per business.

The FY2016 Budget as Enacted created the Wavemaker tax credit program to provide a financial incentive for graduates of Rhode Island higher education institutions to stay in Rhode Island by defraying student loan payments for up to four years for graduates pursuing careers or starting businesses in technology, engineering, design and other key sectors. To date, no fellowship credits have been awarded; however, $58,121 has been expended from the FY2016 appropriation ($1.8 million) to fund the creation of the online application portal and a portion of the FTE costs associated with the program. The Governor requests an additional $5.0 million in FY2017.

Analyst's Note: Although the Executive Office of Commerce has indicated that the fellowship awards would be tied to monthly student loan payments, it appears that rules and regulations published on February 23, 2016, by the Division of Taxation would not prohibit a student from claiming more of the fellowship award for prepayments made over the monthly requirement.

Tax Stabilization Agreements

This article modifies the Tax Stabilization Agreement (TSA) incentive program to allow the Commerce Corporation to reimburse municipalities up to 50.0 percent of the community's foregone tax revenue for up to five projects in any given year. The current reimbursement rate is 10.0 percent. The city or town council of any qualifying community must pass a resolution designating the qualifying project as the most important project to the municipality's economic development for that fiscal year. In addition, the legislation adds hope community as a qualifying community. Qualifying projects in a hope community must be one of the two most important project's to the municipality's economic development in the case of a hope community. The total amount of funding to be awarded is subject to appropriation.

Analyst's Note: Section 5 of this article authorizes TSA reimbursements to be paid to municipalities out of the Rebuild RI tax credit fund. The Governor requests $20.6 million in the Rebuild RI fund for FY2017.

Qualified Jobs Incentive Act

This article eliminates the $7,500 tax credit cap for each full time job created under the Qualified Jobs Incentive Act. Requirements that a business create at least 10 new full-time jobs in the state or increase 10.0 percent of the businesses existing number of full-time employees, depending on the size of the business, are scaled down to 5 new employees or 5.0 percent of the current full time staff.

Rebuild Rhode Island Tax Credit – Funding Shifts

This article allows amounts deposited in the Rebuild Rhode Island tax credit fund to be used to reimburse municipalities participating in the tax stabilization agreement program. Additionally, the Executive Office of Commerce may authorize the Commerce Corporation to transfer amounts deposited in the Anchor Institution tax credit fund to the Rebuild Rhode Island tax credit fund.

Refundable Research and Development Tax Credit

This article creates the Refundable Research and Development Tax Credit to incentivize businesses to make multi-year commitments to conduct research and development activities in the state and invest in plant, equipment, or personnel in order to accomplish these research activities. The Commerce Corporation may award a refundable tax credit up to $200,000 for an eligibility period of no longer than 5 years; up to 5.0 percent for the first $25,000 worth of credit or 16.9 percent for the amount of credit above $25,000. The amount of credit received may not exceed the amount of municipal property taxes incurred by the business. The article also allows this tax credit to be used against business corporations, insurance, and personal income tax liabilities.

Analyst's Note: In June 2010, legislation was enacted that reformed the State's Personal Income Tax beginning in tax year 2011. This revised structure was made in favor of a more streamlined tax system. Prior to the FY2016 Budget as Enacted, which added three new credits against personal income taxes, only nine credits were allowable.

This article also establishes a refundable research and development tax credit fund as a restricted receipt account within the Commerce Corporation to pay for the refund of tax credits or reimbursement to the state for tax credits applied against a tax payer's liability. Funding is subject to annual appropriation. The Governor requests $5.0 million from debt refinancing proceeds for the program in FY2017.

By September 1, 2017, and each year thereafter, the Commerce Corporation is required to report to the Division of Taxation the name and address of each business entering into an incentive agreement during the previous fiscal year. The Commerce Corporation will also make this information publicly available on its website.

Earned Income Tax Credit

Analyst's Note: This section also appears as part of Article 13.

This article modifies the calculation of the earned income tax credit (EITC), authorizing eligible taxpayers to claim 15.0 percent in TY2017 of the allowable federal credit EITC amount, an increase of 2.5 percentage points over the TY2016 rate of 12.5 percent. The change is expected to reduce revenues by $2.7 million in FY2017.

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. The following table demonstrates the financial impact on a single filer with one qualifying child.

Changes to Earned Income Tax Credit

	TY2015 (Current)	**TY2016 (Current)**	**TY2017 (Proposed)**
Income*	$39,131	$39,296	$39,296
Maximum EITC ($)	3,359	3,359	3,359
Allowable Federal Credit Amount	10.0%	12.5%	15.0%
Deduction Allowable from RI Tax Owed ($)	336	420	504
Refundable Amount	100%	100%	100%
Total Refunded to Taxpayer	**$336**	**$420**	**$504**

**Single filer, one qualifying child.*

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

Article 18: Relating to Renewable Energy Programs

This article extends the Renewable Energy Fund and updates the state's net metering program to enable third-party financing and additional net metering arrangements for homeowners, businesses, and public and private institutions. The article also exempts renewable energy resources and associated equipment installed after December 31, 2015, from property taxes, and allows city or town councils to pass ordinances taxing renewable energy resources after consulting with the Office of Energy Resources and the Division of Taxation.

FISCAL IMPACT

This article has no fiscal impact on the State. There is no fiscal impact on municipal revenues for renewable energy projects that are installed by December 31, 2015. The fiscal impact of projects installed after this date is indeterminable due to the inconsistent renewable energy tax policies among the cities and towns.

Approximately $2.5 million is collected annually from rate payers for the Renewable Energy Fund (REF). Between FY2013 and FY2015, $9.0 million in REF proceeds was awarded to projects developing renewable energy resources and leveraged $22.0 million in private investment.

ANALYSIS AND BACKGROUND

Extension of the Renewable Energy Fund

This article would extend the Renewable Energy Fund (REF) program for an additional 5 years from December 31, 2017 to December 31, 2022. The REF program provides grants and loan opportunities for eligible renewable energy technologies for preliminary feasibility studies as well as direct residential, commercial, and municipal installations. Funding is also offered for new renewable energy business ventures and innovative development. The fund is supported by a surcharge on electric customers' bills and collects about $2.5 million annually. The REF program is currently administered by the Rhode Island Commerce Corporation with the Office of Energy Resources providing assistance in development of the rules and regulations and evaluation of submitted REF applications. The new REF rules and regulations were approved by the Corporation Board in January 2014.

Changes to Net Metering

This article would allow homeowners and businesses to use third party financing for renewables such as solar or wind resources and still qualify for net metering. Net metering is a service to an electric consumer under which electric energy generated by that electric consumer from an on-site generating facility can be delivered to the local distribution facilities and used to offset electric energy provided by the electric utility to the electric consumer. Under current law, a homeowner or business has to own the renewable energy resource in order to take advantage of net metering.

The article also expands virtual/remote net metering to include, residential and commercial owners as well as and private and public institutions. Current law allows virtual/net metering only by state and municipal consumers. Consequently, a business owner who has a location in Smithfield and Providence could install a solar system in Smithfield and apply the generated power to electricity bills for both locations.

For the purposes of the net metering statute, the article defines a "third-party financing arrangement" as a financial arrangement that enables the financing of a renewable energy system through a lease arrangement or power purchase agreement. A "third-party company" is defined as a company owning or operating a renewable energy system that is used by a public or private entity to engage in net metering.

Property Taxes on Renewable Energy Installations

This article would exempt renewable energy resources and associated equipment from municipal property taxes if they are placed in service for the first time after December 31, 2015; have a final inspection performed by the city or town where the resource is located; and participate in net-metering. However, a city or town council may tax renewable energy resources and associated equipment if the council consults with the Office of Energy Resources and the Division of Taxation, and enacts the necessary ordinance, unless the resource is exempt from taxation pursuant to another provision of law. The consultation is intended to enable the state agencies to provide assistance on the taxing of renewable energy systems, and to make the Office Energy Resources (OER) aware of what municipalities are taxing renewable energy resources. The OER will then use this information when designing renewable energy programs.

Article 19: Relating to Division of Motor Vehicles

This article delays license plate reissuance from July 1, 2016, until April 1, 2017. Under RIGL 31-3-33, the Division of Motor Vehicles (DMV) is required to issue new reflective license plates for all registered vehicles beginning September 1, 2013, and every 10 years thereafter. The requirement has been delayed three times previously, most recently within the FY2016 Budget as Enacted, which delayed the reissuance from September 2015 to the current July 2016 date.

FISCAL IMPACT

The FY2016 Budget as Enacted included a provision that all unexpended balances in FY2016 would shift to FY2017, thus the $3.0 million originally intended to fund the FY2016 reissuance is reappropriated to FY2017. The Governor's FY2016 Supplemental budget is reduced by $3.0 million.

Under current law, registrants are charged $6.00 for each set of license plates above the regular registration fee. The delay in implementing the issuance results in a loss of $2.0 million in general revenue from the delay in customer purchases.

ANALYSIS AND BACKGROUND

The Governor proposes delaying license plate reissuance from July 1, 2016, until April 1, 2017. The coordination and effort required by the DMV to complete the re-issuance project will affect personnel who are working on the implementation of the Rhode Island Motor Vehicle System (RIMS) information technology (IT) project (a database designed to provide a real-time and customer-centric computer system to replace the DMV's current legacy system). The personnel assigned to RIMS would need to be pulled off and reassigned to the re-issuance project to ensure it is successfully coordinated, potentially delaying the planned implementation date in September 2016.

Under RIGL 31-3-33, the DMV is required to issue new reflective license plates for all registered vehicles beginning September 1, 2013, and 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. This requirement has been delayed three times previously: In the FY2012 Budget as Enacted, the General Assembly changed the first full reissuance requirement from 2011 to 2013; the FY2014 Budget as Enacted changed the reissuance until September 2015; and the FY2016 Budget as Enacted delayed the reissuance to July 1, 2016. Current law requires the Division to reissue license plates by July 1, 2016.

Article 20: Relating to Local Agriculture and Seafood Act (LASA) Grants

This article requires that fees collected for the lease of submerged tidal lands for renewable projects exceeding $5.0 million in costs be deposited into the Rhode Island Local Agriculture and Seafood Grant program. The fee is estimated to generate $150,000 annually. The article also updates legislative findings and intent for the Rhode Island Local Agriculture and Seafood Act, and establishes grant funding up to $50,000 for the fishing community.

FISCAL IMPACT

The Budget Office projects that the fee increase will generate $150,000 per year. The program has historically been funded at $100,000 in state support since its inception in FY2014; however, up to $50,000 of the receipts may be used to facilitate the fishing community's participation in the development of fisheries management policies and regulations. The account is exempt from the indirect cost recovery fee through Article 24.

This article will reduce general revenue receipts by $150,000 annually; however, the reduction is partially offset by a general revenue expenditure reduction of $100,000, resulting in a net general revenue reduction of $50,000 annually.

ANALYSIS AND BACKGROUND

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 (DEM), 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 FY2015, 73 applicants totaling $1.0 million in requests competed for $210,000 in available funding, including $100,000 in general revenues and $110,000 from the van Beuren Charitable Foundation, the Henry P. Kendall Foundation, and the Rhode Island Foundation. 15 grants were awarded to farmers and fishermen/women across the State in amounts ranging from $6,973 to build a professional drying room at Sky Blue Farms to $20,000 for Wild Harmony Farm to purchase an insulated trailer with a freezer compressor and generator to enable the transportation of frozen meat from certified butchers. DEM and RI Seafood Marketing Collaboration were awarded $20,000, as was done in FY2014, for a statewide seafood branding and marketing campaign. In FY2014, 92 applicants totaling $1.5 million in requests competed for $210,000 in available funding. The grant awards for FY2016 will be announced in late April or early May.

The article also provides that up to $50,000 in grant funding may be used to facilitate the fishing community's participation in the development of fisheries management policies and regulations.

Analyst's Note: The intent was to make the $50,000 an annual cap, not an absolute cap; however, the language is not clear and clarification may be necessary.

Article 21: Relating to Department of Behavioral Healthcare, Developmental Disabilities and Hospitals

This article creates a single state authority for purposes of calculating the maintenance of effort (MOE) for the Substance Abuse Block Grant awarded by Substance Abuse and Mental Health Services Administration (SAMHSA). The MOE is a federal requirement placed upon the Substance Abuse Block Grant program which requires that the State demonstrate certain levels of funding for substance abuse programs from year to year.

Currently, funding flows through the Executive Office of Health and Human Services (EOHHS) to fund substance abuse programs administered by the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH); however, funding from EOHHS to BHDDH, is no longer considered part of the MOE. The change will co-designate EOHHS and BHDDH as a "single state entity" to meet the SAMHSA block grant MOE requirements by allowing both agencies to accurately reflect spending for required programs.

FISCAL IMPACT

According to BHDDH, if Rhode Island does not create a "single state authority for mental health and substance abuse" the State will not meet the current SAMHSA $7.4 million MOE requirement for the FY2016 Substance Abuse Block grant, and puts future grant funding from SAMHSA at risk.

Summary of SAMHSA Grant Awards

Fiscal Year	Federal Funds
2012	$8.7
2013	9.0
2014	7.2
2015	11.2
2016	15.8
Total	**$51.9**

$ in millions

ANALYSIS AND BACKGROUND

Block grants require the State to demonstrate a MOE to be considered and awarded federal funds. The MOE for the SAMHSA block grant is the aggregate of all state expenditures for substance abuse activities at a level that is greater than or equal to the average level of state expenditures over the two-year period preceding the year the state applies for the grant. This article would allow the State to meet the MOE requirement by reporting Medicaid expenditures toward MOE. Currently, EOHHS provides the primary funding source for BHDDH substance abuse services through Medicaid Managed Care Organizations (MCO). In order to attribute these expenditures toward MOE, SAMHSA requires the state to create statutory and interdepartmental agreement between EOHHS and BHDDH. This article co-designates the two agencies as the "single state authority for mental health and substance abuse" therefore allowing Medicaid expenditures to fulfill the SAMHSA MOE requirements.

BHDDH is charged with the direction and coordination of the mental health and substance abuse prevention, treatment, recovery supports and administration of the community-based system of care. The Division of Behavioral Healthcare operating budget has historically been augmented by discretionary grants received by SAMHSA. In FY2016, BHDDH is operating 7 SAMHSA-funded initiatives: Projects for Assistance in Transition for Homelessness and Substance Abuse Prevention and Treatment and Community Mental Health Services Block Grant, PATH Grant, Partnership for Success, Healthy Transitions, Rhode Island CABHI Youth Treatment Transitions.

Article 22: 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 to the second Thursday in February, and the second Thursday in March for a newly-inaugurated Governor
- Moves the November Revenue and Caseload Estimating Conferences from the first ten days in November to within the last ten days in January
- Removes cash or public assistance caseloads from the caseload estimating process. The conference would be restricted to medical assistance expenditures
- Allows caseload conference staff to meet with OHHS (privately) prior to adoption of estimates, and then reach and present (publicly) a provisional consensus estimate to conference principals

FISCAL IMPACT

The article has no fiscal impact.

ANALYSIS AND BACKGROUND

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

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 second 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. The article removes language related to past budget submission deadline extensions.

Revenue and Caseload Estimating Conference Processes

The proposal makes a number of changes to the Revenue and Caseload Estimating Conferences processes, including moving the November conference to January. 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:

- The Governor's budget proposal moves the November conference to within the last 10 days in January.

Analyst’s 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”.[1] In a study of median revenue estimating error rates between 1987 and 2009, Rhode Island ranked 8th best nationally under current practices.[2]

Caseload Estimating Conference

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

- The Governor’s budget proposal moves the November conference to within the last 10 days in January.
- 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: Temporary Assistance for Needy Families (TANF); Child Care Subsidies; State Supplemental Security Income (SSI); and General Public Assistance.

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

[1] “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.
[2] “States’ Revenue Estimating: Cracks in the Crystal Ball.” Pew Center on States / The Nelson A. Rockefeller Institute of Government. March 2011.

Article 23: Relating to Safe Harbor for Sexually Exploited Children

This article creates a Safe Harbor for Sexually Exploited Children by treating children under age 17, who are victims of sex trafficking, as victims rather than criminals by shielding the minor from prosecution. Minors would be referred to the appropriate state services for proper assessment of their needs, and the article adds sex trafficking of a minor to the list of offenses for which victims may receive compensation from the Crime Victims Compensation Fund.

FISCAL IMPACT

There is no direct fiscal impact on the Crime Victims Compensation Program (CVCP) with passage of this Article. According to the Office of the General Treasurer, the CVCP already compensates victims of sex trafficking and sexual exploitation regardless of whose custody or care they are in, therefore, the impact of the legislation is minimal and absorbable within the CVCP budget.

ANALYSIS AND BACKGROUND

This article creates the Rhode Island Safe Harbor for Sexually Exploited Children under Title 14 for Delinquent and Dependent Children by treating children under age 17, who are victims of sex trafficking, as victims rather than criminals by shielding the minor from prosecution. Specifically, the article adds language that provides minors (under age 17) immunity from prosecution for prostitution or loitering for prostitution. The article however, stipulates that a person age 16 or older can still be charged and adjudicated for the crime of prostitution if the person engaged in the activity with consent, for a fee, and without a third party beneficiary.

The article requires that minors be redirected from the criminal or juvenile justice systems to the appropriate state services for proper assessment of their needs.

The article amends RIGL 12-25-20 by adding sex trafficking of a minor to the list of offenses for which victims may receive compensation from the Crime Victims Compensation Fund. The Crime Victims Compensation program compensates innocent victims of violent crimes for certain expenses that are attributable to the crime. Compensation may be used to cover funeral, medical, and counseling expenses incurred by victims or their family members. The maximum award for each criminal incident is capped at $25,000.

Article 24: Relating to Restricted Receipt Accounts

This article creates three new restricted receipt accounts, the "Local Agriculture & Seafood Fund" in the Department of Environmental Management, the "DMV Modernization Project" in the Rhode Island Department of Motor Vehicles, and the "RISCON Infrastructure Repairs/Equipment Replacement (Google)" in the Rhode Island Emergency Management Agency. These accounts are exempted from the 10.0 percent indirect cost recovery provision.

FISCAL IMPACT

This article exempts $1.0 million in FY2016 and $2.7 million in FY2017 from the indirect cost recovery provisions, thereby reducing general revenue receipts by approximately $100,000 in FY2016 and $215,000 in FY2017.

ANALYSIS AND BACKGROUND

Local Agriculture & Seafood Fund: This new account is created pursuant to Article 20 to receive fees collected from the lease of submerged tidal lands for renewable energy projects exceeding $5.0 million in costs. The fees, estimated at $150,000 annually, will fund the Rhode Island Local Agriculture and Seafood Grant program. Passage of this article would forgo general revenue collections by approximately $15,000 annually.

DMV Modernization Project: The DMV Modernization Restricted Receipt account is a new account that was created to receive receipts from the settlement agreement between DMV and Hewlett Packard Enterprise Services. The settlement was approved to complete the Rhode Island Motor Vehicle System (RIMS)implementation. The terms are very specific, all funds must be utilized to complete the project, and as such the Department of Revenue requests that this account be exempt from indirect cost recovery. The State received $1.0 million to date. Two payments of $1.0 million each are due in July and December, 2016. Passage of this article would forgo general revenue collections by approximately $100,000 in FY2016 and $200,000 in FY2017.

RISCON Infrastructure Repairs/Equipment Replacement (Google): This is a new account established in the Rhode Island Emergency Management Agency (RIEMA). RIEMA anticipates receiving approximately $585,735 from the Google Settlement Award to the State Police to fund the capital project costs on the Rhode Island Statewide Communications System Network (RISCON). RISCON is an 800MHz interoperable radio system that is the main communications platform used for the daily operations of all public safety agencies in the State. RIEMA continues to sustain, enhance, and develop RISCON to be used in the event of a man-made or natural disaster for interoperability among local, state, and federal government entities. Since these funds are currently in an exempt account in the Department of Public Safety, passage of this article would not forgo any general revenue collections.

Article 25: Relating to Effective Date

This article provides that the Act will take effect on July 1, 2016, except as otherwise provided herein.

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