

Governor's FY 2021 Budget Proposal & Municipal Impacts

January 24, 2020

Summary

Governor Raimondo's FY 2021 budget proposal increases appropriated aid to cities and towns by \$5.1 million over FY 2020 levels.

- The budget includes an additional \$10.5 million to reimburse cities and towns for the fourth year of the motor vehicle tax phase-out in FY 2021. It also reduces FY 2020 phase-out funding by \$4.0 million, reflecting updated values.
 - Note: The Governor's budget modifies the terms of the car tax phase-out for years four through seven (FY 2021 – FY 2024) and extends the final phases by five years (FY 2025 - FY 2029). Without the Governor's changes, the state would pay municipalities approximately \$22.3 million more in FY 2021 than the current year, instead of the proposed increase of \$10.5 million. (Additional detail below.)
- It decreases funding for Distressed Communities by \$6.2 million – a 50.0% cut from the FY 2020 enacted level of \$12.4 million. Communities affected by the cut include Central Falls, Cranston, Johnston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket. The budget also includes language allowing communities to tax nonprofit institutions for any non-mission-related property, provided the institutions do not already have a tax agreement. (Additional detail below.)

The budget anticipates total pass-through funding (public service corporation, hotel/lodging and meals/beverage taxes) of \$56.1 million in FY 2021, an increase of \$2.4 million over the FY 2020 enacted level of \$53.7 million. It also increases the estimated amount of pass-through funds for FY 2020 by \$0.7 million – to \$54.4 million. The budget also includes a new 2.0% administrative fee applied to local meals and beverage, hotel tax and other revenues that are collected and redistributed by the RI Division of Taxation.

The budget funds the tenth year of the elementary and secondary education funding formula. It revises FY 2020 formula aid to school districts and public charter schools upward by \$3.9 million, for a total of \$957.3 million in the current fiscal year. For FY 2021, it includes an additional \$33.0 million for formula aid – for a total of \$990.2 million. Of the FY 2021 increase, \$3.3 million is from a new policy to include qualifying pre-K students in a district's formula funding calculation. In education categorical (non-formula) funding, the budget includes an additional \$1.4 million for early childhood education (in addition to the \$3.3 million in the formula), which collectively is estimated to support 750 new pre-K seats. The Governor also proposes increasing Multilingual Learners (formerly English Language Learners) by \$2.5 million, for a total of \$7.5 million.

The Governor’s budget again proposes significant fund transfers from quasi-public agencies (“scoops”), many of which are financed by municipal fees or which provide services to cities and towns. Some of the hardest-hit agencies include RI Infrastructure Bank (\$8.9 million in FY 2020 from the Municipal Road & Bridge Fund; \$5.0 million in FY 2021) and RI Resource Recovery (\$5.0 million in FY 2020; \$5.0 million in FY 2021).

Finally, the Governor’s budget proposes legalization of marijuana for adult use, with sales through state-run retail facilities – similar to New Hampshire’s model for liquor stores. It envisions retail sales beginning in March 2021. Municipalities would receive 10.0% of generated revenues, with the per-community amount dependent on a number of factors, including the number of facilities and sales volume in a community. Cities and towns could hold a referendum to prohibit certain categories or retail establishments, but local control of licensing and zoning appears to be more limited than in Massachusetts, as currently proposed.

Additional Detail

Motor Vehicle Excise Tax

The budget includes an additional \$10.5 million to reimburse cities and towns for the fourth year of the motor vehicle tax phase-out in FY 2021. It also reduced funding in FY 2020 by \$4.0 million for the phase-out, reflecting updated values. Including the initial \$10.0 million received by municipalities prior to the phase out in FY 2018, cities and towns would receive \$100.7 million in car tax reimbursement in FY 2021.

However, the Governor’s budget modifies the terms of the car tax phase-out for years four through seven (FY 2021 – FY 2024) and extends the final phases by five years (FY 2025 - FY 2029). Under current law, without the Governor’s changes, the state would pay municipalities approximately \$11.8 million more than the proposed \$10.5 million increase. The table below illustrates the phase-out conditions for FY 2020, FY 2021 (in current law) and FY 2021, as proposed by the Governor.

	FY 2020	FY 2021 (current law)	FY 2021 (proposed)
Taxable value (percentage of NADA clean retail value)	85.0%	80.0%	82.5%
Minimum exemption	\$3,000	\$4,000	\$3,500
Maximum rate (per \$1,000 of taxable value)	\$35.00	\$35.00	\$35.00

(H 7171, Article 9, Sections 4 & 5)

Any changes to the current phase-out conditions would need to be approved by the General Assembly. In December 2019, the League sent a letter to the Governor opposing any changes to the phase-out schedule, which could create confusion since towns prepare their tax bills for FY 2021 in the spring prior to state budget approval (normally in June). We will share those concerns with House and Senate leadership and ask that they approve or deny any modifications as soon as possible.

State Aid – Formula Funding

The Governor’s budget reduces other formula state aid by \$5.4 million, driven by cuts to the Distressed Communities program.

Distressed Communities – The FY 2021 budget would cut the Distressed Communities program by \$6.2 million, or 50.0%. All eight communities with this designation would see reductions (Central Falls, Cranston, Johnston, North Providence, Pawtucket, Providence, West Warwick and Woonsocket). The Distressed Communities Relief program was established in 1990 to assist the communities with the highest property tax burdens relative to the wealth of the taxpayers. The Governor’s proposed reduction would be the lowest appropriated amount for the program since FY 1999.

In an effort to offset the reduction in Distressed Community funds, the Governor’s budget would 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. Cities and towns could levy taxes on real or personal property for non-mission-related property up to the standard tax rates. However, if an institution already made payments in lieu of taxes, cities and towns could waive or reduce taxes levied against the institution. (H7171, Article 9, Section 2) However, not all distressed communities have sufficient qualifying property at tax-exempt institutions to generate enough new tax revenue to offset the lost state funds, meaning a net loss of revenue for most recipients.

Payment in Lieu of Taxes (PILOT) – The Governor proposes level-funding PILOT at FY 2020 levels, or \$46.1 million.¹

State Library Aid – The Governor proposes \$8.8 million in state library aid to cities and towns, consistent with FY 2020 levels.

State Aid – Pass-Through

The Governor’s budget includes \$56.1 million in pass-through state aid in FY 2021, an increase of \$2.4 million from the FY 2020 enacted level of \$53.7 million. The budget also revises FY 2020 pass-through funds upward by \$0.7 million – to \$54.4 million.

- Note: The Governor’s budget proposes a new 2.0% “administrative fee” on any pass-through funds collected and distributed by the Department of Revenue, for total revenues to the state of \$0.8 million. (It is unclear whether the pass-through totals in the budget are net of the administrative fee.)

¹ Between FY 2017 and 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 budget documents, the proposed FY 2021 amount represents approximately 26.2% of foregone revenue.

Public Service Corporation Tax – The budget includes \$13.3 million in pass-through revenue from the Public Service Corporation Tax in FY 2021, equal to the amount in FY 2020.

Meals & Beverage Tax – The budget includes \$31.4 million in pass-through revenue from the meals and beverage tax in FY 2021. The budget also revises FY 2020 meals and beverage revenue upward to \$30.2 million, \$0.4 million more than the FY 2020 enacted amount of \$29.8 million.

Hotel Tax – The budget includes \$11.4 million in pass-through revenue from the hotel and lodging tax in FY 2021. The budget also revises FY 2020 hotel tax revenue upward to \$10.9 million, \$0.4 million more than the FY 2020 enacted amount of \$10.5 million.

Hotel Tax Increase & Distribution – The Governor again proposes increasing the state portion of hotel tax from 5.0% to 6.0%, with the additional funds dedicated for state general revenue. The Budget Office estimates the increase will raise \$4.7 million. Because of the increase, local shares are adjusted proportionally (from the current 25.0% to 20.8% for most jurisdictions) to keep local payments steady. However, it is unclear whether the state forecasts lower hotel occupancy as a result of the higher tax. If the higher tax leads to fewer hotel bookings, municipalities may see lower revenues as a result. (H 7171, Article 8, Section 2)

Education and School Funding

The Governor's budget includes \$1.232 billion in funding to local governments and public charter schools for elementary and secondary education in FY 2021. The budget also revises funding formula education levels upward by \$3.9 million in FY 2020, for revised education funding of \$1.118 billion in FY 2020. The budget includes the following education provisions.

- An increase of \$33.0 million for pre-K-12 education over FY 2020 revised levels to implement the tenth year of the state funding formula. This total includes \$3.3 million in new funding for communities to include state-approved pre-K students in the student count under the funding formula calculation. (H 7171, Article 10, Section 1)
- An additional \$2.5 million for Multilanguage Learner (MLL, previously English Language Learning, or ELL) categorical funding, for a total of \$7.5 million. The budget also specifies activities and programs eligible under the new MLL program (H 7171, Article 10, Section 1)
- An additional \$1.4 million in categorical funds for pre-K expansion. Coupled with the additional funds in the funding formula, these investments, in conjunction with federal matching funds, will support 750 new pre-K seats, according to Administration estimates.
- An additional \$2.1 million to increase reimbursement rates for licensed childcare providers of preschool-aged children.
- An increase of \$0.6 million for in-school mental health services and teacher supports.
- An increase of \$1.0 million in School Resource Officer categorical funding, along with an expansion of qualifying expenditures to include new mental health professionals in schools. The additional funds would come from proceeds in the Opioid Stewardship Fund. (H 7171, Article 10, Section 1)

Other noteworthy education provisions:

- *Early Childhood Facility Bond Funding* – As part of a \$87.5 million Housing and Infrastructure Bond, the budget would allocate \$15.0 million in matching funds to renovate and build more spaces for high-quality early learning opportunities, creating up to 1,500 new seats and improving the quality of up to 4,000 existing seats. The funds would be distributed through a competitive grant program administered by the Department of Human Services, which may establish standards and criteria for application. (H 7171, Article 10, Section 8)
- *Prekindergarten Standards* – The budget would allow the RI Department of Education, in collaboration with the Department of Human Services, to conduct research into high-quality prekindergarten learning environments and to develop regulations to establish standards including teacher certification, class size and staff ratios, learning time, curriculum and others. (H 7171, Article 10, Section 3)
- *Loan Forgiveness for STEM Teachers* – The Governor proposes expanding the Wavemaker Fellowship loan forgiveness for teachers of science, technology, engineering and mathematics (STEM). (H 7171, Article 10, Section 9)
- *School Building Authority Fees*– The budget provides authority for additional dedicated revenue from municipal sources for administrative costs of the School Building Authority. It authorizes both the use of investment income from “municipal funds held in trust” and higher assessed fees on the principal amount of “municipal bonds used for school construction.” The maximum fee on the principal amount would increase from one-tenth of one percent (0.1%) to one percent (1.0%). (H 7171, Article 10, Sections 6 & 10)

Agency Transfers (“Scoops”) - The Governor’s budget includes numerous transfers of 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 municipalities. The budget includes the following scoops of interest to cities and towns:

- RI Infrastructure Bank: \$8.9 million in FY 2020 (from the Municipal Road & Bridge Fund); \$5.0 million in FY 2021
- RI Resource Recovery Corporation: \$5.0 million in FY 2020; \$5.0 million in FY 2021
 - Note: The League has consistently opposed RIRRC scoops in previous budgets, as they undermined the impact of increased municipal tipping fees – from \$32 per ton to \$39.50 per ton in FY 2018 and again to \$47 per ton in FY 2019. The total increases were intended for RIRRC capital projects to extend the life of the landfill. The League continues to oppose the RIRRC scoop, as municipal tipping fee increases would effectively be used to close a state budget deficit.
- RI Health & Educational Building Corporation: \$1.0 million in FY 2021
- Narragansett Bay Commission: \$2.0 million in FY 2021
- RI Housing: \$1.1 million in FY 2021

Marijuana Legalization

The marijuana legalization section of the budget (H 7171, Article 13, “State Controlled Adult Use Marijuana”) is 74 pages long and is significantly different from last year’s proposal. For purposes of this initial analysis, the League is focused on two components of importance to municipal officials – regulation and revenues. The League will provide additional detail as it becomes available.

The Governor’s budget again proposes legalization of marijuana for adult recreational use. The most notable difference from last year’s budget is the proposal for the state to administer retail sales, similar to how New Hampshire manages liquor stores [§21-28.11-3 (7) and §21-28.12-2(7)]. Cultivators and processors would remain as private entities. The budget assumes retail sales starting in March 2021.

(The budget proposal contains a reference to “Adult Use Marijuana Emporiums” [§21-28.11-3 (5) and §21-28.12-2(5)]; it is unclear whether this is an error or leaves the door open to private involvement in operating the state stores or competing stores.)

Local Authority – Under Section 3 of the Article, authority is given to the state to levy fines on users of cannabis in addition to fines levied by the municipality (21-28.11-8). Employers are also authorized to establish rules for the workplace prohibiting marijuana use [§21-28.11-10], and school districts may establish disciplinary rules relating to marijuana use [§21-28.11-12].

Municipal regulation relating to the siting of “adult-use state stores” allows their prohibition near schools, as prohibited by existing zoning, and in any community where marijuana use has been prohibited by referendum (§21-28.12-12). Municipalities must have a separate referendum on each class of establishment (e.g., retail, cultivator, etc.).

- Note: The League opposed the referendum requirement last year, and the Administration was amenable to prohibiting marijuana establishments by council resolution. We will again advocate for greater local control in the siting of marijuana establishments.

Revenues – Cities and towns would receive 10.0% of state revenue proceeds (operators would receive 29.0%; the state would receive 61.0%), with the municipal share distributed as follows:

- 25.0% of revenues would be equally distributed to all cities and towns;
- 25.0% would be distributed based upon the number of licenses in a community; and
- 50.0% would be distributed based upon the volume of sales in each city and town.

[§21-28.12-20 (d)(3) and (j)(1)(2)(3)]

Municipalities would be prohibited from entering into host agreements with establishments. (Massachusetts communities are authorized to establish host agreements, which may include additional financial commitments from licensees to address issues such as public safety requirements, transportation concerns, etc.) Impact fees would be permissible if they are limited to recovering additional costs incurred as the result of a new marijuana facility (21-28.12-16).

Other Noteworthy Provisions

Apprenticeship Requirements on School Building Projects – The FY 2021 budget requires any school building project valued at more than \$5.0 million to include an approved apprenticeship program for all suitable crafts or trades. General contractors and subcontractors would need to ensure that no less than ten percent (10.0%) of the labor hours worked on the project were performed by apprentices. The provisions would apply to contractors and subcontractors with five (5) or more employees. (H 7171, Article 19, Section 13)

Tangible Property Tax Competitiveness Program

The budget proposes a new initiative, starting in FY 2022, to provide state funding to communities that reduce their tangible property tax rates. The Governor recommends that the partially offset the lost property tax revenue for cities and towns that reduce their rates on a tiered basis (see below) and for a maximum of five years. Communities would be eligible if they currently have rates above \$21.50 per \$1,000 (2.15%) – the average tangible property tax rate in Massachusetts. The budget estimates funding of \$2.5 million for the program in FY 2022.

Municipal Tangible Tax Rate	State Share of Lost Revenue
Greater than 6.5% (\$65 per \$1,000)	50.0%
Between 5.0% and 6.5% (\$50 to \$65 per \$1,000)	25.0%
Between 2.15% and 5.0% (\$21.50 to \$50 per \$1,000)	10.0%

(H 7171, Article 9, Section 1)

The proposal would also allow communities to establish by local ordinance a minimum filing threshold and/or exemption for tangible property taxation. (Currently, communities must seek special legislation from the General Assembly to modify tangible property exemptions.) However, such exemptions would not qualify for state assistance, as described above. (H7171, Article 9, Section 2)

Site Readiness Act

The budget includes provisions similar to last year’s proposal to provide state support and services to cities and towns for land development, site preparation and zoning/permitting changes to promote economic development. The FY 2021 budget proposes a “Site Readiness Committee” in Commerce Corporation (rather than last year’s “State and Local Partnership Council” – a new quasi-public agency); the League would have an appointment on the committee.

The Commerce Corporation’s site readiness program could provide an array of services to cities and towns, ranging from technical assistance on process improvement, permitting and zoning, to more complex projects such as pre-permitting, licensing and inspections and pad-ready development. Such participation would be voluntary by the municipality, and Commerce would enter into contracts with participating cities and towns on an opt-in basis. Municipalities would

waive permitting authority and land-use requirements (but not building permit fees) if they entered into a contract with the Commerce Corporation.

The Commerce Corporation would be authorized to reimburse a municipality for up to 25.0% of lost revenue related to any tax stabilization agreements entered into by the city and town and the entity locating in the municipality. (Last year's proposal recommended reimbursement of up to 50.0%.) (H 7171, Article 11, Section 13)

The Quonset Development Corporation would also be authorized as a substitute for the Commerce Corporation at the request of the city or town and subject to approval by Commerce. (H 7171, Article 11, Section 1)

Municipal Capacity Building

The Governor recommends \$0.4 million for the Municipal Capacity Building pilot program. This new program would assist cities and towns participating in the Site Readiness Program by subsidizing the work of five Rhode Island Commerce Corporation fellows in five municipalities or regions across Rhode Island. Cities and towns would share the cost of these fellows, who would assist with site development projects.

Infrastructure & Public Facilities

The budget includes a number of provisions intended to improve state and municipal infrastructure and facilities.

Industrial Site Development Bond Funding – As part of an \$87.5 million Housing and Infrastructure general obligation bond, the Governor proposes \$21.5 million for industrial site development and economic revitalization. The funds would be allocated competitively for the purpose of preparing sites for the development of facilities related to manufacturing, assembly, distribution and other job-producing commercial activities. Site development efforts would be supported by the Commerce Corporation's site readiness efforts, described above.

Municipal Resiliency – As part of a \$64.0 million Green Bond, the budget proposes \$7.0 million in funding for up to 75.0% matching grants to municipalities for restoring and/or improving resiliency in vulnerable coastal areas and river and stream floodplains. These funds are expected to leverage significant matching funds to support local programs to improve community resiliency and public safety in the face of increased flooding, major storm events, and environmental degradation.

Local Recreation Grants – As part of the \$64.0 million Green Bond, the budget recommends \$4.0 million for up to 80.0% matching grants for municipalities to acquire, develop or rehabilitate local spaces for active recreational facilities.

Clean Water – Also as part of a \$64.0 million Green Bond, the budget provides \$15.0 million in state matching funds to support clean water and drinking water infrastructure improvements.

Clean water projects include wastewater collection and treatment upgrades, stormwater resilience improvements, combined sewer overflow initiatives and other water quality protection activities. Drinking water projects include construction of water supply, treatment and distribution infrastructure.

Housing Affordability

The budget includes several proposals intended to improve housing affordability in Rhode Island.

Municipal Housing Incentives – The FY 2021 budget would create a new incentive program to encourage housing in areas that cities and towns designate as appropriate for development through a “housing incentive” overlay district. Incentive aid may be either technical assistance or school impact offset payments, if the municipality can demonstrate that additional housing leads to unfunded education costs. (H 7171, Article 12, Section 4)

Housing Bond – The Governor proposes a general obligation bond of \$25.0 million for affordable housing projects on the 2020 ballot.

Real Estate Conveyance Tax – The budget would establish a permanent funding stream for housing production, supported by an increase in the real estate conveyance tax. The tax rate, currently 0.46%, would increase to 0.92% for the portion of property values above \$500,000. The Governor’s Office states that the increased tax would generate approximately \$7.9 million annually to support the construction of 250 affordable and workforce housing units. (H 7171, Article 12, Section 5)

- Note: The municipal share of the conveyance tax does not appear to change from the status quo. However, funds collected by the state would be subject to a 2.0% administrative fee, similar to that proposed for hotel and meals & beverage tax.

The budget would also exempt affordable housing projects from the real estate conveyance tax after the project is transferred post-completion. This exemption is expected to reduce state general revenue by \$0.9 million and would also reduce municipal revenues derived from the real estate conveyance on those properties.

Changes to Housing Agencies & Oversight –

The FY 2021 budget proposes numerous changes to housing-related agencies and governance, including the following:

- Expands the Office of Housing and Community Development to the Division of Housing and Community Development within the Executive Office of Commerce
- Establishes a seven-member Housing Resources Coordinating Council (replacing the Housing Resources Commission), which would be charged with allocating housing funds and coordinating policies and programs statewide
- Establishes a nineteen-member Housing Resources Steering Committee – composed of thirteen members from different stakeholder groups and the six government members of

the Coordinating Council – to set housing policy direction and advise the Coordinating Council on resource allocation

- Creates a Housing Production Fund restricted receipt account, administered by Rhode Island Housing, to develop workforce housing and to support cities and towns in housing development efforts, including technical assistance and financial incentives (see Municipal Housing Incentives, above)
- Adds two non-voting members to the Rhode Island Housing Board – the executive director of the Housing Resources Coordinating Council and the chair of the Housing Resources Committee

(H 7171, Article 12, Sections 1 & 3)

General Obligation Bonds

The Governor proposes three general obligation bonds, totaling \$268.9 million, for voter approval in November 2020.

Higher Education Bond: \$117.3M

- University of Rhode Island Fine Arts Center – \$57.3M
- Rhode Island College Science and Technology Renovation – \$38.0M
- Community College of Rhode Island Academic and Student Support Services – \$12.0M
- Center for Ocean Innovation – \$10.0M

Housing and Infrastructure Bond: \$87.5M

- Affordable Housing – \$25.0M
- Quonset Pier – \$20.0M
- Industrial Site Development – \$21.5M
 - Available uses of funds include infrastructure improvements, including municipal infrastructure
- Early Learning Facilities – \$15.0M
- Arts and Economy – \$5.0M
- State Preservation Grants Program – \$1.0M

Beach, Clean Water, and Green Bond: \$64.0M

- State Beaches and Parks – \$35.0M
- Local Recreation Grants – \$4.0M
 - Provides for 80.0% matching grants for municipalities to acquire or improve recreational facilities
- Natural and Working Lands – \$3.0M
- Clean and Drinking Water – \$15.0M
- Municipal Resiliency – \$7.0M
 - Supports 75.0% matching grants to municipalities for resilience projects to improve community resiliency and public safety

Other Items of Interest

Fee Change for Emergency Medical Personnel – The Governor’s budget would remove the current exemption for city and town personnel and nonprofit organizations for ambulance service license fees, ambulance vehicle license fees and emergency technician license fees. Budget documents estimate that the change would raise \$0.3 million in state revenue. (H 7171, Article 6, Section 2)

Emergency Medical Services Personnel Interstate Compact – The budget proposes a number of interstate compacts for professional licensing, including emergency services personnel, which would allow Rhode Island to recognize EMS licenses issued by participating states. It is unclear whether participation in the compact would have an impact on state licensing definitions, regulations or other requirements. (H 7171, Article 20, Section 7)

Utility Restoration Act – In response to the Aquidneck Island gas outage, the budget establishes standards to ensure gas and electric distribution companies are prepared to restore service to customers safely and quickly after a significant outage or service interruption. It also allows the Division of Public Utilities and Carriers to impose fines and assess administrative penalties. (H 7171, Article 6, Section 12)

Climate Adaptation and Resilience Fund—The budget proposes a new restricted receipt account for climate adaptation and resilience projects on public lands and open space, funded by a portion of increased fees collected for the Oil Spill Prevention, Administration and Response Fund. State agencies and municipalities could apply for funds for projects to address transportation and infrastructure vulnerability and other purposes. (H 7171, Article 7, Sections 11 and 12)

Minimum Wage – The budget proposes increasing the state’s minimum wage from \$10.50 to \$11.50, effective October 1, 2020. (H 7171, Article 19, Section 8)

Expanded Sales Tax – The budget would expand application of the sales tax to additional services, including lobbying. (It appears that, under the cited definition of lobbying services, the League and other non-profit agencies would be included in the sales tax expansion.) (H 7171, Article 8, Sections 4 & 5)

Exeter Reimbursement – The Governor recommends the transfer of \$0.4 million from general revenue to restricted receipts for the Town of Exeter to fund the full-time support of its public safety needs. Exeter is the only municipality in Rhode Island without a local police force, and State Police respond to all calls for service.

Renew RI Promise Scholarships – The budget permanently extends the RI Promise program, a last-dollar scholarship that effectively makes two years of education at the Community College of Rhode Island (CCRI) free for all graduating high school students. Under current law, high school seniors graduating in 2020 would be the last class eligible for the program. (H 7171, Article 10, Section 7)