

# Department of Revenue

FY 2017 Revised  
FY 2018 Recommended  
FY 2018 – FY 2022 Capital  
Staff Presentation  
April 4, 2017

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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 2017 Enacted</b>	<b>FY 2017 Revised</b>	<b>FY 2018 Gov.</b>	<b>Change to Enacted</b>
Director's Office	\$ 1.1	\$ 1.2	\$ 1.2	\$ 0.1
Revenue Analysis	0.8	0.8	0.8	(0.0)
Lottery	362.4	370.2	375.0	12.7
Municipal Finance	3.1	3.1	2.5	(0.5)
Taxation	23.7	25.2	25.8	2.0
DMV	28.6	25.2	26.3	(2.2)
State Aid	65.8	66.0	69.4	3.6
<b>Total – All Funds</b>	<b>\$ 485.5</b>	<b>\$ 497.8</b>	<b>\$ 501.1</b>	<b>\$ 15.6</b>

# FY 2018 Recommendation

- Delays license plate reissuance 1-year
- Turnover to reflect current staffing
- Includes new staff for DMV to reduce wait times & facilitate IT System launch
- New staff for Taxation to increase technical capacity & expedite processing
- Adds \$1.0 million in new Taxation IT system funding

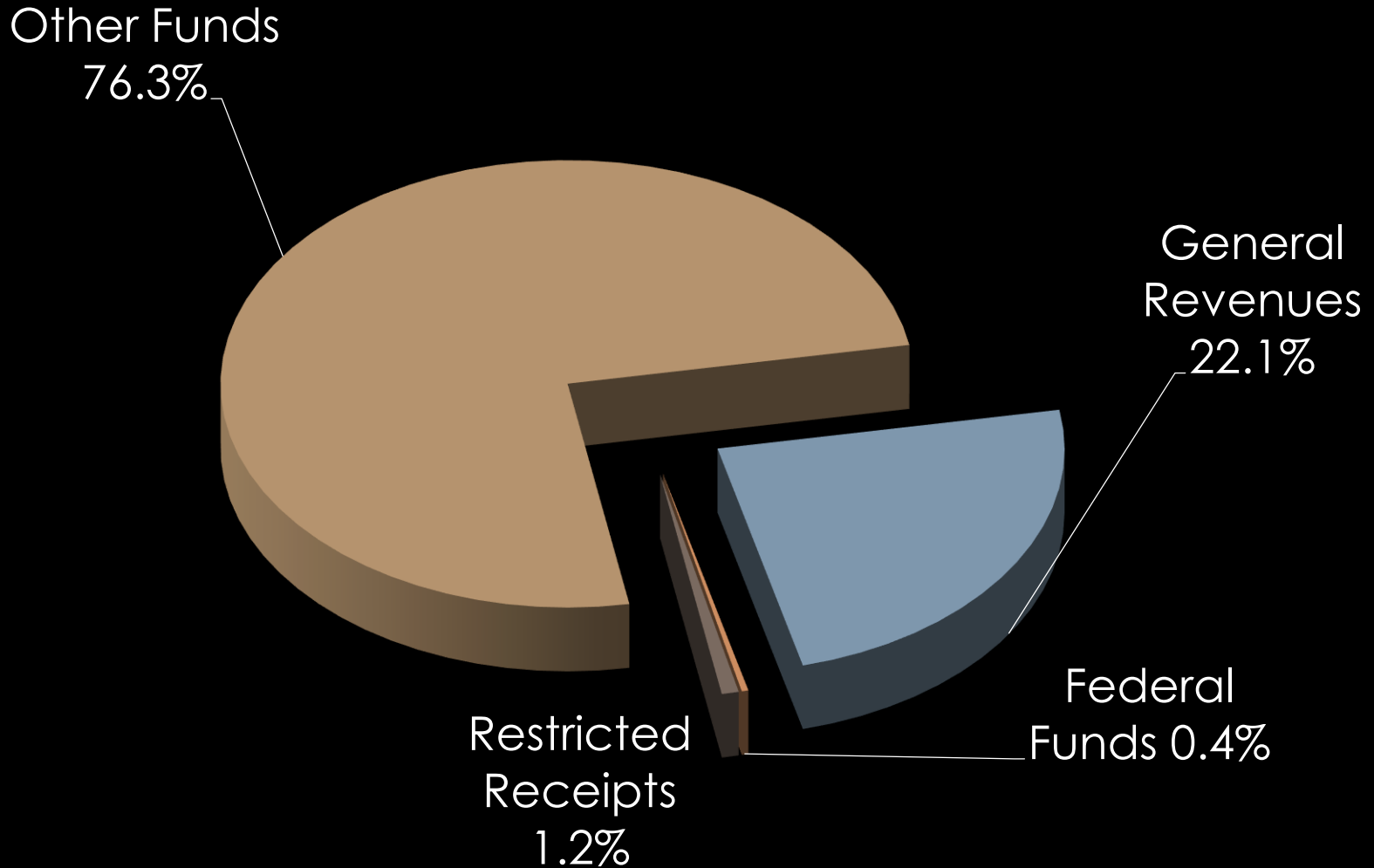
# Target Issues

- Budget Office provided a general revenue target of \$101.7 million
  - Current service adjustments of \$(1.8 million)
  - 8.0% reduction of \$3.9 million
- Budget submitted by the Department \$2.2 million above the target
  - Included proposals for enhanced revenue activities of \$2.3 million
- Governor recommends \$7.6 million more than target

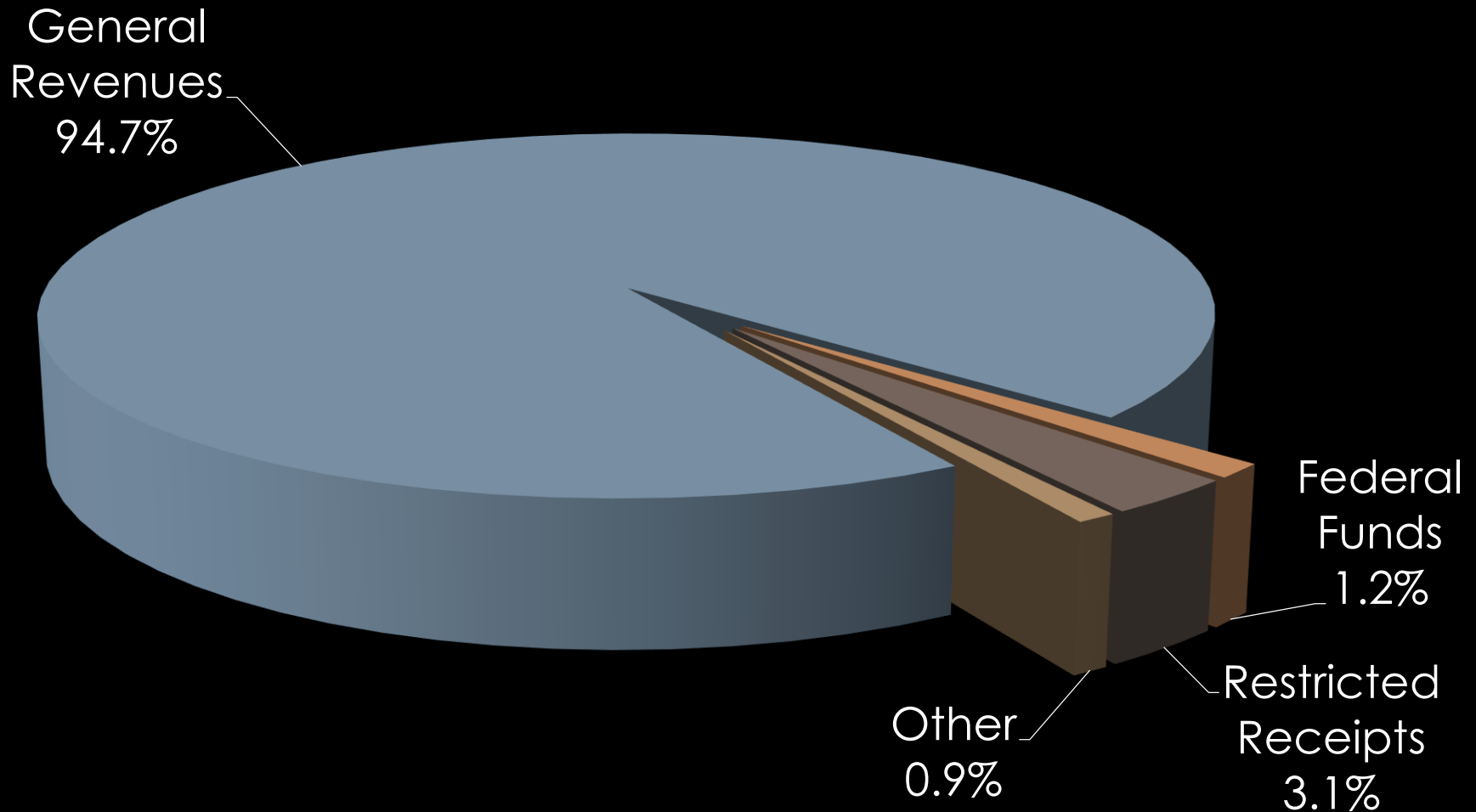
# Target Issues

- Department initiatives
  - Vehicle document sales and use tax
    - Include document and title preparation when calculating tax - \$1.8 million
    - 4 states do so, including Mass & Conn.
    - Gov. does not recommend
  - Discontinue registration refunds
    - \$539,000
    - Governor does not recommend
  - DOT cost allocation for DMV staff –
    - \$2.1 million = 25.0% of Transp. fund
    - Governor recommends \$0.5 million=0.5%

# FY 2018 Recommended Sources of Funding

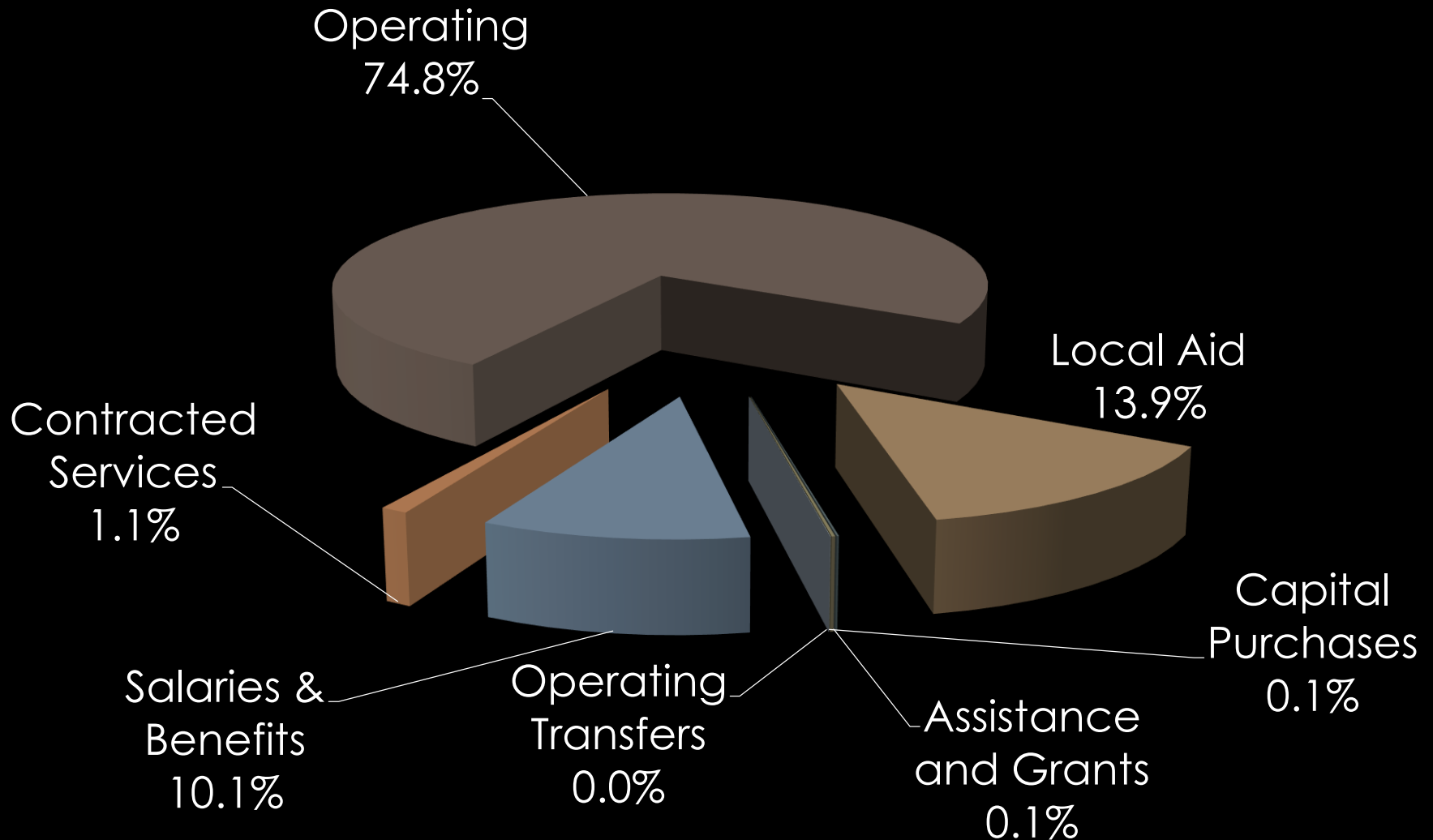


# FY 2018 Recommended Sources of Funding – No Lottery

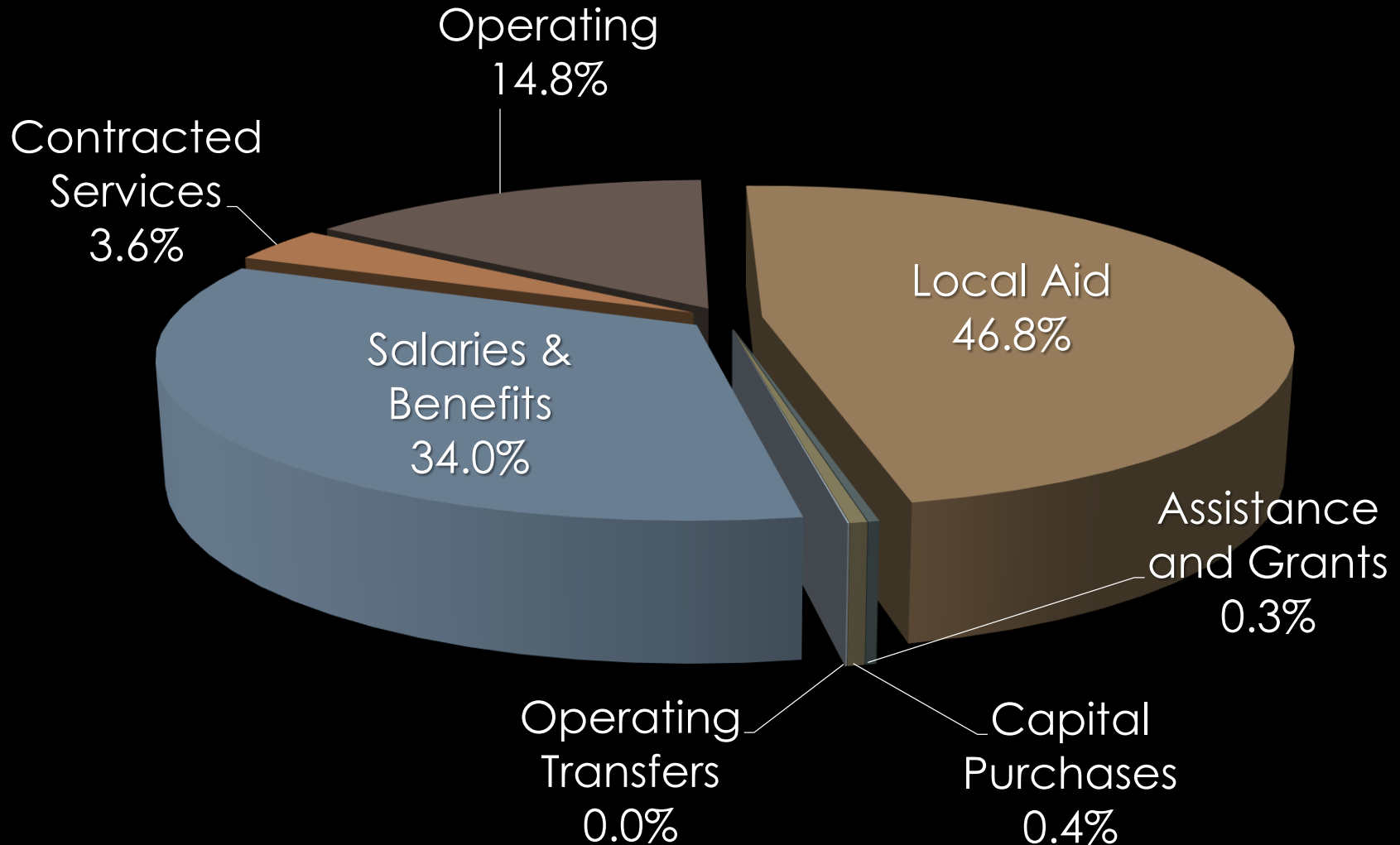




# FY 2018 Funding by Category



# FY 2018 Funding by Category – Lottery Prizes Excluded



# Personnel

<b>Full-Time Positions</b>	<b>FTEs</b>	<b>Change to Enacted</b>
Enacted Authorized	523.5	-
FY 2017 Revised	523.5	-
FY 2018 Request	543.5	20.0
FY 2018 Governor	539.5	16.0
FY 2016 Average Filled	488.3	(35.2)
<b>Filled as of March 18th</b>	<b>496.0</b>	<b>(27.5)</b>

# Personnel

- FY 2018 - Governor recommends 539.5 positions
  - 16.0 more than authorized
  - 4.0 less than requested
- Updated planning values
- Medical benefit savings

# Statewide Savings

- Assessment to salaries that funds workers' comp., unemployment & unused leave
  - Lowered from enacted based on experience
    - Savings of \$1.2 million in FY 2017
    - Savings of \$1.5 million in FY 2018
- Medical benefit cost growth
  - Lower than initial estimates
    - Savings of \$2.6 million in FY 2018
- Total impact to Department
  - \$55,412 in FY 2017; \$119,395 in FY 2018

# Full-time Equivalent Positions

	<b>FY 2017 Enacted</b>	<b>FY 2017 Revised</b>	<b>FY 2018 Governor</b>	<b>Change to Enacted</b>
Director	10.0	11.0	11.0	1.0
Revenue Analysis	6.0	6.0	6.0	-
Municipal Finance	17.0	17.0	17.0	-
Taxation	232.0	232.0	240.0	8.0
DMV	173.5	173.5	181.5	8.0
Lottery	84.0	84.0	84.0	-
Unidentified	1.0	-	-	(1.0)
<b>Total</b>	<b>523.5</b>	<b>523.5</b>	<b>539.5</b>	<b>16.0</b>

# Salaries and Benefits

<i>(In millions)</i>	<b>FY 2017 Enacted</b>	<b>FY 2017 Revised</b>	<b>FY 2018 Governor</b>	<b>Change to Enacted</b>
General Revenue	\$ 37.0	\$ 36.8	\$ 38.1	\$ 1.1
Federal Funds	1.4	1.5	1.4	0.0
Restricted Receipts	0.9	1.0	0.9	0.0
Other Funds	10.6	10.0	10.1	(0.4)
<b>Total</b>	\$ 49.8	\$ 49.3	\$ 50.5	\$ 0.7

# Office of the Director

- Oversight of departmental operations
  - Administration
  - Legal services
  - Financial management
- Funded entirely from general revenues
- Nearly all expenses for personnel
- Authorized 10.0 full-time positions



# Office of the Director

- FY 2017 – Gov. recommends \$0.1 million more than enacted
  - Adds new revenue analyst position to provide support to the office
- FY 2018 – Gov. recommends \$1.2 million
  - Salaries and benefits consistent with new staffing level
  - Essentially the enacted level of operations spending

# 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
- Authorized 6.0 full-time positions

# Office of Revenue Analysis

- The Governor recommends \$0.8 million for FY 2018
  - Includes full funding for 6.0 positions
  - Operations spending essentially consistent with FY 2016 levels
  - Total funding is consistent with the FY 2017 enacted and revised
    - Personnel savings offset other adjustments

# Reporting Requirements

- Office of Director
  - Unified Economic Development report
    - Due each January
  - FY 2014 report due in 2015 submitted in February 2017
    - Reports for FY 2015 & FY 2016 not submitted
- Office of Revenue Analysis
  - Tax Expenditures Report
    - Biennial – due January of even years
    - Last submitted July 2016
  - Tax Incentives Evaluation Report

# 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 – <b><u>new target June 30, 2017</u></b>
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 – <b><u>June 30, 2018 – 1 year after due date</u></b>
2017	Job Training Credits; Jobs Growth Act; Artist Modification Reducing AGI; Welfare Bonus Program - <b><u>June 30, 2018 – 1 yr late</u></b>

# Lottery Division

- Established in statute in 1974
  - Quasi-state agency until July 2005
    - Transferred to DOA then DOR in 2006
  - Operates 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 2017 Enacted</b>	<b>FY 2017 Revised</b>	<b>FY 2018 Gov.</b>	<b>FY 2018 to Enacted</b>
Prizes and Payments	\$ 339.7	\$ 348.1	\$ 352.6	\$ 12.9
Salaries and Benefits	9.4	8.7	9.0	(0.4)
All Other	13.2	13.4	13.5	0.2
<b>Total</b>	<b>\$ 362.4</b>	<b>\$ 370.2</b>	<b>\$ 375.0</b>	<b>\$ 12.7</b>

# Lottery Division – Prizes and Payments

- Prizes and payments for FY 2017 and FY 2018 reflect updated sales figures

<i>(In millions)</i>	<b>FY 2017 Enacted</b>	<b>FY 2017 Revised</b>	<b>FY 2018 Gov.</b>	<b>FY 2018 to Enacted</b>
Table Gaming	\$ 110.2	\$ 118.6	\$ 123.1	\$ 12.9
Traditional and Keno	229.5	229.5	229.5	0.0
<b>Total</b>	<b>\$ 339.7</b>	<b>\$ 348.1</b>	<b>\$ 352.6</b>	<b>\$ 12.9</b>



# Lottery Division – Other Operations

- All other expenses - \$13.5 million
  - Marketing: \$8.4 million for casinos; \$1.4 million for traditional games
  - \$1.6 million for State Police Gaming Unit
  - \$0.5 million for insurance
  - \$0.1 million for services including college students presenting winning numbers
- Project total of \$0.9 million from RICAP
  - Parking lot, interior, HVAC system
  - \$0.1 million for FY 2017 to complete

# 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 2017 revised recommendation
  - \$20,000 less for fiscal stability legal issues
    - \$30,000 more for Woonsocket Budget Commission appeal
    - \$50,000 less for Central Coventry
  - \$80,000 new for City of Providence pension analysis
  - Turnover savings

# Division of Municipal Finance

- FY 2018 – Gov. recommends \$2.5 million
  - \$0.5 million less than enacted
  - Authorized level of 17.0 full-time positions
  - \$0.1 million to reimburse municipalities 50% of cost for financial oversight

# Municipal Transparency Portal

- 2016 Assembly authorized 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

# Municipal Transparency Portal

- Enacted budget included: \$0.2 million
  - \$60,000 from IT Investment Fund (DOA budget) for one-time purchase and installation
  - \$60,000 for ongoing cost – license and support and \$109,000 for staff funded from general revenues in DOR
    - Revised budget shows turnover savings consistent with midyear launch – position still not filled
    - Annual system costs \$55,000 for first year
    - One - time expenses were \$30,000

# Municipal Transparency Portal

- Revised budget anticipated January 2017 Launch
  - Revised again to 3-phase roll-out May 2017
  - 13 municipalities per phase
  - Staff position remains vacant until launch
- FY 2018 Recommendation
  - \$0.2 million from general revenues for full year staffing and software licensing essentially as enacted

# Division of Taxation

- Tax Processing Unit
  - activities relating to receipt of cash payments; processes tax returns
- Office of Assessment & Review
  - assesses and collects taxes; holds administrative hearings
- Field Audit
  - audits corporations and individuals
- Tax Compliance and Collection
  - collection enforcement



# Division of Taxation

- FY 2018 – Governor recommends \$25.8 million from all sources
- \$22.8 million for salaries and benefits
  - \$19.4 million from general revenues
  - Turnover restoration \$62,223
- 240.0 full-time positions – 8.0 new
  - 4.0 revenue enhancement positions
  - 4.0 service enhancement positions

# Division of Taxation

- Revenue Enhancement – \$0.4 million
  - 2.0 Revenue Agents
    - 1.0 Personal Income Tax - reduce worklist volume for expedited PIT processing
    - 1.0 Forms/Tax Credits - format forms & process increased volume of tax credits
  - 2.0 Data Analysts
    - Accounting section - review & reconciliation of automated processes and enhanced reporting
- \$2.0 million in revenue – net \$1.6 million

# Division of Taxation

- Service Enhancement - \$0.3 million
  - 2.0 Taxpayer Service Specialists
    - expedite refunds, address increased walk-in and phone taxpayer support volume
  - 1.0 Supervising Revenue Agent
    - Oversight of increased seasonal staff
    - Increased capacity through second shift if necessary
  - 1.0 Teller
    - Enhance customer service related to increased walk-in volume

# Division of Taxation

- Enacted budget includes \$6.7 million of one-time revenues from transfer pricing audit project
  - Contracted vendor review of affiliated companies transactions prior to business taxes changes/combined reporting
  - November Revenue Estimating Conference
    - Vendor contract finalized
    - Notices sent to auditees in January 2017
    - Division reported revenue estimate unchanged

# Integrated Tax System

- Total of \$25.0 million borrowed authorized by the 2012 Assembly
- Consolidates separate programs into one computer system
  - Enhance customer service
  - Reduce operating costs
  - Enhance compliance and collections
- Project scheduled to complete FY 2017
  - Functionality launched in stages

# Integrated Tax System

- FY 2018 recommendation includes funding for maintenance and enhancements
  - \$1.0 million from general revenues
  - Budget Office identified additional \$1.7 million from IT Investment Fund
- Related articles 16 & 7
  - Heard Feb., 28, 2017

# Integrated Tax System

- New debt of \$2.0 million via Article 16
  - expand new tax system to replace cash, check and credit card payments
  - New pricing provided by current vendor
  - Expected to start and end within FY 2018 with enhancements rolling out as ready
- Section 6 of Article 7 authorizes Taxation to retain portion of contingency contract collections to support STAARS
  - Impact on revenues not considered

# Annual Reporting Requirements

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



# 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)
  - 8 AAA locations
    - Providence HQ not in service

# Division of Motor Vehicles

- FY 2018 – Gov. recommends \$15.0 million for salaries and benefits
  - 181.5 full-time equivalent positions
  - Almost entirely general revenues
  - Includes 8.0 new full-time positions
    - Full-time support staff for modernization system helpdesk
  - Includes 0.5% cost allocation to transportation –
    - Art. 4. Sec. 3 heard February 28, 2017

# Article 4, Section 3 – Highway Maintenance Account

- Requires transfer of 0.5% of Highway Maintenance Account receipts to DMV
  - Fund salary/benefit costs of DMV staff
  - HMA resources estimated at \$86.9 million for FY 2018 - 0.5 % equates to \$0.4 million
- Budget assumes savings of \$0.5 million from proposal
  - Effectively a shift in resources from DOT

# Division of Motor Vehicles

- RI Motor Vehicle System Helpdesk
  - Tech support consistent with Modernization System launch
    - Subject matter experts for new system & DMV
  - Facilitate CSR learning curve
    - Anticipated to initially negatively impact wait times
    - Most efficient CSRs likely to see most production loss
    - Facilitate training of future phases
  - July 1, start assumed

# DMV Modernization Project

- 2006 Assembly authorized borrowing for a new DMV computer system
  - Debt funded from unspecified charge
  - \$1.50 technology surcharge implemented for period of 7 years through FY 2014
    - Law restricted use for debt service only
- 2009 Assembly extended surcharge from 7 to 10 years through FY 2017
  - Expanded use to include project costs

# 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
- Testing was scheduled in September 2009
  - Testing schedule revised December 2013
- Fourth revision of contract made in fall 2013
  - Set completion date in May 2014
  - Deadline was not met



# DMV Modernization Project

- Administration & HP met in May/June 2014
  - Altered methodology for system development and testing
- 5<sup>th</sup> contract amendment - Fall 2015
  - Set completion date in September 2016
  - Deadline was not met
- Presently under litigation
- System launch anticipated July 2017

# DMV Modernization Project

- Project includes multiple components
  - Rhode Island Motor Vehicle Licensing
  - Commercial vehicle highway monitoring
  - Commercial driver's license verification
  - Federal Real ID compliance
- Governor recommends \$5.3 million FY 2017; \$3.2 million FY 2018
  - FY 2017 reflects expiration of federal grant
  - FY 2018 appears to include renewed technology surcharge funding
    - Article hearing February 28, 2017

# DMV: Article 4, Section 1– Technology Surcharge

- Article 4, Section 1:
  - Extends \$1.50 technology surcharge for 5 years through June 30, 2022
  - Expands use to include on-going enhancements
- Article 7 exempts these receipts from state indirect cost recovery

# DMV: Article 4, Section 1– Technology Surcharge

- Surcharge has averaged \$2.1 million recently and generated \$2.2 million in FY 2016
  - 5 extra years = \$10.4 million to \$11 million
  - FY 2018 budget assumes use of \$2.1 million
    - Continued implementation costs
    - Enhancements

# DMV: Article 4, Section 1– Technology Surcharge

	FY 2008-2015	FY 2016	FY 2017	FY 2018
Prior Year Balance	N/A	\$906,523	\$2,153,248	\$1,153,593
Receipts	16,922,631	2,186,713	2,080,345	2,080,000
HPE Transfer	-	2,000,000	-	-
<b>Total Available</b>	<b>\$16,922,631</b>	<b>\$5,093,236</b>	<b>\$4,233,593</b>	<b>\$3,233,593</b>
Project Expenses	4,524,433	1,804,936	3,080,000	2,080,000
Debt Service	11,491,675	1,135,052	-	-
<b>Balance</b>	<b>\$906,523</b>	<b>\$2,153,248</b>	<b>\$1,153,593</b>	<b>\$1,153,593</b>

# Division of Motor Vehicles

- FY 2018 – Gov. recommends \$4.1 million from general revenues for all other operation expenses
- Governor recommends shifting enacted \$3.0 million for license plate reissuance to FY 2018
  - Article 4, sec. 2 of 2017-H 5175 postpones reissuance to April 2018
  - Re-align with DMV's IT system rollout

# DMV: Article 4, Section 2 – License Plate Issuance Delay

- State law requires reissuance of plates every 10 years
- Last full reissuance was “Wave” plates done over 1996 and 1997
- This would be 5<sup>th</sup> postponement

Assembly	Current Date	New Date
<b>2011</b>	9/2011	9/2013
<b>2013</b>	9/2013	9/2015
<b>2015</b>	9/2015	7/2016
<b>2016</b>	7/2016	4/2017
<b>2017</b>	4/2017	4/2018

# DMV: Article 4, Section 2 – License Plate Issuance Delay

- No change to issuance plan:
  - At the time of initial registration
  - Upon registration renewal
- Expenditures expected to be \$10.7 million over 24 months
  - Partially offset by \$5.2 million in revenues from charges for new plates
  - \$6.00 per set cost in statute - unchanged



# DMV: Article 4 – License Plate Issuance Delay

- As with prior years, the budget shifts expected revenues and expenditures to coincide with the new schedule
  - Error in the current revenue assumptions overstate collections based on proposal
    - Example: Assumes \$1.8 million for FY 2017
    - April start equates to only \$0.6 million
- Updated expenditure and revenue projections need additional review

# 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

Program	FY 2017 Enacted	FY 2017 Revised	FY 2018 Rec.
PILOT	\$ 42.0	\$ 42.0	\$ 45.2
Distressed Communities	12.4	12.4	12.4
Prop. Revaluation	0.6	0.6	0.9
Muni. Incentive Aid	-	0.1	-
Motor Vehicle Excise	10.0	10.0	10.0
Total	\$ 64.9	\$ 65.1	\$ 68.5
<i>\$ in millions</i>			

# 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 \$45.2 million for FY 2018
  - Full funding
  - FY 2017 payment of \$42.0 million also full funding

# Distressed Communities Relief Fund

- Established in 1990 to provide assistance to communities with highest property tax burdens relative to wealth
- Communities in 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 \$12.4 million for FY 2018
- Eligible communities:
  - Central Falls
  - Cranston receives 50.0% allocation out
  - Johnston receives 50% allocation in
  - North Providence
  - Pawtucket
  - Providence
  - West Warwick
  - Woonsocket

# Property Revaluation Reimbursements

- Municipalities update property valuations every third and sixth year after a full revaluation
- Governor includes \$0.6 million for FY 2017 and \$0.9 million for FY 2018
- Expenditures fluctuate annually
  - Depends on communities conducting updates
    - 7 are doing so in FY 2017
    - 7 others in FY 2018



# Municipal Incentive Aid

- FY 2017 Revised – Governor reappropriated Johnston's FY 2016 payment
  - Johnston did not meet FY 2015 or FY 2016 criteria – FY 2015 was redistributed to remaining communities
  - Reappropriation is \$137,340
    - To be redistributed in May

# Motor Vehicle Excise Tax

- Recommends enacted level of \$10.0 million for FY 2018
  - 2010 Assembly – state will reimburse for \$500 exemption, subject to appropriation
  - Municipalities allowed to provide an additional exemption
  - Additional exemption not subject to reimbursement
- Governor proposes new valuation
  - Article 11 heard March 21, 2017

# Article 11 Motor Vehicle Excise

- Vehicle Value Commission annually sets valuation
  - Uses 100% of NADA values
  - Locals assess where not applicable
- Local practice on use of assessments varies
  - Some use “aging” methodology on older vehicles
  - Some use assessment ratios to lower all

# Article 11 Motor Vehicle Excise

- Article 11 limits the assessment values to 70% of NADA values beginning January 1, 2018
- Set floor on exemption at FY 2017 level
  - Communities may increase it, but additional exemptions not reimbursed

# Article 11 Motor Vehicle Excise

- Changes to assessment practices would be allowed but ratio cannot exceed 100%
- Projected \$58 million cost based on assessments for FY 2015
  - FY 2017 data review suggests \$63 million
  - Reflects full value of impact to locals
  - Article does not include reimbursement methodology

# 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

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