

# Department of Revenue

FY 2016 Revised  
FY 2017 Recommended  
FY 2017 – FY 2021 Capital  
Staff Presentation  
March 29, 2015

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# Background

- Created by 2006 Assembly to centralize administration of revenues
  - Office of Director
  - Office of Revenue Analysis
- Transferred from Dept. of Administration
  - State Lottery
  - Division of Municipal Finance
  - Taxation
  - Registry of Motor Vehicles
  - State Aid (transferred by 2011 Assembly)

# Summary by Program

<i>(In millions)</i>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Gov.</b>	<b>Change to Enacted</b>
Director's Office	\$ 1.1	\$ 0.8	\$ 1.1	\$ 0.0
Revenue Analysis	0.6	0.5	0.8	0.2
Lottery	303.9	356.5	382.3	78.4
Municipal Finance	2.2	2.5	2.4	0.2
Taxation	22.8	22.8	23.6	0.8
DMV	24.5	26.8	28.7	4.1
State Aid	68.2	68.3	63.8	(4.3)
<b>Total – All Funds</b>	<b>\$ 423.2</b>	<b>\$ 478.2</b>	<b>\$ 502.6</b>	<b>\$ 79.4</b>

# FY 2016 Revised Recommendation

- Includes adjustments for COLA and statewide savings
  - Medical benefits and communications
- Includes turnover to reflect current staffing
- Increases Lottery prizes and payments to reflect updated estimates
- Restores turnover savings for DMV to reduce wait times
- Adds funds for extended DMV hours pilot



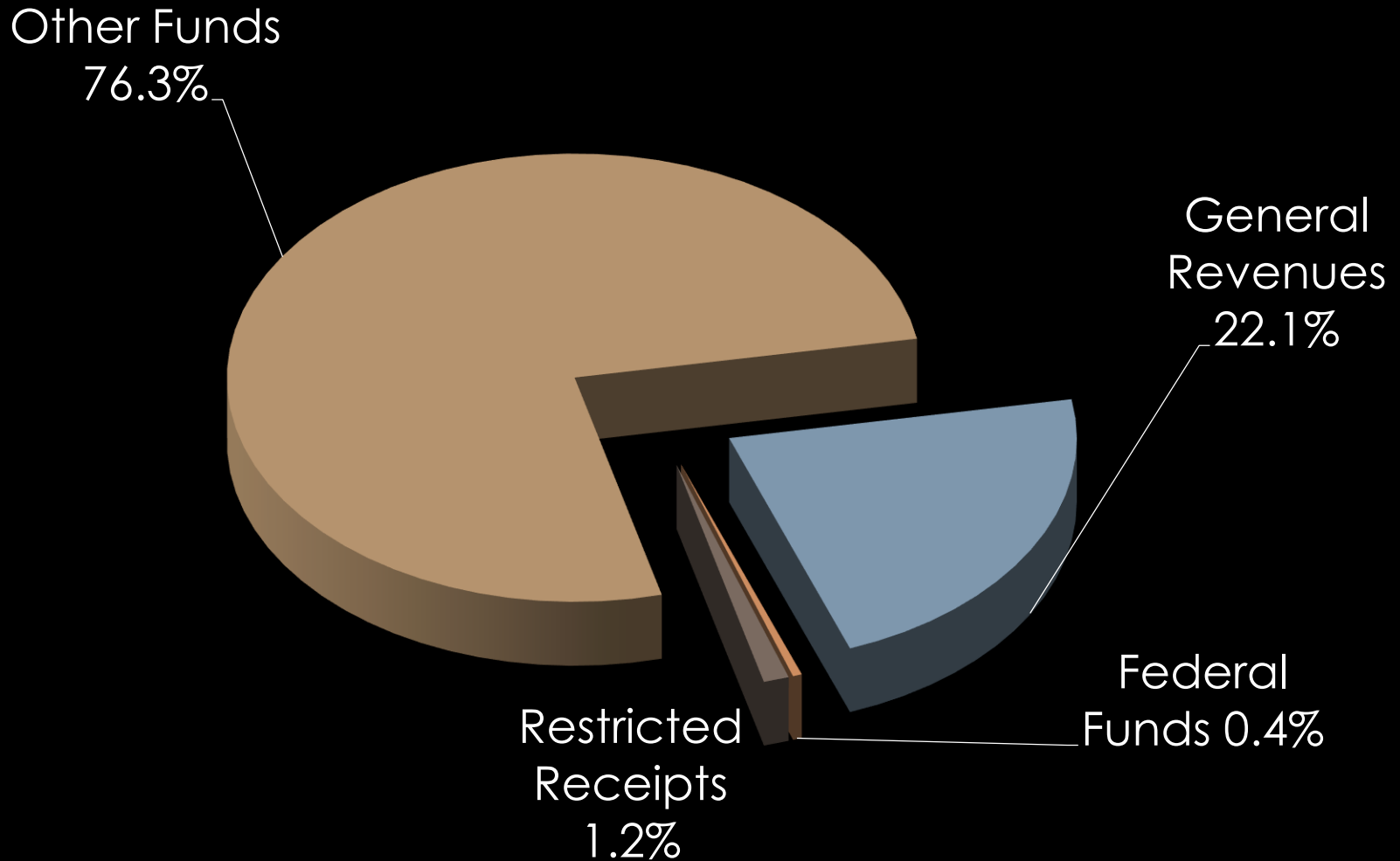
# Target Issues

- Budget Office provided a general revenue target of \$104.4 million
  - Current service adjustments of \$(5.6 million)
  - 7.5% reduction of \$3.2 million
- Budget submitted by the Department \$3.9 million above the target
  - Included proposals for enhanced compliance and collections activities
- Governor recommends \$6.8 million more than target

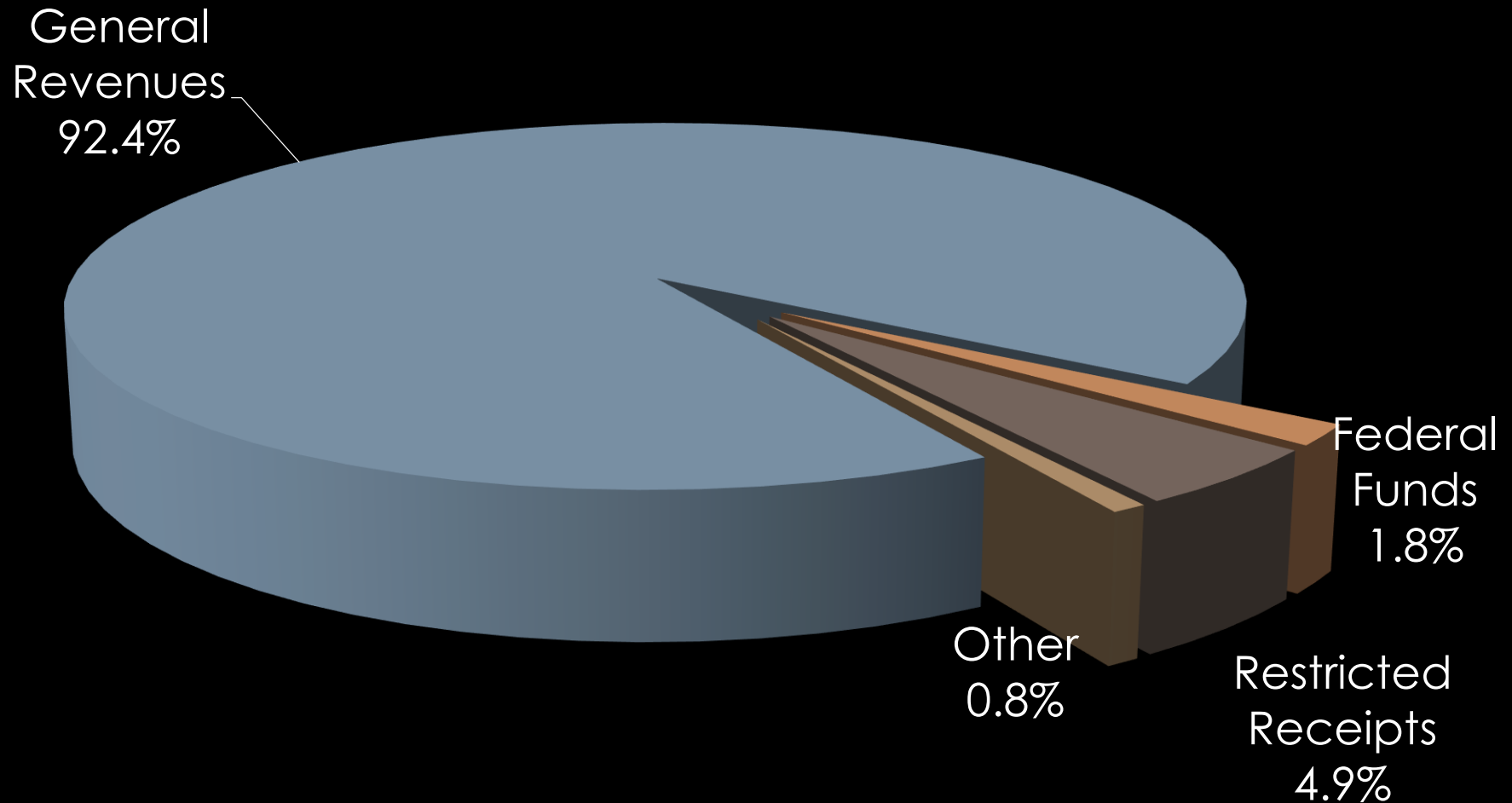
# Target Issues

- Department proposed three new revenue initiatives
  - Nexus program reinstatement
    - Analyze whether businesses operating in state are paying all taxes owed
    - Gov. recommends
  - Transfer pricing audit initiative
    - Evaluate tax liabilities from related businesses' transactions prior to combined reporting
    - Gov. recommends
  - Refund offset charge per transaction
    - Gov. does not recommend

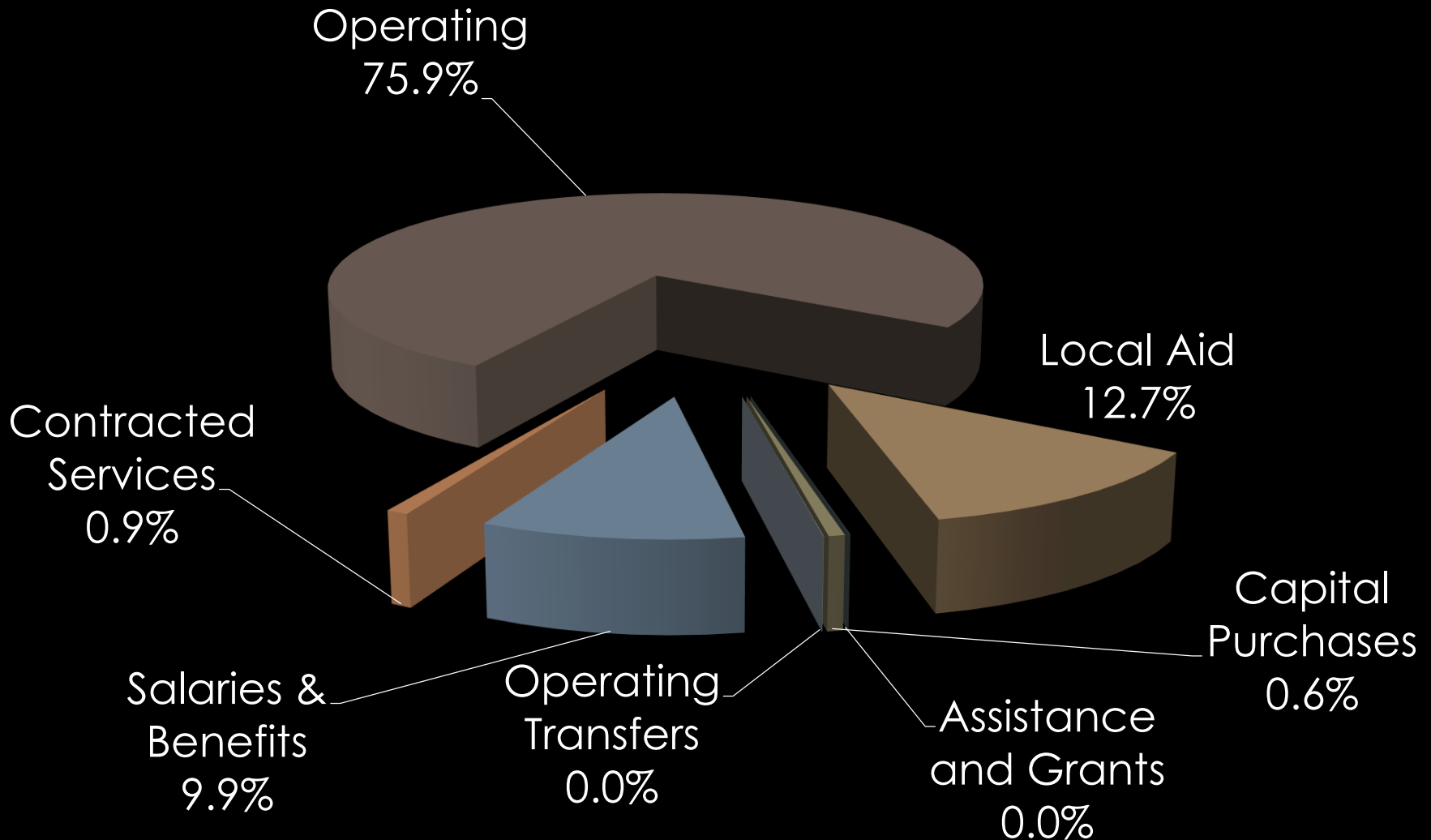
# FY 2017 Recommended Sources of Funding



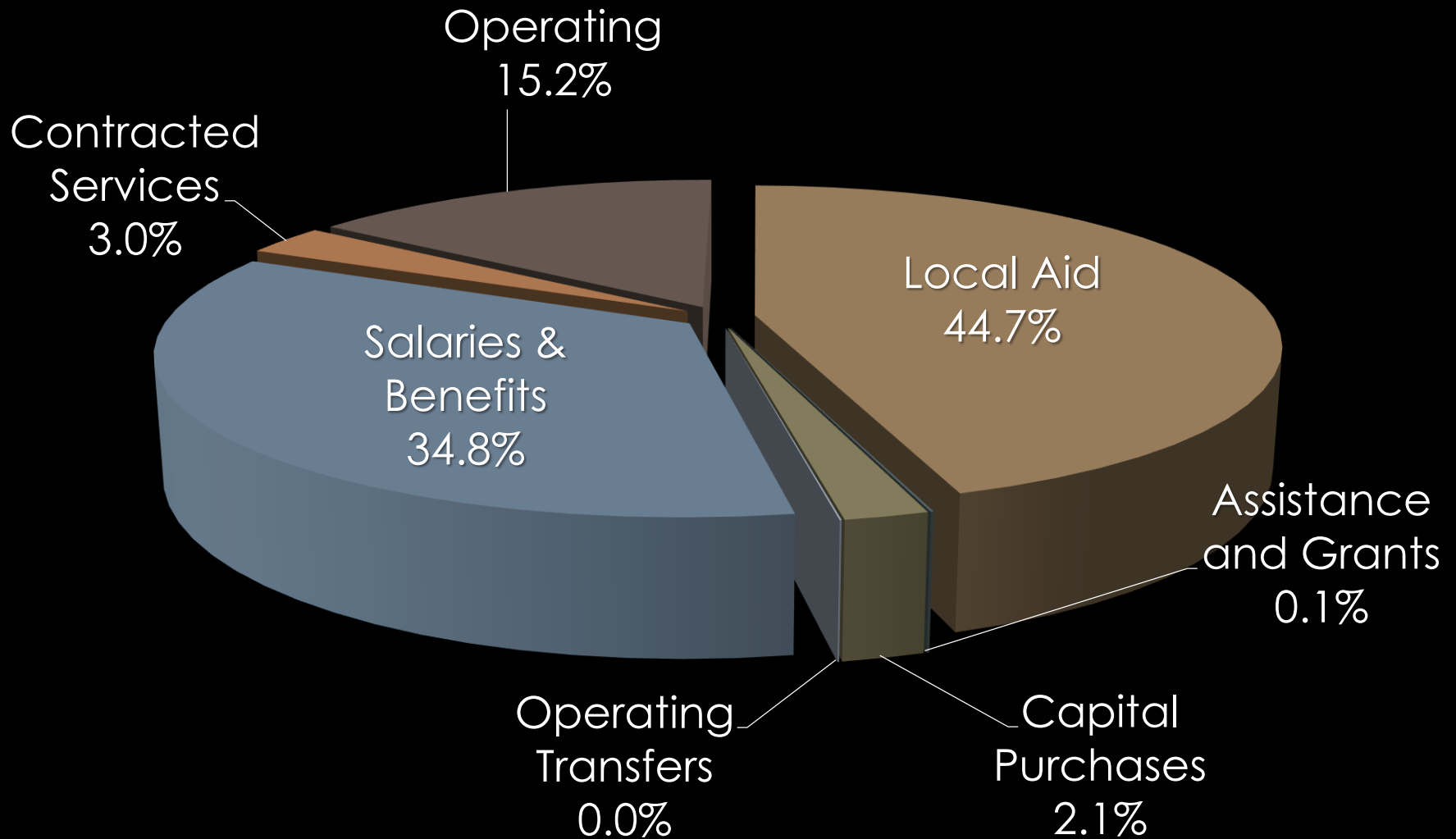
# FY 2017 Recommended Sources of Funding – No Lottery



# FY 2017 Funding by Category



# FY 2017 Funding by Category – Lottery Prizes Excluded



# Personnel

<b>Full-Time Positions</b>	<b>FTEs</b>	<b>Change to Enacted</b>
Enacted Authorized	514.5	-
FY 2016 Revised	514.5	-
FY 2017 Request	517.5	3.0
FY 2017 Governor	523.5	9.0
FY 2015 Average Filled	470.1	(34.9)
<b>Filled as of March 5th</b>	<b>495.0</b>	<b>(19.5)</b>

# Personnel

- FY 2017 - Governor recommends 523.5 positions
  - 9.0 more than authorized
  - 6.0 more than requested
- Annualized cost of living increases
- Updated planning values
- Medical benefit savings



# Full-time Equivalent Positions

	FY 2016 Enacted	FY 2016 Revised	FY 2017 Governor	Change to Enacted
Director	9.0	9.0	9.0	-
Revenue Analysis	4.0	4.0	6.0	2.0
Lottery	84.0	84.0	84.0	-
Municipal Finance	17.0	17.0	18.0	1.0
Taxation	225.0	225.0	231.0	6.0
DMV	176.5	176.5	176.5	-
Unidentified	(1.0)	(1.0)	(1.0)	-
<b>Total</b>	<b>514.5</b>	<b>514.5</b>	<b>523.5</b>	<b>9.0</b>

# Salaries and Benefits

<i>(In millions)</i>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Governor</b>	<b>Change to Enacted</b>
General Revenue	\$ 35.5	\$ 35.3	\$ 37.1	\$ 1.6
Federal Funds	1.3	1.3	1.4	0.1
Restricted Receipts	0.9	0.9	0.9	0.1
Other Funds	9.8	10.0	10.4	0.6
<b>Total</b>	<b>\$ 47.4</b>	<b>\$ 47.5</b>	<b>\$ 49.8</b>	<b>\$ 2.4</b>

# Office of the Director

- Oversight of departmental operations
  - Administration
  - Legal services
  - Financial management
- Funded entirely from general revenues
- Nearly all expenses for personnel
- Authorized 9.0 full-time positions

# Office of the Director

- FY 2016 – Gov. recommends \$0.4 million less than enacted
  - Increased turnover reflects Director vacancy for full fiscal year – position filled March 2016
- FY 2017 – Gov. recommends \$1.1 million
  - Essentially enacted level
  - Slight reduction for operations expenses reflects purchases in FY 2015 and FY 2016

# Reporting Requirements

- Office of Director submits Unified Economic Development report
  - Data and analysis by Office of Revenue Analysis
  - Due each January
  - Information on tax incentives including:
    - EDC Project Status, Enterprise Zone, Jobs Development Act, Motion Picture Tax Credit, and Innovation and Growth
    - Data reported ~18 months after end of fiscal year
  - 2012 Report submitted in August 2014
    - Reports for 2013 and 2014 data not submitted

# Office of Revenue Analysis

- Analyzes, evaluates and appraises state tax system
- Prepares the tax expenditures report
- Prepares cost benefit analysis of all tax expenditures
- Funded from general revenues
- Gov. recommends 6.0 positions
  - 2.0 more than authorized

# Office of Revenue Analysis

- FY 2016 – Gov. recommends \$0.1 million less than enacted
  - Reflects unanticipated turnover
  - Includes \$32,500 for update to Christiansen Capital Advisors gaming study
    - For November 2015 Revenue Estimating Conference
    - Scenarios reflect Tiverton Casino

# Office of Revenue Analysis

- FY 2017 – Gov. recommends \$0.8 million
  - Includes \$0.2 million for 2.0 new analyst positions
    - Unanticipated vacancies in FY 2015 and FY 2016
    - Office reports vacancies have made fulfilling reporting and analysis obligations not possible
    - Additional staff would be assigned to tax incentives analysis and analysis of new proposals
  - Includes \$27,500 for biennial software license fee – economic modeling software



# Reporting Requirements

- Tax Expenditures Report
  - Annual cost of credits, deductions, exclusions, exemptions, modifications, preferential rates, other incentives
    - Includes context/comparisons to other states
    - Uses data provided by Division of Taxation
  - Biennial – due January of even years
  - Last submitted May 2014
  - January 2016 report not yet submitted

# Reporting Requirements

- Tax Incentives Evaluation Report on 17 Incentive Programs - Due June 30, 2017

Fiscal Year	Incentives Analyzed – Schedule Set by Office January 2014
2015	Enterprise Zone Credits; Resident Business Owner Modification; Jobs Development Act; Motion Picture Credit; Innovation and Growth Incentives
2016	Investment Credits; Biotech Investment Credits; Specialized Investment Credits; R&D Deduction; R&D Property Credits; R&D Expense Credits; Small Business Investment Deduction; Small Business Wage Credit
2017	Job Training Credits; Jobs Growth Act; Artist Modification Reducing AGI; Welfare Bonus Program

# Reporting Requirements

- Tax Incentives Evaluation Report
  - March 2015 memo from Office to House and Senate
    - Staff vacancies precluded timely completion of FY 2015 report
  - 2015 Assembly added new Commerce Corporation incentives to required analysis
    - Rebuild RI Credits
    - Wavemaker Fellowship Credits
    - Anchor Institution Credits
    - New Qualified Jobs Credits

# Lottery Division

- Established in statute in 1974
  - Quasi-state agency until July 2005
    - Transferred to Department of Administration
    - Transferred to Department of Revenue in 2006
- Operates on-line games (Keno & Powerball) and instant games
- Administers video lottery and table games
  - Collects all revenues and remits prize funds
- Funded from Lottery funds

# Lottery Division

<i>(In millions)</i>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Gov.</b>	<b>FY 2017 to Enacted</b>
Prizes and Payments	\$ 283.4	\$ 334.3	\$ 359.6	\$ 76.1
Salaries and Benefits	8.9	9.1	9.4	0.5
All Other Operations	11.5	13.1	13.2	1.7
<b>Total</b>	<b>\$ 303.9</b>	<b>\$ 356.5</b>	<b>\$ 382.3</b>	<b>\$ 78.4</b>

# Lottery Division – Prizes and Payments

- Prizes and payments for FY 2016 and FY 2017 reflect updated sales figures
  - Estimated 5% increase in FY 2017 sales

<i>(In millions)</i>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Gov.</b>	<b>FY 2017 to Enacted</b>
Table Gaming	\$ 87.4	\$ 94.3	\$ 107.6	\$ 20.2
Traditional and Keno	196.1	240.0	252.0	55.9
<b>Total</b>	<b>\$ 283.4</b>	<b>\$ 334.3</b>	<b>\$ 359.6</b>	<b>\$ 76.1</b>

# Lottery Division – Other Operations

- All other expenses - recommended at requested \$4.6 million
  - \$2.5 million for traditional games advertising
  - \$1.5 million for State Police Gaming Unit
  - \$0.5 million for insurance costs
  - \$0.1 million for college students presenting winning numbers

# Lottery Building Renovations

- Project total of \$0.8 million
  - Parking lot repairs
  - Interior building repairs
  - Redesign and replace HVAC system
- Includes \$0.5 million for FY 2016
  - HVAC system
  - \$0.3 million from RICAP
  - \$0.2 million from Lottery funds



# Division of Municipal Finance

- Provides technical support to municipalities
- Administers and distributes local aid
- Determines communities' wealth for use in school aid formulas
- Funded from general revenues

# Division of Municipal Finance

- FY 2016 Revised – Gov. recommends \$0.5 million for receivership legal services
- FY 2017 – Gov. recommends \$0.1 million to reimburse municipalities 50% of cost for financial oversight
  - Reimbursement for 50% of salary and benefit costs for with finance advisor
  - Reimbursement each year for 5 years after termination of receivership or fiscal overseer

# Article 15

## Municipal Transparency Portal

- Governor proposes online interface for municipal finances
  - Overseen by Division of Municipal Finance
- Also reduces reporting quarterly reports to 3 per year
  - Budget-to-actual expenditures
  - 6<sup>th</sup> month, 9<sup>th</sup> month, 12<sup>th</sup> month
  - No change to current law on annual audit
- \$0.1 million for software – existing software can be modified for Division requirements

# Division of Municipal Finance

- FY 2017 – Gov. recommends \$2.4 million
  - \$0.2 million more than enacted
  - 18.0 full-time positions – 1.0 more than authorized level
- Budget includes \$0.1 million and 1.0 new FTE to manage transparency portal

# Division of Taxation

- Tax Processing Unit – performs activities relating to receipt of cash payments; processes tax returns
- Office of Assessment & Review – assesses and collects taxes; holds administrative hearings

# Division of Taxation

- Field Audit – audits business corporations and individuals
- Tax Compliance and Collection – enforces actions to collect overdue taxes

# Division of Taxation

- FY 2017 – Governor recommends \$23.6 million from all sources
- \$21.7 million for salaries and benefits
  - \$18.5 million from general revenues
- 231.0 full-time positions – 6.0 new
  - 1.0 revenue policy analyst – Nexus Program
  - 2.0 revenue agents
  - 3.0 revenue officers

# Division of Taxation

- Budget includes net revenue increase of \$3.9 million from new positions
  - Collections of taxes, penalties, and fees
  - Nexus program – \$0.9 million net increase
  - Revenue agents - \$0.8 million net increase
    - Generate \$0.4 million each
  - Revenue officers - \$2.2 million net increase
    - Generate \$0.6 million each
  - Budget assumes positions filled as of July 1, 2016



# Division of Taxation

- Budget includes \$6.7 million of one-time revenues from transfer pricing audit project
  - 2015 Assembly permitted Division to contract with vendor to perform data analytics
  - Review of transactions between affiliated companies prior to institution of business taxes changes/combined reporting

# Integrated Tax System

- Total of \$25.0 million from COPS for ongoing project
- Consolidates separate programs into one computer system
  - Enhance customer service
  - Reduce operating costs
  - Enhance compliance and collections
- Project scheduled to complete FY 2017

# Annual Reporting Requirements

- Division of Taxation
  - Required to submit 13 reports – all current
  - 2015 Assembly added reporting requirements associated with Commerce Corporation incentives
    - First reports due September 2016

# Division of Motor Vehicles

- Administers and enforces laws pertaining to the operation and registration of motor vehicles
  - Suspension
  - Revocation
  - Inspection of motor vehicles
  - Issues licenses

# Division of Motor Vehicles

- Branch offices
  - Cranston (Pastore Center, Headquarters)
  - Woonsocket
  - Middletown
  - Wakefield (Monday to Thursday)
  - Warren (Tuesday and Wednesday)
  - Westerly (Fridays only)

# Division of Motor Vehicles

- FY 2017 – Gov. recommends \$14.8 million for salaries and benefits
  - Almost all from general revenues
  - Includes part-time customer service representatives
    - Work peak days, hours to decrease wait times
- 176.5 full-time equivalent positions

# Division of Motor Vehicles

- Gov. recommends extended DMV hours pilot
  - FY 2016 Revised – \$39,829 for salaries and benefits
  - FY 2017 - \$0.1 million for salaries and benefits
- Budget assumes extended hours start March 2016

# DMV Modernization Project

- 2006 Assembly authorized DOA to borrow \$13.0 million to modernize DMV computer system
  - Debt service supported by a \$1.50 surcharge on transaction
  - Extended surcharge from 7 to 10 years because receipts were yielding less than anticipated



# DMV Modernization Project

- In conjunction with RI.gov, will offer more web site functionality to reduce wait times for transactions performed at the Registry such as titles and registrations
- Project includes:
  - Enhanced digital facial recognition
  - Use of barcode readers
  - Infrastructure upgrade

# DMV Modernization Project

- Request for proposal was issued in December 2006
- Began testing in September 2009
  - Testing schedule revised December 2013
- Fourth revision of contract made in fall 2013
  - Set project completion date in May 2014
  - Deadline was not met

# DMV Modernization Project

- Administration and HP met in May/June 2014
  - Altered methodology for system development and testing
    - Old method: Waterfall
    - New method: Agile
- Summer 2014 – trial of new methodology
  - Deemed successful

# DMV Modernization Project

- Fifth contract amendment signed fall 2015
  - System deployment September 2016

(In millions)	FY 2016	FY 2017
Federal Funds	\$ 3.9	\$ 0.8
Restricted Receipts	3.1	4.1
<b>Total</b>	<b>\$ 7.0</b>	<b>\$ 4.9</b>

- Both years - \$0.1 million for new imaging software

# Division of Motor Vehicles

- Governor recommends shifting enacted \$3.0 million for license plate reissuance to FY 2017
  - Article 19 of 2016-H 7454 postpones reissuance to April 2017
- FY 2017 – Gov. recommends \$5.2 million from general revenues for all other operation expenses
  - Funds office operations, building maintenance, software and database agreements, and telecomm access costs

# State Aid

- Division of Municipal Finance calculates and administers multiple programs
  - Distressed Communities Relief Fund
  - Municipal Incentive Aid – ends FY 2016
  - Motor Vehicles Excise Tax
  - Payment in Lieu of Taxes
  - Property Revaluation Reimbursement
  - Actuarial Valuations
- State aid for libraries remains in DOA

# Local Aid Programs

<i>(in millions)</i>	<b>FY 2016 Enacted</b>	<b>FY 2016 Revised</b>	<b>FY 2017 Rec.</b>
Dist. Communities	\$ 10.4	\$ 10.4	\$ 10.4
PILOT	40.1	40.1	42.0
Motor Vehicle Excise	10.0	10.0	10.0
Muni Incentive Aid	5.0	5.1	-
<b>Total</b>	<b>\$ 65.5</b>	<b>\$ 65.6</b>	<b>\$ 62.4</b>

# Distressed Communities Relief Fund

- Established in 1990 to provide assistance to communities with highest property tax burdens relative to wealth
- Communities falling into the lowest 20.0% for at least 3 of 4 indices to be eligible
  - Percent of tax levy to full value of property
  - Per capita income
  - Personal income as percent of full value of property
  - Per capita full value of property



# Distressed Communities Relief Fund

- Recommends \$10.4 million for FY 2017
- Eligible communities:
  - Cranston receives 50% allocation in
  - Central Falls
  - North Providence
  - Pawtucket
  - Providence
  - West Warwick
  - Woonsocket
  - East Providence receives 50.0% allocation out

# Article 15

## Distressed Communities Refund Offset

- 2011 Assembly authorized Division of Taxation “Refund Offset” program
  - Allows state agencies and local governments to contract with Division to collect debts on their behalf
    - If a filer owes an outstanding debt to a state agency or local, Division diverts portion of state personal income tax refund to the government entity
- 2014 Assembly included Fire Districts

# Article 15

## Distressed Communities Refund Offset

- Governor proposes distressed communities be required to participate in refund offset program
  - Sign up within 90 days of distressed notification
  - Division of Municipal Finance to determine what liabilities to be collected by Division of Taxation

# Article 15

## Distressed Communities Refund Offset

Municipality	Qualifies for Distressed Payment	Participates in Refund Offset
Cranston	50.0% payment in	No
Central Falls	Yes	Yes
East Providence	50.0% payment out	Yes
North Providence	Yes	No
Pawtucket	Yes	Yes
Providence	Yes	Yes
West Warwick	Yes	Yes
Woonsocket	Yes	Yes

# Payment in Lieu of Taxes (PILOT)

- Program reimburses cities and towns for property taxes which would have been due on untaxable property
  - Private, nonprofit educational institutions, hospitals, or state-owned hospital, veterans' facility, or correctional facility
- Reimbursement up to 27.0% tax that would have been collected
  - Subject to appropriation

# Payment in Lieu of Taxes (PILOT)

- Governor recommends \$42.0 million for FY 2017
  - Full funding
  - FY 2016 payment of \$40.1 million represented 23.7% of value
- State makes one payment, in July each year
  - FY 2016 payment made July 2015

# Motor Vehicle Excise Tax

- Recommends enacted level of \$10.0 million for FY 2017
- 2010 Assembly – state will reimburse for \$500 exemption, subject to appropriation
- Legislation allows municipalities to provide an additional exemption
  - Additional exemption not subject to reimbursement

# Property Revaluation Reimbursements

- Municipalities update property valuations every third and sixth year after a full revaluation
- Governor includes \$1.4 million for FY 2016 and \$0.6 million for FY 2017
- Expenditures fluctuate annually
  - Determined by communities conducting revaluation
    - Fifteen municipalities in FY 2016
    - Seven municipalities in FY 2017



# Article 15

## Property Revaluations

- Governor proposes a 15 year cycle
  - Statistical revaluations years 5 and 10
  - Full revaluation year 15

Current Law		Proposal	
State	Full Revaluation	State	Full Revaluation
NH	Every 5 Years	NH	Every 5 Years
<b>RI</b>	<b>Every 9 Years</b>	MA	At Least Every 10 Years
MA	At Least Every 10 Years	CT	Every 10 Years
CT	Every 10 Years	<b>RI</b>	<b>Every 15 Years</b>
ME	By vote	ME	By vote
VT	Comparison of valuation to list prices	VT	Comparison of valuation to list prices

# Article 15 Property Revaluations

Municipalities' Scheduled Revaluations				
	Statistical		Full	
Calendar Year	<i>Current Law</i>	<i>Art. 15</i>	<i>Current Law</i>	<i>Art. 15</i>
2017	7	5	4	2
2018	14	8	4	3
2019	7	5	3	2

- Proposal impacts reimbursements beginning in FY 2018

# Municipal Incentive Aid

- Consistent with current law, Governor does not include funds for FY 2017
- 3-year program to encourage:
  - Sustainable funding of retirement plans
  - Reduce unfunded liabilities
- Distributed to municipalities on population basis if certain conditions are met
  - Johnston did not meet FY 2015 or FY 2016 criteria – FY 2015 to be redistributed

# Municipal Incentive Aid

- FY 2016 Revised – Governor reappropriated Johnston's FY 2015 payment
  - Johnston did not meet FY 2015 or FY 2016 criteria – FY 2015 to be redistributed
  - Reappropriation is \$104 more than Johnston's proportional share of FY 2015 appropriation
    - Division of Municipal Finance will distribute \$136,438 – actual proportional share

# Other Reporting Requirements

- Municipal Finance
  - Required to submit 4 reports
    - All are current
- DMV
  - Required to submit Vehicle Inspection Commission report
    - No members of Commission appointed
    - Commission has never met
- Lottery
  - Required to submit 2 reports – Both current

# Department of Revenue

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