

Highlights of the Governor's Proposed FY 2019 Budget

Introduction

The Governor's proposed FY2019 budget ("the budget") totals \$9.2 billion, an increase of \$5.2 million over the enacted FY2018 budget. This includes \$3.8 billion in general revenue (increased by \$25.0 million from enacted FY2018) and \$3.1 billion in federal funds (a decrease of \$52.3 million from enacted FY2018) with the balance from restricted receipts and other sources. The following provides some budget highlights.

Health Care

Medicaid

The proposed Medicaid budget for the Executive Office of Health and Human Services (EOHHS) totals \$2.3 billion, including \$906 million in general revenue and \$1.4 billion in federal funds to provide health care and long term services to around 280,000 Rhode Islanders. The federal government's recent extension of the Children's Health Insurance Program (CHIP) saves the state \$29 million to provide coverage for certain children and pregnant women. The cost to cover the 70,000 adults who became eligible under Medicaid "expansion" is \$472 million of which the state pays \$31 million (around 6.7 percent of the cost compared to the regular state share of around 49 percent).

The budget includes approximately \$150 million in cuts to the Medicaid program, including \$68 million in general revenue. This includes cuts to providers: managed care organizations (\$70M total, \$24M in general revenue); hospitals (\$30M total, \$11M general revenue); and nursing facilities (\$5M total, \$3M general revenue). The budget assumes around \$11 million in savings (\$5.3M in general revenue) from eliminating retroactive coverage for seniors and people with disabilities. Under current law, medical bills incurred in the three months before application can be paid by Medicaid for these populations.

Co-payments: The most significant impact for Medicaid recipients is the proposal to require co-payments for services including the following: \$8.00 for non-emergency use of the emergency room; \$4.00 for brand name prescription drugs and \$2.50 for generics; \$3.00 per inpatient hospital stay; \$3.00 for non-preventive doctor visits. The co-payments are capped at 5 percent of household income and apply to all adults over the age of 19 except for adults who are enrolled in Medicaid based on disability. This includes adults, parents, seniors, and pregnant women.

Almost all of the Rhode Islanders who will be required to pay toward their medications, doctor's visits and other co-pays have income that is no higher than 138 percent of the federal poverty level (FPL) and the majority have income that is below the poverty level. Over three-quarters (78 percent) of the adults without children (the expansion population) who receive Medicaid have income below the federal poverty level. Almost three-quarters (74 percent) of parents have income below poverty, including several thousand parents who receive RI Works cash assistance whose income is almost 70 percent below the poverty level.

Generally, seniors who have Medicaid coverage have income near the poverty level and seniors who receive federal SSI cash benefits and Medicaid have income that is 20 percent below poverty.¹ The new co-payments are estimated to “save” the state \$3.2 million in general revenue and would generate savings for the federal government of \$11.9 million.

Health care and long term care services for seniors and people with disabilities: The budget proposes to redesign health services delivery for around 11,000 seniors and people with disabilities who have both Medicare and Medicaid coverage and are enrolled in Neighborhood Health Plan’s (NHP) Unity Plan. NHP receives a capitated payment from the state to coordinate and pay for these members’ health care services as well as long term services in the community and nursing facilities. The redesign would end the managed care enrollment and capitated payments. NHP would be paid to coordinate member services and care management and the state would pay providers through the fee-for-service system. EOHHS would also implement a Community First Choice Option to increase federal reimbursement for certain long term care services. These changes are anticipated to save \$15 million, including \$10 million in general revenue.

The budget does not appropriate the \$6 million (half general revenue and half federal funds) available through the “Perry-Sullivan” funds (funds freed up by reducing nursing home placements) to expand home and community based services. Instead, most of the funds are proposed to be used to pay for the previously enacted wage increase for home care providers.

Non-emergency medical transportation (NEMT): The state contracts with a vendor to provide Medicaid members with transportation services to doctors, pharmacies and other medical services. Consumers have had many problems with the current vendor. The budget proposes to restructure and rebid the contract for NEMT and save \$9.2 million, including \$3.9 million in general revenue.

HealthSource RI (HSRI)

The budget includes \$8.1 million in funds for the state’s health insurance exchange through which almost 30,000 Rhode Islanders purchase health insurance and access tax credits to help them pay the monthly premium. HSRI is also the eligibility portal for children, families and adults who are applying for Medicaid. Funding includes \$2.4 million in general revenue and \$5.7 million in restricted receipts from a 3.5 percent health insurance premium assessment.

Senior Centers and Meals-On-Wheels

The budget doubles state resources for Senior Centers from \$400,000 to \$800,000 and maintains funding (\$530,000) for Meals-on-Wheels. Adequate nutrition for seniors and opportunities to engage in community activities are important “social determinants” that can impact seniors’ health and well-being.

Education and Workforce Training

Child Care and Early Learning

The budget includes \$1.5 million in general revenue to increase rates paid to providers who serve infants and toddlers enrolled in the Child Care Assistance Program (CCAP) if the program meets quality standards. The budget adds \$1.1 million in additional general revenue to expand pre-K programs and level funds (\$1.2M) the Head Start Program.

2018	100% Poverty Level	138% Poverty Level	SSI Yearly Payment	RI Works Yearly Payment
Individual	\$12,140	\$16,753	\$9,479	N/A
Parent (Family of 3)	\$20,780	\$28,676	N/A	\$6,648

The budget also includes \$200,000 for a pilot program to allow parents who are enrolled in post-secondary education to access CCAP subsidies. Under current law, parents are eligible for CCAP only if they are working or enrolled in a short-term training program at least 20 hours/week.

Education and Workforce for Adults

Funding for the adult education system, administered by the Rhode Island Department of Education, remains the same as current year. The system, which provides adults with foundational workforce skills, including English language instruction, literacy and numeracy is funded by federal sources (Temporary Assistance to Needy Families block grant (\$1M) and the Workforce Investment Opportunity Act (\$2.3M)), general revenue of \$2.3 million and \$3.5 million from the Job Development Fund.

The budget maintains \$300,000 in general revenue for the “Pay for Success” transitional employment program for formerly incarcerated individuals and appropriates \$400,000 for a new initiative to help people in recovery from opioid addiction access supportive employment services.

The budget codifies the “Real Jobs Rhode Island” program into law within the Governor’s Workforce Board, establishing it as the state’s primary workforce development program. Changes to the law governing the Job Development Fund would provide long-term funding for Real Jobs Rhode Island.

The budget includes second year funding for the Rhode Island Promise Scholarship, adding \$3.6 million in general revenue for total funding of \$6.4 million. Tuition and fees are covered for young adults who attend the Community College of Rhode Island (CCRI) within six months of graduating from high school.

Affordable Housing

There are no new general revenue funds in the budget for affordable rental housing. Approximately \$10 million for development and preservation of affordable housing will be awarded in FY2018 from the General Obligation Bond approved by voters in 2016. A similar amount may be available in FY2019. The budget also transfers \$11 million from Rhode Island Housing to the General Fund – \$6 million to close the FY2018 budget deficit, and \$5 million to balance the FY2019 budget request.

Revenue Changes

The budget increases the cigarette tax by an additional \$.25/pack, to \$4.50/pack (after increasing from \$3.75/pack to \$4.25/pack in last year’s budget), and expands taxes on other tobacco products, changes anticipated to generate an additional \$6.2 million in revenues.

While the budget doesn’t include any “broad based” tax increases, the expansion of the sales and use tax to cover two services – Software as a Service (SaaS) and security services – is expected to generate \$14.5 million. This move is an important step towards better aligning Rhode Island’s sales tax system with our economy, which has substantially shifted from the purchase of goods to the use of services, and from bricks and mortar establishments to on-line purchases.

The budget anticipates that restructuring the Department of Revenue’s Division of Taxation (and adding 22 staff) will enable the state to increase revenues collected by \$13.5 million, netting \$10 million after staffing and technical support costs.

The budget anticipates substantial new lottery revenue (\$27.6M), most of which (\$23.5M) is contingent on a favorable decision by the US Supreme Court on the legalization of sports betting. A decision is expected by this summer.

The budget increases several fees including insurance claims adjusters' fees, mutual fund retailers' fees, and duplicate license fees, totaling \$10.6 million, a gain that is partially offset by reducing several licensing fees by a total of \$300,000.

Expansion of Rhode Island's medical marijuana program is expected to generate an additional \$5.1 million in revenue.

The budget allocates \$18.7 million for FY2019 in additional state aid towards the phase-out of the motor vehicle tax—a total of \$44.7 million in foregone revenue as a result of the phase out.

Economic Development

Rhode Island continues to rely heavily on economic development tax incentives to encourage employers to make investments in Rhode Island. The budget includes \$37.3 million for the Executive Office of Commerce “to support new and existing initiatives...to spur economic development.”

Economic Development Tax Incentives

Refundable Manufacturing Investment Tax Credit

The budget proposes expanding the manufacturing investment tax credit with a \$300,000 refundable tax credit to encourage investment in equipment, training, and business capital.

Rebuild Rhode Island Tax Credit

The budget adds \$15 million (\$3M more than FY2018) to the Rebuild Rhode Island Tax Credit Fund (providing gap financing for the development, construction, or rehabilitation of eligible commercial, industrial, residential, and mixed use properties). The budget also recommends expanding program eligibility and repealing the program's December 31, 2018 sunset provision.

Historic Tax Credit Trust Fund

The budget includes \$12.9 million (on top of revised request for \$31.1M in FY2018) for debt servicing costs.

New Economic Development Initiatives

SupplyRI

The Governor proposes creation of a new program, SupplyRI, allocating \$475,000 to connect small suppliers with some of the state's largest purchasers of supplies (i.e. universities, hospitals and other large employers) to shift spending from out-of-state to in-state suppliers.

Manufacturing Site Readiness Program

The manufacturing site readiness program would allocate \$200,000 for the development of an inventory of “pad ready” industrial sites for potential use by large manufacturers or distribution centers.

Municipal Technical Assistance Grants

This initiative would allocate \$200,000 to provide technical assistance to municipalities to expedite the processes involved in municipal zoning, planning, and permitting for local economic initiatives.