

Governor McKee Releases His \$11.2 Billion Budget Proposal: New gov proposes an end to prohibition



Governor Dan McKee released his \$11.2 billion budget proposal for the upcoming fiscal year today in a budget briefing with the press. He inherits a big task from predecessor Gina Raimondo — balancing a deficit of \$336 million dollars with some new budget priorities. Federal dollars will provide a big boost to state and local budgets. The state will receive \$1.7 billion in the American Rescue Plan, with \$1.1 billion allocated to the state, and the rest to be doled out to municipalities over the next two years.

“My budget also looks ahead for the needs that will persist even after the virus subsides,” said Governor McKee. Highlights from the governor’s budget include additional funds from the medication-assisted treatment program for inmates in the ACI, a dedicated funding stream for affordable housing, legalized marijuana, and millions in grants for small business assistance. State budget officials also want to start a child care assistance pilot program for parents pursuing higher education, make investments in utility infrastructure, and create a fully funded car tax phase out. Under the McKee budget, school districts could see total state aid to local districts increase by \$34.9 million.

McKee’s proposal for marijuana legalization is different than former Gov. Raimondo’s; McKee favors a market-based system. There would be a controlled rollout of 25 retail licenses spread over three years with five set aside for qualifying Minority Business Enterprise applicants. The governor would create a Cannabis Reinvestment Task Force to make recommendations on long-term investments of cannabis tax revenues in specific targeted areas.

“This budget will propose an effective tax rate of 20%, around 7% sales tax,” said DBR director Liz Tanner to *Motif*. The remaining 13% in taxes would be various other retail, wholesale and excise taxes. The effective tax rate, under the governor’s legalized marijuana plan, would be 20%, the same effective tax rate as neighboring Massachusetts.

The RI State Senate has introduced legislation to legalize marijuana, and officials from the governor’s office said they were looking forward to an ongoing dialogue with the General Assembly on the marijuana moves.

The proposed budget sets aside an additional \$50,000 in arts grants and continues to fund the full-time equivalent positions in the arts created from a previous round of federal funding last year.

No new tax increases were contained in the governor’s proposed budget, something the governor had promised previously. There have been slowly growing calls for increases on the Ocean State’s wealthiest over the course of the pandemic as wealth inequality increases. The governor’s team stressed the importance of federal funds in avoiding any tax increases this year, with money dedicated to minimizing the economic impacts of the pandemic and keeping the economy going.

The governor’s proposal also closes the deficit to balance the state budget. The McKee administration seeks to recover lost tax monies from PPP loans. The loans, given to local businesses throughout the pandemic, are typically forgiven if the business follows the loan agreement. Typically when debt is forgiven, the state or federal government is allowed to tax the forgiven debt as income. The first round of PPP loans were not allowed to be taxed by states, causing an estimated \$133.3 million loss for the state, according to McKee’s team. The proposal would exempt the first \$150,000 of loans forgiven to taxation, with 13% on loans above the threshold. In FY 2021 this will recover \$3.6 million for the state, with an additional \$64.1 million the following fiscal year.

State officials also want to defer paying back money into the rainy day fund, saving the state \$70 million that will not be paid back until 2023. This would be subject to change if the law was amended to allow the state more time to pay it back. Under the proposal, the state would also increase the hospital licensing by 1%, netting an estimated \$62 million in revenue, with various other cuts.