

Governor's FY 2021 Budget: Articles

Staff Presentation to the House Finance
Committee
February 11, 2019

Introduction

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

Article 19, Section 1-7, 9, & 11-14 - Apprenticeships

- Apprenticeships – current law
 - Most requirements for specific trade apprenticeships in Title 5
 - State Apprenticeship Program in Title 28
 - Overseen by Apprenticeship Council in DLT
 - Council adopts rules and regulations, establishes standards, formulates rules
 - Must conform with federal regulations
 - DLT settles differences, supervises standards and agreements, issues certificates upon completion

Article 19, Section 1-7, 9, & 11-14 - Apprenticeships

- “Apprenticeable occupation”
 - Learned through on-the-job supervised instruction
 - Clearly identified & commonly recognized throughout an industry
 - Involves progressive attainment of manual, mechanical, or technical skills & knowledge with min. 2,000 hours of on-the-job learning
 - Requires related instruction to supplement training

Article 19, Section 1-7, 9, & 11-14 - Apprenticeships

- Summary
 - Section 13 establishes school construction project apprenticeship requirements
 - Other sections mainly repeal or update outdated language in apprenticeship laws
 - Contain mostly technical changes or replacement language for repealed language
 - Conform with federal regulations

Article 19, Section 13 – School Construction Requirements

- Voters approved \$250.0 million GO bond in November 2018 for school construction
 - Triggered temporary enhanced state share
 - \$617.1 million of projects approved since May 2019
 - \$883.6 million projected to be approved in 2020
- Section 13 establishes legislative findings
 - Cites numerous studies which show a decrease in construction labor
 - Cites studies which show that apprenticeship programs are a solution to labor shortages

Article 19, Section 13 – School Construction Requirements

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

Article 19, Section 13 – School Construction Requirements

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

Article 19, Section 13 – School Construction Requirements

- Penalties for non-compliance
 - Triggers contractual penalties with user agency
 - Similar penalties to current prevailing wage violations:
 - \$500 per day fine to the contractor or subcontractor for not submitting data
 - Withholding payment until data submitted

Article 19, Sections 1-7, 9, 11,12, & 14 - Technical

- Numerous technical changes/updates
 - Apprenticeship requirements converted to hourly rates
 - 2,000 hours = one year
 - Sets hourly credit equivalent for high school and postsecondary training
 - Makes false reporting of apprenticeship information a violation
 - Updates non-discrimination language in accordance with federal law
 - Repeals outdated language

Article 19, Section 10 – Job Development Fund

- Unemployment insurance taxes are paid by employers
 - Federal and state component
 - Federal tax used for:
 - Administrative expenses
 - Loans to states when needed to pay benefits
 - Partially reimburse states for extended benefits
 - State tax used solely for benefits

Article 19, Section 10 – Job Development Fund

- State has 9 tax schedules: A - I
 - Each schedule has 28 tax rate groups
- Schedules based on reserve ratio of fund as of September 30 of prior year
 - Trust Fund balance divided by total wages paid during year = reserve ratio
- Individual rates based on employer's level of reserves

Article 19, Section 10 – Job Development Fund

- Employers who pay UI taxes also subject to additional 0.21% job development assessment
- Directed to the Job Development Fund
 - Admin. expenses
 - Programs
 - Lost federal funds

Examples of Rates

Schedule - Level	JDF	UI	Total
H - 3	0.21%	1.29%	1.50%
G - 6	0.21%	1.79%	2.00%
G - 15	0.21%	4.19%	4.40%
F - 5	0.21%	1.29%	1.50%
F - 28	0.21%	9.19%	9.40%

Article 19, Section 10 – Job Development Fund

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

Article 19, Section 10 – Job Development Fund

- Governor's Workforce Board
 - Policy-making body on workforce development
 - 23 members on Board, appointed by Governor
 - 18 members must be from the public
 - Invests in a wide range of programs and services
 - Real Jobs RI, internships, incumbent worker training, continuing adult education

Article 19, Section 10 – Job Development Fund

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

Article 19, Section 10 – Job Development Fund

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

Article 19, Section 10 – Job Development Fund

- Estimated new revenue - \$1.4 million
 - For use for Real Jobs RI
 - Would supplement \$12.7 million from general revenues recommended for Real Jobs in FY 2021, \$7.3 million more than FY 2020
 - Effective January 2021
 - Governor's budget assumes full spending during FY 2021 despite first receipts not arriving until third quarter of FY 2021

Article 19, Section 10 – Job Development Fund

Governor's Workforce Board – JDF Spending through FY 2021 Rec

Year	Operations	Grants	Total
FY 2016	\$0.9	\$8.5	\$9.4
FY 2017	3.2	7.9	11.0
FY 2018	4.0	13.6	17.6
FY 2019	3.8	18.5	22.3
FY 2020 Gov. Rev.	4.0	13.8	17.7
FY 2021 Gov.	5.2	12.1	17.3
Total	\$21.1	\$66.7	\$87.8

\$ in millions

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

- Credit against personal income taxes
 - To assist low/mod income filers
 - Must have earned income to qualify
- Credit issued at federal level
 - Income level
 - Filing status
 - Number of dependent children

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

Federal Credit - Single Filer – Tax Year 2019				
Qualifying Children	0	1	2	3
Max. Income	\$15,570	\$41,094	\$46,703	\$50,162
Max. Credit	\$529	\$3,526	\$5,828	\$6,557
RI Credit	\$79	\$529	\$874	\$984

Federal Credit - Joint Filers – Tax Year 2019				
Qualifying Children	0	1	2	3
Max. Income	\$21,370	\$46,884	\$52,493	\$55,952
Max. Credit	\$529	\$3,526	\$5,828	\$6,557
RI Credit	\$79	\$529	\$874	\$984

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

- 29 states offer a credit against state income tax – including Rhode Island
 - State credit = % of federal credit
- 22 states' credits are refundable
 - If credit is more than amount owed – difference paid to filer
- 2016 Assembly last changed the credit from 12.5% to 15.0%
 - 100% refundable

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

- Comparison of credit impact between states is difficult
- Percent of federal credit & refundability not only factors
 - Marginal tax rates – tiered system more progressive than flat rate; ranges of income within brackets
 - Deductions and exemptions
 - Other credits allowed

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

State	State Credit % of Federal*	Marginal Tax Rate	Other Factors
Rhode Island	15.0%	Progressive 3.75% - 5.99%	standard deduction; personal & dependent exemptions
Connecticut	23.0%	Progressive 3.0% - 6.99%	standard deduction; personal exemption
Massachusetts	30.0%	Flat 5.05%	Personal & dependent exemptions; childcare deduction; renters deduction

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

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

- 2014 Assembly enhanced value of credit for tax year 2015
 - 10% of federal, 100% refundable
 - Was 25% of federal, 15% refundable
- Governor's FY 2016 budget proposed increasing credit over 2 years
 - To 12.5% of federal credit for TY 2016
 - To 15% of federal credit for TY 2017
- Assembly approved as two separate changes – 2015 and 2016 session

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

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

\$ in millions

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

- Governor's Proposal – Increase value of the credit by 33% over five years in 1% increments from 15% to 20%
 - Beginning with tax year 2021, credit will increase to 16.0%
 - Remains 100% refundable
 - Impacts about 16% of income tax filers
- Fiscal year impacts assumed to be half
 - Full impact would be realized in FY 2026

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

Distributive Analysis of 1% Increment to 16%				
AGI	# of Filers	Tax Liability Proposed*	Chg. to Current Law Tax*	Avg. Tax Diff.
Under \$1	341	\$(0.1)	\$(0.0)	\$(11.21)
\$1 - \$24,999	57,061	(21.1)	(1.3)	(23.44)
\$25,000 - \$49,999	26,458	(1.9)	(0.5)	(19.81)
\$50,000 - \$74,999	327	0.1	(0.0)	(3.86)
Total	84,187	\$(22.9)	\$(1.9)	\$(22.17)

*in millions

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

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
RI Credit	16%	17%	18%	19%	20%
Impact	\$(1.1)	\$(3.5)	\$(6.0)	\$(8.7)	\$(11.6)

\$ in millions

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