

KEN BLOCK
FOR GOVERNOR
— ★ —
LET'S FIX R.I.

THE BLOCK PLAN

(A) Make Taxes Fair and Competitive

(1) Decrease the car tax

Overview: Use state aid to create an incentive for municipalities to find cost savings (through shared services with other municipalities) and use this combination of funding to decrease the car tax on Rhode Islanders.

Details:

- Increase the minimum car tax exemption, which is currently set at \$500.
- Create a new formula for car tax reimbursement to municipalities:
 - Each municipality will submit a bill for the revenue lost as a result of the exemption.
 - The state will provide state aid equal to 2/3rds of the lost revenue, provided that the municipality identifies the other 1/3rd through cost savings achieved by shared services such as:
 - Shared tax collection services
 - Shared public safety dispatch services
 - Coordinated procurement of services/goods. For example, a statewide contract for the procurement of emergency vehicles.
 - Total state aid through the program will not exceed \$50 million

Funding Required: \$40 million (\$10 million is already being appropriated by the General Assembly).

Background Information: The most recent data available from the Division of Municipal Finance is from 2012. It shows that municipalities collected a total of \$211 million in car taxes, which represented 9% of the total taxes levied by municipalities in that year.

(2) Reduce the corporate tax rate

IN FEBRUARY, 2014 KEN CALLED FOR A REDUCTION IN THE CORPORATE TAX RATE FROM 9% TO 7% IN ORDER TO MAKE RHODE ISLAND MORE ECONOMICALLY COMPETITIVE. KEN WAS THE FIRST GUBERNATORIAL CANDIDATE TO CALL FOR THIS CHANGE.

IN JUNE, 2014 THE RHODE ISLAND GENERAL ASSEMBLY LOWERED THE CORPORATE TAX RATE FROM 9% TO 7%.

(3) Eliminate the minimum corporate tax for new businesses

Overview: Eliminate the \$500 minimum corporate for new companies in their first two years of existence. Entities that exist solely for real estate purposes would not be exempt.

Background Information: Rhode Island currently has the highest minimum corporate tax rate in New England. In 2012, there were a total of 50,999 minimum tax filers, which totaled \$25.5 million in revenue. The minimum corporate tax in New England states:

Rhode Island	\$500
Massachusetts	\$456
Connecticut	\$250

Vermont	\$250
Maine	None
New Hampshire	None

(4) Reduce and reform the estate tax

IN FEBRUARY 2014 KEN PROPOSED REFORMS TO THE ESTATE TAX INCLUDING INCREASING THE THRESHOLD TO \$2.5 MILLION. KEN WAS THE FIRST GUBERNATORIAL CANDIDATE TO CALL FOR THIS CHANGE.

IN JUNE 2014 THE RHODE ISLAND GENERAL ASSEMBLY INCREASED THE ESTATE TAX THRESHOLD FROM \$922,000 TO \$1.5 MILLION.

(5) Reduced sales tax in border community

Overview: Create a reduced sales tax zone in a border community.

(6) Capital gains tax exemption

Overview: Exempt from future taxation any capital gains realized on new investments in Rhode Island-based businesses. To qualify, the investment would have to be held for at least 3 years.

One of Rhode Island's most difficult challenges is how we stimulate new economic development in our state without spending money that we don't have. To stimulate new investments in Rhode Island-based businesses, we need to exempt from future capital gains taxes any new investments in Rhode Island-based businesses.

A 'capital gain' is defined as the increase in value of an investment from its original purchase price. For a great many startup businesses, the 'exit' strategy of those businesses is to build value in the company and then sell it. The profit from this activity is almost always considered a capital gain. Rhode Island does not have a substantial startup community, but that could quickly change if this idea were implemented.

There is no short term cost to this proposal of any kind because to realize a capital gain the investment would have to be held for at least 3 years.

There is little to no long term cost for this proposal since few startup businesses are choosing to locate in Rhode Island. Any new startup activity would likely not have occurred without this change in tax policy, so there is no lost revenue.

Imagine if the next Google decided to set up shop in Rhode Island because of this program. The potential cost savings that could accrue to a business' founders would overcome most of Rhode Island's other competitive disadvantages.

(B) Find Wasteful Spending

(1) Fix the Temporary Disability Insurance program

Temporary Disability Insurance (TDI) in Rhode Island is a short term disability program run by the State to provide income to employees who for certain reasons become unable to work. Most Rhode Island workers are required to purchase Temporary Disability Insurance from the State.

Rhode Island's TDI program is not a well-run program. Nearly 7.4% of covered employees go out on short term disability every year, with an average outage from work of almost 12 weeks each. These are very high utilization rates, and would either indicate that Rhode Island has a very sick work force or that the program has some systemic problems than need to be addressed. Employees at the top end of the TDI income scale (making \$60,000 or more per year) will pay more than \$800 next year for this coverage. In most circumstances, a year's worth of TDI coverage purchased in the private insurance market costs under \$400/year. New Jersey has a state-run TDI insurance program where the upper range of the cost of insurance is \$350. New Jersey's utilization is under 4% and the average outage from work is under 9 weeks.

The fix to this program is to ensure that medically reasonable outages are used for the medical issue being treated and that if there is any kind of systemic abuse of the program occurring that it is identified and stopped.

If the cost of this program can be cut in half (and that should be possible to do given the data), \$80 million dollars annually can be put back into the pockets of Rhode Island's workers.

(2) Fix the unemployment insurance system

The Unemployment Insurance (UI) system is insurance to cover the unexpected and catastrophic loss of employment for an employee. UI costs are borne by the employer.

Rhode Island's UI system has run up massive deficits and owes the Federal government hundreds of millions of dollars because of these deficits. National studies have shown that the Rhode Island UI program is the most expensive in the country in terms of cost per employee. Rhode Island's outlier status in terms of the cost of this insurance is a major disincentive to businesses deciding to move to Rhode Island.

It turns out that in Rhode Island, a small number of employers overuse the UI fund. This overuse comes from repeated layoffs of the same seasonal employees at the same time of year, year after year. This overuse is largely to blame for the large deficits in our UI fund.

When both the employer and employee know well in advance that a seasonal layoff will occur, UI is no longer an insurance policy but instead becomes a redistribution of money from employers who do not

overuse the fund to those that do. It is unfair and inappropriate that tens of thousands of Rhode Island businesses are being asked to subsidize the payroll operations of a relatively small number of Rhode Island employers.

There is a simple fix to this problem, and other states who have had this sort of problem have already applied the fix. Rhode Island must change its definition of seasonal employment so that unemployment insurance is used in the correct way: to support Rhode Islanders who have unexpectedly lost their job. A seasonal employee should only be allowed to collect UI if that worker loses his or her job unexpectedly during a period of the year when they expect to be working.

Implementing this change will allow Rhode Island to more aggressively pay down our UI debt, and then ultimately allow for the substantial easing of UI rates for all employers.

(C) Reform Government

All of the following reforms would be achieved through a Constitutional Convention, provided that Rhode Island voters approve the convention in 2014. Ken was the first candidate to call for a Constitutional Convention in Rhode Island.

(1) Establish a line-item veto for the Governor

Rhode Island is one of just six states that do not give their Governors this power. A line-item veto allows a Governor to veto specific parts of the state budget. Currently in Rhode Island, the Governor can only veto the total budget, and with the lack of balance in our General Assembly that veto is easily overridden. With a line-item veto, there will be more balance between Rhode Island's Governor and the General Assembly and a far better check and balance on the budgetary process for our state.

(2) Re-empower the Ethics Commission

Ethics Commission oversight: members of the General Assembly should be subject to the full authority of the Ethics Commission. This was the clear intent of voters who passed a constitutional amendment creating the Ethics Commission in the 1980s, yet our General Assembly has refused year after year to fix this problem.

(3) Abolish the master lever

FOR FIVE YEARS, KEN HAS BEEN WORKING ALONG WITH OTHER REFORM-MINDED RHODE ISLANDERS TO ELIMINATE THE MASTER LEVER.

IN JUNE 2014, THE GENERAL ASSEMBLY PASSED LEGISLATION TO ELIMINATE THE MASTER LEVER.

(4) Greater transparency in the legislative process

Rhode Island's \$8 billion budget is worked on by a small number of top legislators behind closed doors. Most members of the General Assembly only see the budget for the first time at the end of the legislative session, when they have less than a week to review and vote on the budget. This practice is particularly harmful to the general public, because our budget cannot be carefully analyzed by our elected officials in the small amount of time available. Legislative transparency would apply to all bills, and help prevent the end-of-session rush we see every year.