



DEPARTMENT OF REVENUE
Office of Revenue Analysis

RHODE ISLAND REVENUE CHANGES
2010 SESSION

In the 2010 session, the General Assembly enacted a number of changes to state law that impact general revenues. Generally, these changes can be categorized as changes to general revenue sources and changes to non-general revenue sources. Changes to general revenue sources encompass tax and fee changes as well as changes to the operation of the state lottery. Changes to non-general revenue sources primarily consist of changes that impact revenue sources that are dedicated for specific purposes. This report discusses only those revenue changes that require a change in state law to be valid and thus does not include revenue items that were proposed in the budget but did not require a law change in order to be assessed and collected.

The general revenue *tax* changes enacted by the General Assembly in the 2010 session include: (1) reforming the state's personal income tax structure effective January 1, 2011; (2) expanding the business corporations tax base by imposing a tax on the taxable income of political organizations as defined under Section 527 of the Internal Revenue Code; (3) expanding the base for the tax assessed on the gross premiums of insurers that write insurance policies in the state; (4) increasing the rate of tax on the gross premiums of contracts of insurance sold by surplus line brokers; (5) expanding the sales tax base by legalizing the sale and possession of "ground and handheld sparkling devices"; (6) exempting Landmark Medical Center or "any entity owned or controlled by Landmark Medical Center" or any successor-in-interest from the sales and use tax for purchases, capital improvements or other expenditures necessary to maintain Landmark Medical Center's current health facility licenses; (7) exempting from the sales and use tax diesel emission control technology that is required under Rhode Island General Law § 31-47.3-4; and (8) contracting the racing and athletics tax base by eliminating the requirement that Twin River conduct live greyhound racing at least 125 days per year.

The general revenue *fee* changes enacted by the General Assembly in the 2010 session include: (1) increasing the rate and updating the base for the hospital licensing fee; (2) increasing the fees for several services provided by the Division of Motor Vehicles and the Department of Public Safety; (3) imposing a new fee for road tests that are administered by the Division of Motor

Vehicles; (4) adding a fee for Emergency 911 Telecommunications Access for users of pre-paid wireless telecommunications services; and (5) maintaining the indirect cost recovery surcharge on the Underground Storage Tank Replacement Fund and the Telecommunications Education Access Fund.

The general revenue transfer changes enacted by the General Assembly in the 2010 session include: (1) increasing Newport Grand's share of the net terminal income the facility generates from the video lottery terminals installed there; (2) requiring the State to enter into an agreement with the owners of Twin River to jointly finance the facility's marketing program; and (3) increasing the Town of Lincoln's share of Twin River's net terminal income for weeks in which Twin River operates on a 24-hour basis.

The non-general revenue changes enacted by the General assembly in 2010 consist of: (1) reclassifying the non-Medicaid board and support payments received from patients at the Slater and Zambarano hospitals as restricted receipts; (2) reclassifying the payments received from local education authorities for the state administered student transportation initiative as restricted receipts; and (3) increasing the rate of assessment for businesses required to pay a job development assessment from 0.21 percent to 0.51 percent of taxable payroll.

The details associated with each of these changes are presented below.

2010 General Revenue Changes Enacted by the General Assembly

Tax Changes Enacted by the General Assembly

Personal Income Taxes: The 2010 General Assembly's enacted change to the state's personal income tax involves a complete restructuring of the personal income tax system. These changes are in effect for tax years beginning on or after January 1, 2011.

- *Starting Point for Determination of Rhode Island Income Tax Liability:* The General Assembly set federal Adjusted Gross Income (AGI) as the starting point for the computation of a taxpayer's Rhode Island personal income tax liability. Federal AGI consists of all sources income (wages, interest, dividends, capital gains/losses, etc) less a number of adjustments (contributions to an individual retirement account, alimony paid, student loan interest paid, etc.).

Under prior law, a taxpayer had a choice of determining Rhode Island personal income tax liability under either the standard progressive rate income tax system or the alternative flat rate income tax system. Under the former, the starting point for the computation of Rhode Island personal income tax liability was federal taxable income plus credits enacted after January 1, 2001 (child tax credit, education credits, etc.). Under the latter, the starting point for the computation of Rhode Island personal income tax liability was federal AGI.

Under the restructured personal income tax system and both the standard progressive rate income tax system and the alternative flat rate income tax system, the same modifications decreasing (tuition saving program contributions, amounts of insurance benefits for dependents and domestic partners, etc.) and the same modifications increasing (income

from obligations of any state or its political subdivisions other than Rhode Island, etc.) federal AGI are allowed. Federal AGI after net modifications is termed Rhode Island adjusted gross income (RI AGI).

- *Deductions and Exemptions Allowed in the Determination of Taxable Income:* The General Assembly allowed only a standard deduction and personal and dependent exemptions to be applied against Rhode Island AGI for the determination of Rhode Island taxable income that would be used in the computation of a taxpayer's Rhode Island personal income tax liability. The standard deduction amounts depend on a taxpayer's filing status (single/married separate: \$7,500, married joint/widow(er): \$15,000, head of household: \$11,250) while the personal and dependent exemption amount is a flat \$3,500. Both the standard deduction and the personal and dependent exemption amounts are indexed for inflation. In addition, the standard deduction and the personal and dependent exemption are reduced in 20.0 percent increments for each \$5,000 in Rhode Island AGI greater than \$175,000:

<u>Rhode Island Adjusted Gross Income</u>	<u>Phase Out Percentage</u>
RI AGI < \$180,000	None
\$180,000 ≤ RI AGI < \$185,000	20.0
\$185,000 ≤ RI AGI < \$190,000	40.0
\$190,000 ≤ RI AGI < \$195,000	60.0
\$195,000 ≤ RI AGI < \$200,000	80.0
RI AGI ≥ \$200,000	100.0

Thus, for taxpayers with Rhode Island AGIs greater than or equal to \$200,000, Rhode Island taxable income is equal to Rhode Island AGI.

Under prior law, a taxpayer that chose the standard progressive rate income tax system used federal taxable income as the basis for determining Rhode Island taxable income used in the computation of a taxpayer's Rhode Island personal income tax liability. Federal taxable income is determined after a taxpayer uses the available standard deduction (single/married separate: \$5,700, married joint/widow(er): \$11,400, head of household: \$8,350, plus additional amounts for elderly and blind taxpayers) or itemized deductions whichever is greater and a personal and dependent exemption amount of \$3,650. Certain categories of itemized deductions and personal and dependent exemptions were subject to phase out at incomes above \$125,100 for married taxpayers filing separately, \$166,800 for single taxpayers, \$250,200 for married taxpayers filing jointly and \$208,500 for head of household filers. Under prior law, a taxpayer that chose the alternative flat rate income tax system was not allowed any deductions or exemptions from Rhode Island AGI in determining Rhode Island taxable income to be used in the computation of a taxpayer's Rhode Island personal income tax liability.

- *Marginal Tax Rates and Taxable Income Brackets:* The General Assembly enacted the following marginal tax rates and taxable income brackets for the computation of a taxpayer's Rhode Island personal income tax liability:

<u>Rhode Island Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0 < RI Taxable Income ≤ \$55,000	3.75 %
\$55,000 < RI Taxable Income ≤ \$125,000	4.75 %
\$125,000 < RI Taxable Income	5.99 %

The Rhode Island taxable income brackets noted above are indexed for inflation. The same Rhode Island taxable income brackets and marginal tax rates apply to all tax filers regardless of filing status.

Under prior law, taxpayers that chose the standard progressive rate income tax system faced marginal tax rates and Rhode Island taxable income brackets that were dependent upon their filing status. For *single* taxpayers the Rhode Island taxable income brackets and marginal tax rates for 2009 were:

<u>Rhode Island Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0 < RI Taxable Income ≤ \$33,950	3.75 %
\$33,950 < RI Taxable Income ≤ \$82,250	7.00 %
\$82,250 < RI Taxable Income ≤ \$171,550	7.75 %
\$171,550 < RI Taxable Income ≤ \$372,950	9.00 %
\$372,950 < RI Taxable Income	9.90 %

For *married filing joint* taxpayers the Rhode Island taxable income brackets and marginal tax rates for 2009 were:

<u>Rhode Island Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0 < RI Taxable Income ≤ \$56,700	3.75 %
\$56,700 < RI Taxable Income ≤ \$137,050	7.00 %
\$137,050 < RI Taxable Income ≤ \$208,850	7.75 %
\$208,850 < RI Taxable Income ≤ \$372,950	9.00 %
\$372,950 < RI Taxable Income	9.90 %

For *married filing separate* taxpayers the Rhode Island taxable income brackets and marginal tax rates for 2009 were:

<u>Rhode Island Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0 < RI Taxable Income ≤ \$28,350	3.75 %
\$28,350 < RI Taxable Income ≤ \$68,525	7.00 %
\$68,525 < RI Taxable Income ≤ \$104,425	7.75 %
\$104,425 < RI Taxable Income ≤ \$186,475	9.00 %
\$186,475 < RI Taxable Income	9.90 %

For *head of household* filers the Rhode Island taxable income brackets and marginal tax rates for 2009 were:

<u>Rhode Island Taxable Income</u>	<u>Marginal Tax Rate</u>
\$0 < RI Taxable Income ≤ \$45,500	3.75 %
\$45,500 < RI Taxable Income ≤ \$117,450	7.00 %
\$117,450 < RI Taxable Income ≤ \$190,200	7.75 %
\$190,200 < RI Taxable Income ≤ \$372,950	9.00 %
\$372,950 < RI Taxable Income	9.90 %

Under prior law, taxpayers that chose the alternative flat rate income tax system there was one taxable income bracket (greater than \$0) and a marginal tax rate of 6.5 percent in tax year 2009. (In tax year 2010, the marginal tax rate declined from 6.5 percent to 6.0 percent. In tax year 2011, the marginal tax rate declined from 6.0 percent to 5.5 percent.)

- *Credits*: The General Assembly permitted eight credits to be used in the computation of a taxpayer's Rhode Island personal income tax liability. Five of the permitted credits cannot lower a taxpayer's Rhode Island personal income tax liability below zero while three of the permitted credits entitle a taxpayer to a refund of at least some portion of the credit amount should use of the credit reduce a taxpayer's Rhode Island personal income tax liability below zero. The following credits may be used under the restructured Rhode Island personal income tax:

Non-Refundable Personal Income Tax Credits

Federal Child and Dependent Care Credit: Twenty-five percent of the child and dependent care credit amount claimed on taxpayer's federal income tax return can be used to offset the taxpayer's Rhode Island personal income tax liability up to the full amount of that liability.

Contributions to a Scholarship Organization: Taxpayers that are shareholders in a business entity that makes a voluntary contribution to certified scholarship organizations are entitled to a credit against the taxpayers' Rhode Island personal income tax liability up to the full amount of that liability. (The credit is available to the shareholders of Sub-Chapter S corporations, limited liability companies, partnerships and sole proprietorships the earnings of which are taxed on the shareholders' personal income tax returns.) The maximum credit per business entity cannot exceed \$100,000 in any given tax year.

Taxes Paid to Other States: Taxpayers that pay income taxes to other states (i.e. a Rhode Island resident who works in Massachusetts and thus is subject to Massachusetts tax on income earned there) receive a dollar-for-dollar credit for such taxes paid that can be used to offset the taxpayer's Rhode Island personal income tax liability up to the full amount of that liability.

Motion Picture Production Company: Taxpayers may use a motion picture production company tax credit to offset the taxpayer's Rhode Island personal income tax liability up to the full amount of that liability. Unused amounts of a motion

picture production company tax credit can be carried forward and used against future Rhode Island personal income tax liabilities for up to three years.

Historic Structures: Taxpayers may use an historic structures tax credit to offset the taxpayer's Rhode Island personal income tax liability up to the full amount of that liability. Unused amounts of an historic structures tax credit can be carried forward and used against future Rhode Island personal income tax liabilities for up to ten years.

Refundable Personal Income Tax Credits

Federal Earned Income Tax Credit: Twenty-five percent of the earned income tax credit amount claimed on taxpayer's federal income tax return can be used to offset the taxpayer's Rhode Island personal income tax liability. If any amount of the allowable federal earned income tax credit remains after offsetting the taxpayer's Rhode Island personal income tax liability, then 15.0 percent of that remainder is refunded to the taxpayer.

Property Tax Relief Credit: A full-year Rhode Island resident with total annual household incomes of \$30,000 or less is entitled to a credit against the taxpayer's Rhode Island personal income tax liability equal to the amount by which the property taxes accrued or the amount of rent constituting property taxes accrued on the claimant's homestead for the taxable year exceeds a defined percentage of the claimant's total household income for that taxable year. The defined percentage is based upon income level and household size and ranges from 3.0 percent to 6.0 percent. A maximum credit of \$300.00 per household per year is allowed and the credit is refundable up to the maximum amount of the credit.

Lead Paint Abatement Credit: A property owner or lessee who resides in the state can receive a credit against the taxpayer's personal income tax liability for certified residential lead removal or certified lead hazard reduction. The credit is equal to the lesser of the actual costs incurred in the residential lead removal or \$5,000 per dwelling unit or the lesser of the actual costs incurred in the lead hazard reduction or \$1,500 per dwelling unit. The credit may be claimed for a maximum of three dwelling units and any amount of the credit remaining after the taxpayer's liability has been reduced is refundable.

Under prior law, taxpayers had 34 non-refundable personal income tax credits, including the five noted above, that could be used to reduce personal income tax liabilities to zero. In addition, the three refundable personal income tax credits, the federal earned income tax credit, the property tax relief credit, and the lead paint abatement credit, were also available under the conditions described above.

The enacted personal income tax reform was originally estimated to have no impact on personal income tax revenues in FY 2011. A revised estimate of the impact of enacted personal income tax reform indicates that a decrease in personal income tax revenues of \$6.0 million could be realized in FY 2011.

Business Corporations Taxes: The 2010 General Assembly enacted a new statute that impacts the imposition of the Business Corporations tax. In particular, the General Assembly created a

new chapter in the General Laws, Chapter 44-11.1, entitled “Political Organization Tax”. A political organization is as defined under section 527 of the Internal Revenue Code. The new law requires any political organization with at least \$100.00 of political organization taxable income, as determined under section 527(c) of the Internal Revenue Code, to “annually pay to the state a tax equal to seven and one-half percent (7.5%) of political organization taxable income.”

Section 527 of the Internal Revenue Code defines a political organization as an entity that is “organized and operated primarily to accept contributions and make expenditures for the purpose of influencing the ‘selection, nomination, election, or appointment of any individual to Federal, State, or local public office or office in a political organization, or the election of Presidential electors.’” This definition would also include “a qualified state or local political organization” provided that (1) “all of its political activities relate solely to state or local public office”; (2) “It is subject to state law that requires it to report (and it does report) to a state agency information about contributions and expenditures that is similar to the information that the organization would otherwise be required to report to the IRS”; (3) “The state agency and the organization make the reports publicly available”; and (4) “No Federal candidate or office holder controls it or materially participates in its direction, solicits contributions for it, or directs any of its disbursements.”

Section 527(c) of the Internal Revenue Code defines taxable income as “gross income (excluding exempt function income) less deductions allowed by the Code that are directly connected with producing gross income (excluding exempt function income), computed with certain modifications set forth in § 527, including a specific deduction of \$100.” The investment income, or income from a trade or business (such as renting excess office space to an unrelated organization), of a political organization is not exempt function income and is subject to tax.

Under prior law, political organizations were not subject to the state’s corporate income tax. The creation of the political organization tax had no FY 2011 estimated revenue attached to it when passed by the General Assembly.

Insurance Companies Gross Premiums Taxes: The 2010 General Assembly’s enacted changes to the state’s Insurance Companies Gross Premiums tax consist of increasing the tax rate on the premiums of contracts of insurance underwritten by insurers that provide insurance contracts via surplus line brokers and repealing the exemption from the insurance companies gross premiums tax for any medical malpractice insurance joint underwriting associations.

- *Insurance Companies Gross Premiums Tax Rate:* The General Assembly passed legislation to increase the tax rate on the gross premiums of contracts of insurance underwritten by insurance companies that sell insurance contracts in the state via surplus line brokers to 4.0 percent effective July 1, 2010.

Under prior law, the tax rate on the gross premiums of contracts of insurance written by insurers and sold through surplus line brokers was 3.0 percent.

The enacted increase in the tax rate on the gross premiums of insurers whose contracts are sold via surplus line brokers is estimated to increase Insurance Companies Gross Premiums tax revenues by \$1,100,000 in FY 2011.

- *Exemption from the Insurance Companies Gross Premiums Tax:* The General Assembly enacted legislation to eliminate the exemption from the Insurance Companies Gross Premiums tax for joint underwriters associations that write contracts of insurance for medical malpractice effective January 1, 2011.

Under prior law, for calendar year 2010 and earlier, joint underwriting associations that wrote contracts of insurance for medical malpractice were not subject to the Insurance Companies Gross Premiums tax.

The legislation repealing the exemption from the Insurance Companies Gross Premiums tax for joint underwriting associations that write contracts of insurance for medical malpractice is estimated to increase insurance Companies Gross Premiums revenues by \$150,000 in FY 2011.

Sales and Use Taxes: The General Assembly enacted three changes to state law that impacted the state's sales tax base. One change expanded the sales tax base, one change left the sales tax base relatively unchanged and one change contracted the sales tax base. The General Assembly took no action during the 2010 Session that changed that state's sales tax rate.

- *Sale, Use or Possession of Fireworks:* The 2010 General Assembly passed and the Governor signed into law changes to Rhode Island General Law §§ 11-13-1, 23-28.11-3, 23-28.11-4, and 23-28.11-7 through 23-28.11-10, regarding the sale, use or possession of fireworks. In particular, the law changes legalized the sale, use and possession of ground-based and hand-held sparkling devices. A ground-based or hand-held sparkling device is a device "that produce(s) a shower of white, gold or colored sparks as its primary pyrotechnic effect" with additional effects including "a colored flame, an audible crackling or whistle effect, and smoke." The sale and use of such fireworks are subject to the state's 7.0 percent sales and use tax.

Under prior law, the sale, use or possession of display fireworks, aerial consumer fireworks and ground-based and hand-held sparkling devices were prohibited without a permit.

The legalization of the sale, use or possession of ground-based and hand-held sparkling devices had no FY 2011 estimated revenue attached to it when passed by the General Assembly and signed into law by the Governor.

- *Distressed Essential Community Hospitals:* In the 2010 Session, the General Assembly designated Landmark Medical Center in Woonsocket as a distressed essential community hospital. This designation provided Landmark Medical Center, any entity controlled and operated by Landmark Medical Center, or any successor-in-interest to Landmark Medical Center an exemption from the payment of sales or use taxes on any purchases, capital improvements, or any other activities conducted pursuant to the maintenance of its health facilities licenses. The sales and use tax exemption is in effect as of the effective date of Landmark Medical Center's conversion to a for-profit health facility and lasts for a period of 12 years.

Under prior law, the state's sales and use tax was not applied to Landmark Medical Center's purchases of tangible personal property per Rhode Island General Law § 44-18-30(5) entitled "Charitable, Education or Religious Organizations" which exempted

nonprofit hospitals from the sales and use tax. Landmark Medical Center's conversion to a for-profit entity would have subjected it to the state's sales and use taxes on its purchases of tangible personal property.

The exemption of a for-profit Landmark Medical Center from the state sales and use tax has no impact on sales and use tax collections in FY 2011 as the exemption simply preserves the status quo with respect to Landmark Medical Center's tax status.

- *Diesel Emission Control Technology:* The 2010 General Assembly passed legislation that exempts from the state's sales and use tax diesel retrofit emission control technology that is required by Rhode Island General Law § 31-47.3-4. (Note: It appears that this reference is incorrect and should be Rhode Island General Law § 31-47.3-5.) The correct section of Rhode Island General Law Chapter 31-47.3 entitled "The Diesel Emissions Reduction Act" indicates that "onroad and nonroad heavy-duty diesel vehicles, including generators, shall be powered by engines with properly operating and maintained Level 3 controls." If Level 3 controls are not appropriate or available for a particular engine, then Level 2 controls are required. If Level 2 controls are not appropriate or available for a particular engine, then Level 1 controls are required. The sales and use tax exemption applies to the purchase or acquisition of these controls for installation in existing diesel engines.

Under prior law, the purchase or acquisition of controls for the purpose of reducing diesel engine emissions was subject to the state sales and use tax.

The exemption of diesel retrofit emission control technology from the state's sales and use tax did not include an estimate of the revenue loss in FY 2011.

Division of Motor Vehicles Operator License and Vehicle Registration Fees: The 2010 General Assembly enacted an increase in the fee charged for the issuance of a State Identification Card and for the registration of a school bus. In both cases, the new fee is \$25.00.

Under prior law, the fee for the issuance of a State Identification Card was \$15.00 while the fee for the registration of a school bus was \$3.00.

The increase in the fee for the issuance of a State Identification Card is estimated to increase Motor Vehicle License and Registration Fee collections by \$130,000 in FY 2011. The increase in the school bus registration fee is estimated to increase Motor Vehicle License and Registration Fee collections by \$37,400 in FY 2011.

Racing and Athletics Taxes: In the 2010 session, the General Assembly enacted a law prohibiting the Department of Business Regulation from "licensing dog racing and/or the operation of a dog track upon which dog racing occurs in the Town of Lincoln." In addition, the enacted law declared null and void any license that had been issued and was in effect at the time of passage of the act but deemed that Twin River is a pari-mutuel licensee for purposes of Rhode Island General Law § 42-61.2-1. This law was signed by Governor Carcieri on May 14, 2010.

Prior to the enactment of this law, Rhode Island General Law § 41-3.1-4 required the Department of Business Regulation's Division of Racing and Athletics to "fix and set the dates within which any dog track may be operated; provided, however, there shall be at least one hundred twenty-five (125) days annually of the operation."

The legislation enacting the prohibition on dog racing in the State of Rhode Island is estimated to decrease Racing and Athletics Tax collections by \$300,000 in FY 2011.

Fee Changes Enacted by the General Assembly

Division of Motor Vehicles Other Fees: The 2010 General Assembly enacted new or increased fees administered by the Department of Revenue’s Division of Motor Vehicles. These fees are not considered to be fees for the purpose of licensing the operation or registration of a motor vehicle and thus are classified as licenses and fees under the Departmental Receipts category of general revenues. The impacted fees and the enacted fee amount are as follows:

<u>License and/or Fee</u>	<u>Prior Fee Amount</u>	<u>New Fee Amount</u>
Motor Vehicle Dealers License Fee	\$ 100	\$ 300
Motor Vehicle Manufacturers and Distributors Fees	200	300
Motor Vehicle Factory Representatives Fees	40	100
Road Test Fee	n/a	25
Flashing Light Permit Fee	n/a	25

The fees charged under prior law are given in the table above.

The estimated revenue impact for FY 2011 from the above fee implementations or increases is \$819,500. By specific fee the estimated revenue impacts are: (1) Motor Vehicle Dealers License Fees, \$116,000; Motor Vehicle Manufacturers and Distributors License Fees and Motor Vehicle Factory Representatives Fees, \$34,500; Road Test Fees, \$625,000; and Flashing Light Permit Fees, \$44,000.

Department of Public Safety Accident Report Fee: In the 2010 session, the General Assembly increased the fee for obtaining a copy of a State Police accident report to \$15.00.

Under prior law, the fee for obtaining a copy of a State Police accident report was \$10.00.

The FY 2011 enacted budget included estimated revenues of \$26,910 from the increase in the State Police accident report fee.

Division of Taxation Prepaid Wireless E-911 Telecommunications Access Fee: The 2010 General Assembly passed into law a new method for assessing the E-911 telecommunications access fee on users of prepaid wireless phones. This fee is charged so that users of wireless telecommunication services can dial 911 to access the State’s emergency telecommunications system. The new method assesses a fee of 2.5 percent of the cost of each retail transaction consummated by a prepaid wireless telecommunications service user. For example, the initial purchase of a prepaid wireless telephone would be subject to the 2.5 percent charge as is every subsequent purchase of minutes for use on the prepaid wireless telephone by a prepaid wireless telecommunications service user.

Under prior law, prepaid wireless telecommunications service users were subject to the \$1.00 per month fee assessed on all wireless telecommunications service users. The problem with this arrangement was that prepaid wireless telecommunications service users were typically only assessed this fee at the time a prepaid wireless telephone was purchased. The new 2.5 percent

fee attempts to bring such users in line with those wireless telecommunications service users who purchase such service under a contract and remain subject to the \$1.00 per month E-911 wireless telecommunications access fee.

The 2.5 percent prepaid E-911 wireless telecommunications access fee is estimated to generate \$350,000 in additional revenues in the FY 2011 enacted budget.

Department of Human Services Hospital Licensing Fee: In the 2010 Session, the General Assembly passed legislation to increase the state's hospital licensing fee for FY 2010 to 5.314 percent applied to each hospital's 2008 fiscal year net patient revenues. For FY 2011, the General Assembly reinstated the hospital licensing fee at a rate of 5.465 percent applied to each hospital's 2009 fiscal year net patient revenues.

Under prior law, the FY 2010 hospital licensing fee rate was set at 5.237 percent of each hospital's fiscal year 2008 net patient revenues. The hospital licensing fee expires at the end of each state fiscal year and must be reinstated for the following state fiscal year. Thus, under prior law, no hospital licensing fee was in place for FY 2011.

The enacted increase in the hospital licensing fee rate for FY 2010 is estimated to bring in an additional \$1,894,450 in the Licenses and Fees category of Departmental Receipts. For FY 2011, the reinstatement of the hospital licensing fee at the stated rate and applied to the new base is estimated to generate \$141,816,544 in the Licenses and Fees component of Departmental Receipts. The incremental change in hospital licensing fee revenues from FY 2010 to FY 2011 is \$11,704,906.

Department of Behavioral Health, Developmental Disabilities and Hospitals Non-Medicaid Board and Support Payments: The 2010 General Assembly reclassified the non-Medicaid board and support payments received on behalf of patients at the Eleanor Slater Hospital as restricted revenue receipts. Restricted revenue receipts are revenues that can only be used for specific purposes by the State. In this case, these payments were restricted to support Eleanor Slater Hospital's operations.

Under prior law, non-Medicaid board and support payments were classified as general revenue receipts. General revenue receipts are revenues that can be used for any purpose by the State. The rationale for this classification was based on the fact that the cost of operating Eleanor Slater Hospital exceeds the revenues generated by these and other payments thus requiring the State to appropriate general revenue receipts for this purpose.

The reclassification of non-Medicaid board and support payments received on behalf of patients at Eleanor Slater Hospital from general revenue receipts to restricted revenue receipts reduces general revenues in FY 2010 by \$3,200,000 and reduces general revenues in FY 2011 by \$3,198,849.

Department of Elementary and Secondary Education Statewide Student Transportation Payments: The 2010 General Assembly reclassified the payments received under the statewide student transportation initiative as restricted revenue receipts. Restricted revenue receipts are revenues that can only be used for specific purposes by the State. In this case, these payments were restricted to support the statewide student transportation initiative.

Under prior law, statewide student transportation initiative payments were classified as general revenue receipts. General revenue receipts are revenues that can be used for any purpose by the State. Originally, the financing of the statewide student transportation initiative was structured as an appropriation from general revenue receipts to ensure viability of the program.

The reclassification of statewide student transportation initiative payments from general revenue receipts to restricted revenue receipts reduces general revenues in FY 2010 by \$8,600,000 and reduces general revenues in FY 2011 by \$15,640,000.

Department of Health Women’s Cancer Screenings: The 2010 General Assembly enacted the receipt of \$100,000 in grant revenue for the purpose of financing preventive mammogram screenings for low-income women administered by the Department of Health.

Under prior law, the Department of Health had not received a grant for the purpose of administering preventive mammogram screenings for low-income women. These activities were financed from the Department of Health’s general revenue appropriations.

The grant revenue for the Department of Health’s administration of preventive mammogram screenings for low-income women increases general revenues in FY 2010 by \$100,000.

Other Miscellaneous Revenue Changes Enacted by the General Assembly

State Fleet Revolving Loan Fund: In the 2010 session, the General Assembly approved a one-time transfer of revenues from the State Fleet Revolving Loan Fund to general revenues. The State Fleet Revolving Loan Fund was created for the purpose of purchasing vehicles for state agencies. The transfer of the revenues from this fund are expected to be paid back into the fund and used to continue the program.

Under prior law, the monies in State Fleet Revolving Loan Fund were restricted and could only be used to purchase vehicles for state agencies.

The revenue transfer from the State Fleet Revolving Loan Fund totaled \$3,638,000 in FY 2010.

Rhode Island Health and Educational Building Corporation: The 2010 General Assembly accepted the transfer of retained earnings from the Rhode Island Health and Educational Building Corporation (RIHEBC) to the general fund. RIHEBC is a quasi-governmental entity whose mission is “[T]o aid eligible institutions in the educational and health care fields in Rhode Island gain access to capital.”

Under prior law, RIHEBC used all retained earnings to further its mission.

The RIHEBC retained earnings transfer increased general revenues by \$500,000 in FY 2010 and \$1,000,000 in FY 2011.

Lottery Revenue Changes Enacted by the General Assembly

Division of Lottery Video Lottery Terminal Division of Revenue: In the 2010 session, the General Assembly adopted legislation that increases Newport Grand’s share of the video lottery

terminal (VLT) net terminal income (NTI) generated at Newport Grand to 27.8 percent equivalent to Twin River's share of VLT NTI generated at Twin River. The effect of this change in the division of revenue is to decrease the State's share of the VLT NTI generated at Newport Grand to 61.7 percent.

Under prior law, Newport Grand's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Newport Grand was 26.0 percent and the State's share of Newport Grand's VLT NTI was 63.5 percent.

In addition, the 2010 General Assembly enacted an increase in the Town of Lincoln's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Twin River to 1.45 percent as compensation for the 24 hours a day/7 days a week operation of Twin River. The effect of this law change is to decrease the State's share of VLT NTI generated at Twin River to 61.08 percent.

Under prior law, the Town of Lincoln's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Twin River was 1.26 percent and the State's share of Twin River's VLT NTI was 61.27 percent.

The increase in Newport Grand's share of the video lottery terminal (VLT) net terminal income (NTI) generated at Newport Grand is estimated to decrease general revenues by \$985,000 in FY 2011. The increase in the Town of Lincoln's share of the VLT NTI generated at Twin River is estimated to decrease general revenues by \$800,280 in FY 2011.

Division of Lottery Twin River Marketing Program: The 2010 General Assembly passed an amendment to the Master Video Lottery Terminal Contract entered into by the State and UTGR, the owner and operator of the Twin River facility in July 2005. The amendment called for, among other things, the creation of a marketing program for Twin River which would be financed jointly by the Division of Lottery and the owner/operator of Twin River. In particular, in each fiscal year or portion thereof that the owner/operator of Twin River's marketing expenditures exceed \$4,000,000, the Division of Lottery will pay the owner/operator of Twin River an amount equal to the state's share of the video lottery terminal (VLT) net terminal income (NTI) times the amount by which the owner/operator of Twin River's marketing expenditures exceed \$4,000,000 up to a maximum of \$6,000,000 of excess marketing expenditures. The Division of Lottery's participation in the Twin River marketing program reduces the lottery transfer to the state by the amount the Division of Lottery spends on the marketing program.

Under prior law, no marketing program for Twin River existed that required the Division of Lottery to pay a portion of the expenditures for such a program.

The implementation of a marketing program for Twin River the expenditures of which are paid for at least in part by the Division of Lottery is estimated to decrease general revenues by \$3,676,200 in FY 2011.

2010 Non-General Revenue Tax Changes Enacted by the General Assembly

Unemployment Insurance Taxes: In the 2010 session, the General Assembly enacted a law to increase the job development assessment paid by each employer subject to Rhode Island General Laws Chapter 28-44 entitled "Employment Security – Benefits" to 0.51 percent of the

employer's taxable payroll. Two hundredths (0.02) percent out of the 0.51 percent job development assessment is to be used "to support necessary core services in the unemployment insurance and employment services programs operated by the Department of Labor and Training" and 0.30 percent out of the 0.51 percent job development assessment is to "be deposited into a restricted receipt account to be used solely to pay the principal and/or interest due on Title XII advances received from the federal government in accordance with the provisions of Section 1201 of the Social Security Act."

Under prior law, each employer subject to Rhode Island General Laws Chapter 28-44 entitled "Employment Security – Benefits" paid a job development assessment of 0.21 percent of the employer's taxable payroll with 0.02 percent out of the 0.21 percent job development assessment being used "to support necessary core services in the unemployment insurance and employment services programs operated by the Department of Labor and Training."

No estimate of the revenue generated by the increase in the job development assessment was provided.