Enacted FY 2020 Budget & Municipal Impacts
July 5, 2019

Summary
The enacted budget for FY 2020 (H5151) increases appropriated aid to cities and towns by $21.5 million over the Governor’s FY 2020 proposal from January and by $38.1 million over FY 2019 levels.

- The House budget fully funds the third year of the motor vehicle tax phase-out in FY 2020. It does not accept the Governor’s modifications to the phase-out schedule and therefore provides an additional $16.3 million above the Governor’s recommendation. (Additional detail below.)
- It largely restores the Governor’s proposed cut of $5.3 million for Payment in Lieu of Taxes (PILOT). It provides a total of $46.1 million for PILOT – the same as in FY 2019.
- It also funds the Distressed Communities Relief Fund at the same level as FY 2019 – $12.4 million.

The budget currently anticipates total pass-through funding (public service corporation, hotel/lodging and meals/beverage taxes) of $53.7 million in FY 2020. NOTE: These numbers are the same as the Governor’s request; they will be updated over the summer based on data from spring of 2019.

The budget funds the ninth year of the elementary and secondary education funding formula with an increase of $21.2 million in formula aid to school districts and $10.4 million more for charter schools, compared to FY 2019 levels. It increases English Language Learner funding by $2.25 million to $5.0 million. It also includes $1.8 million to correct a funding formula error made by the Rhode Island Department of Education (RIDE) in FY 2019, including overpayments that would have led to funding reductions in some communities in FY 2020.

The budget includes Senate-passed legislation authorizing the creation of special economic development districts in communities where the state owns 20 or more contiguous acres of land. The commissions would be charged with planning and regulating development of contiguous tracts of developable land. The commissions would supersede all municipal zoning and planning authority. The legislation also specifically establishes the I-195 Commission as a special economic development district; other districts would need to be created by separate legislation by the General Assembly.
**Additional Detail**

**Motor Vehicle Excise Tax**

The budget provides $94.2 million to fully fund the third year of the motor vehicle tax phase-out in FY 2020 – $38.1 million more than in FY 2019. It does not include the Governor’s proposal to modify the conditions of the phase-out in the remaining years and therefore provides an additional $16.3 million over the Governor’s recommendation. The terms of the phase-out in FY 2019 and FY 2020 are below.

<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>FY 2020</th>
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<tbody>
<tr>
<td><strong>Taxable value (percentage of NADA clean retail value)</strong></td>
<td>90%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Minimum exemption</strong></td>
<td>$2,000</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Maximum rate (per $1,000 of taxable value)</strong></td>
<td>$50.00</td>
<td>$35.00</td>
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The League had expressed concern with any changes to the phase-out schedule because of the impact on local budget planning and tax billing.

**State Aid – Formula Funding**

The House budget includes $67.1 million in other formula state aid, the same as in FY 2019.

**Payment in Lieu of Taxes (PILOT)** – The House budget includes $46.1 million for PILOT funding in FY 2020 – an increase of $5.3 million over the Governor’s proposal and equal to FY 2019 levels. The Governor’s cuts would have had the greatest impact on Providence and Cranston, and because of the timing of PILOT payments, would have had FY2019 impacts on affected communities.

The budget also does not include the Governor’s proposal to remove the property tax exemption from nonprofit hospitals and higher educational institutions on any property not used exclusively for educational or hospital purposes, including vacant lots.

**Distressed Communities** – The FY 2020 budget maintains FY 2019 funding of $12.4 million for distressed communities. Based on the distressed community funding formula criteria, one community would see an increase (Cranston), while seven would see reductions (Central Falls, Johnston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket).

**State Library Aid** – The Governor proposes $8.6 million in state library aid to cities and towns, consistent with FY 2019 levels.

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1 For the three previous years (FY 2017 – FY 2019), the Governor and General Assembly had achieved the state commitment to fund PILOT at 27.0% of the revenue foregone to municipalities because of tax-exempt property. According to the House Fiscal Office, the House budget level reimburses 26.6% of foregone revenue, compared to the 23.6% proposed by the Governor.
State Aid – Pass-Through
The budget currently anticipates total pass-through funding (public service corporation, hotel/lodging and meals/beverage taxes) of $53.7 million in FY 2020. NOTE: These numbers are the same as the Governor’s request; they will be updated over the summer based on data from spring of 2019.

Public Service Corporation Tax – The budget includes $13.3 million in pass-through revenue from the Public Service Corporation Tax in FY 2020, subject to revision in the summer. NOTE: Verizon has filed suit against the state, challenging the methodology used in calculating this tax. If the state loses or settles the case, amounts received by cities and towns could be adversely impacted.

Meals & Beverage Tax – The budget includes $29.8 million in pass-through revenue from the meals and beverage tax in FY 2020, subject to revision in the summer.

Hotel Tax – The budget includes $10.5 million in pass-through revenue from the hotel and lodging tax in FY 2020, subject to revision in the summer.

Hotel Tax Increase & Distribution – The House did not concur with the Governor’s proposal to increase the state portion of hotel tax from 5.0% to 6.0%, with the additional funds dedicated for state general revenue.

However, the House budget does apply the existing hotel tax distribution to revenues raised from third-party hosting platforms, such as AirBnB. Currently, of hotel tax revenues received for lodgings via third-party platforms, Commerce Corporation receives 75% and the host city/town receives 25%. The budget would reduce the Commerce Corporation’s amount and redistribute it to local tourism districts and visitor bureaus consistent with current law for hotel tax revenues, based on the district in which the lodging is located. (Article 5, Section 5)

Education and School Funding
The budget funds the ninth year of the elementary and secondary education funding formula with an increase of $21.2 million in formula aid to school districts and $10.4 million more for charter schools, compared to FY 2019 levels.

The House-passed budget includes the following provisions pertaining to education:

- An additional $2.25 million for English Language Learner (ELL) categorical funding, for a total of $5.0 million.
- An additional $1.8 million to correct a state funding formula error in FY 2019 (see additional detail below).
- A total of $14.9 million for pre-kindergarten seats, compared with the Governor’s request of $15.6 million. This includes $12.0 million to fully fund the program’s existing 60 classrooms (including additional state revenues to backfill expiring federal grants) and
$2.9 million for new placements. It does not include the Governor’s plan for universal pre-K.

- No additional funding for in-school mental health services and teacher supports (the Governor had requested an increase of $0.6 million).
- Does not include the Governor’s proposal to require any public school that meets federal eligibility requirements (i.e., at least 70% of students eligible for free- or reduced-price meals) to provide school breakfast to all students during the school day, beginning in the 2020-2021 school year.

Other noteworthy provisions:

- **Correction of State Funding Formula Error** – After a state error in the calculation of the funding formula led to overpayments and underpayments in FY2019, the Governor’s budget recommended reducing education aid in FY2020 for school districts that had been mistakenly overpaid in FY2019. The House Finance Committee’s budget holds all communities harmless if they were overpaid in FY2019 – i.e., they will not have funding reduced in FY2019; communities that were scheduled to get additional funds from FY2019 underpayment would still get their expected funds. The House includes an additional $1.8 million to correct this error. The budget also includes new reporting requirements for the RI Department of Education if other errors occur again in the future. (Article 9, Section 1)

- **Municipal Payment of Training School Special Education Services** – The House budget does not include the Governor’s proposal for a city or town to pay DCYF the special education costs of a resident child incarcerated at the Training School.

**Marijuana**

The House budget does not include the Governor’s proposal to legalize adult recreational use of marijuana. Instead, it expands the number of compassion centers for medical marijuana use by six – from three to nine. As with current compassion centers, cities and towns would not receive revenues from the additional centers. The budget also creates a regulatory structure for the cultivation of hemp and the manufacture and sale of cannabidiol (CBD) products.

The budget also contains language clarifying the employment rights of medical marijuana cardholders. It states that employers may not refuse to employ or penalize an employee based on his/her status as a cardholder, except under the following conditions:

- An employee’s use or being under the influence at work, including tasks that would endanger workplace safety, constitute negligence or involve the use of vehicles, heavy equipment or firearms;
- A violation of collective bargaining agreements; and
- A violation of federal law that would result in the employer losing a monetary or licensing benefit.
Other Noteworthy Provisions

Special Economic Development Districts – The budget includes Senate-passed legislation (S0803 SUB A as amended) authorizing the creation of special economic development districts in communities where the state owns 20 or more contiguous acres of land, not including land owned by the Department of Environmental Management. Any new development districts would be overseen by seven-member commissions appointed by the Governor with advice and consent of the Senate. The commissions would be charged with planning and regulating development of contiguous tracts of developable land. The commissions would supersede all municipal zoning and planning authority. The legislation also specifically establishes the I-195 Commission as a special economic development district; other districts would need to be created by separate legislation by the General Assembly. (Article 12, Sections 9 and 10)

NOTE: The League has argued that the legislation infringes on local land use decisions, conflicts with the state requirement for local comprehensive plans and could have longer-term impacts on communities with significant state land holdings such as Cranston (Pastore Complex), Exeter (Ladd Center) and Burrillville (Zambarano Complex).

Reforms to Injured on Duty Compensation – The House budget includes the Governor’s proposed reforms to the Injured on Duty program but limits their application only to state employees and not to municipal public safety employees. (Article 3, Section 12)

Background: The state’s current law provides an injured or sick police officer or firefighter 100% of pay and benefits for the duration of his/her incapacity or any reoccurrence of any prior injury or sickness. If a public safety employee applies for a disability retirement benefit, the employer must pay IOD throughout the entire process. If denied disability retirement benefits by the state Retirement Board or local pension board, municipal public safety employees may appeal decisions to the Workers Compensation Court for de novo review. Under state law, municipal public safety employees receive IOD benefits until a final determination by the Workers Compensation Court. As a result, cities and towns can have employees out on IOD for many years, collecting full pay and benefits.

The House’s budget language would make the following reforms to the IOD law:

- Establishes a hard 18-month deadline for IOD recipients to apply for disability pension benefits; those currently on IOD for longer than 18 would have 90 days to apply for a disability pension;
- Requires IOD applicants to apply for a disability pension within 60 days of “a static and incapacitating injury whose permanent nature is readily obvious and ascertainable”; and
- Allows the employer to use an independent medical examiner (IME) to determine if the employee has reached maximum medical improvement (MMI) – a precondition to applying for disability pension benefits (current law requires MMI certification through applicant physician statement); and
• Terminates IOD payments on a decision by State Retirement Board to approve or deny any disability pension, whether accidental or ordinary; also clarifies that termination of IOD benefits may not be stayed upon an applicant appeal.

The League has strongly supported IOD reforms for both state and municipal public safety employees and will continue to do so.

Change to Statewide Planning Council Membership
In response guidance from the Federal Highway Administration (FHWA) that the state’s Metropolitan Planning Organization (MPO) needed more participation by local elected officials, the Governor proposed a budget amendment modifying the membership of the State Planning Council.

The HFC budget includes the Governor’s recommendation to remove the State Budget Officer and add the director of the Rhode Island Emergency Management Agency. It reduces the number of public members from six to four and increases the number of members from municipalities from one to three – one from a community with a population greater than 40,000; one from a community with a population between 20,000 and 40,000; and one from a community with a population less than 20,000. It also specifically authorizes in statute the Transportation Advisory Committee, which supports the Statewide Planning Council in development of the federally mandated Transportation Improvement Program.

This results in a net gain of two municipal seats, as the article also removes one local official, as selected by the Governor from a list of three recommendations by the League. (Article 4, Section 13)

Agency Transfers (“Scoops”) - The House-passed budget modifies some of the Governor’s proposals to transfer unexpended funds from quasi-public agencies, known as “scoops.” In some cases, these agencies are financed from charges or fees to municipalities and/or provide services to cities and towns. The budget did not accept the following scoops of interest to cities and towns:

- RI Resource Recovery Corporation: $5.0M in FY 2019
- RI Health and Educational Building Corporation: $2.0M in FY 2019
- RI Housing: $2.5M in FY 2019

The House budget did include the following scoops of interest to cities and towns:

- RI Housing: $1.5M in FY 2020
- RI Infrastructure Bank: $4.0M in FY 2020

Other Items of Interest
Motor Vehicle Tax Blocks -- The budget does not include the Governor’s proposal that would have required cities and towns to pay the Division of Motor Vehicles $5 per taxpayer to initiate a municipal tax block. This provision was estimated to raise $0.4M for an estimated 81,250 tax blocks in FY 2020.
Complete Count Committee – The budget includes $0.5M to support the State Complete Count Committee and other initiatives in preparation of the 2020 Census.

License Plate Reissuance – The House-passed budget requires license plate reissuance for all Rhode Island vehicles to be completed by June 1, 2020. Supporters of the plate reissuance argue that it will improve traffic enforcement and reduce the number of vehicles that are not registered or registered at an incorrect address. (Article 7, Section 2)

Beach Parking Fees – The budget does not include the Governor’s proposal to review beach fees for possible increases. The budget specifically prevents any additional fee increases until the end of the 2021 beach season.

E-911 – The budget separates the existing E-911/first responder surcharge – currently $1.00 on wired and wireless telephone numbers – into two separate line items. The E-911 charge would be $0.50 for wired lines and $0.75 for wireless lines. Funds from the E-911 charge would be deposited into a restricted receipt account and be used exclusively to fund E-911 operations. The first responder surcharge would be $0.25 for wired and wireless lines and would be deposited into the general fund. The budget removes the $0.26 charge for GIS and technology surcharge on wireless lines. The budget also includes $0.2M to for E-911 telecommunicator training.

Other Miscellaneous Budget Provisions

- Clarifies that all administrative fees charged by RI Health and Educational Building Corporation (RIHEBC) may not exceed 0.1% of the original principal amount (Article 9, Section 15)
- Repeals requirement for Division of Municipal Finance to provide compliance reports to the General Assembly on Coventry Fire Districts (Article 3, Section 11)
- Empowers the Auditor General to engage in investigations, reviews and inspections to prevent and detect fraud, waste, abuse and mismanagement of public funds (Article 2, Section 3).

Other Provisions from Governor’s Proposal Not Included

- Minimum Wage – Does not include the Governor’s proposed increase to the minimum wage
- Local Zoning Support – Does not include proposal to create a State and Local Partnership Council, intended to provide state support and services to cities and towns for land development, site preparation and zoning/permitting to promote economic development
- Airport Aid – Does not include proposal to reduce state airport impact aid by $0.26 million, from $1.03 million in FY 2019 to $0.76 million in FY 2020.
- Water Resources Board – Does not transfer the Water Resources Board from the Department of Administration to the Division of Public Utilities and Carriers
- Local Licensing – Does not repeal authorization of municipal leather and hide inspectors in Providence and Newport