

Governor's FY 2018 Budget: Articles

Staff Presentation to the House Finance
Committee
February 28, 2017

Introduction

- Article 4 – DMV
- Article 7 – State Funds
- Article 16, Section 2 – Information Technology Improvements
- Article 1, Section 17 – RITBA Transfer
- Article 1, Section 18 – PUC Rent

Article 4 – DMV

- Article 4 – DMV
 - Technology Surcharge
 - License Plate Reissuance Delay
 - Highway Maintenance Account

Article 4 Section 1– Technology Surcharge

- 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

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

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

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	-	-
Total Available	\$16,922,631	\$5,093,236	\$4,233,593	\$3,233,593
Project Expenses	4,524,433	1,804,936	3,080,000	2,080,000
Debt Service	11,491,675	1,135,052	-	-
Balance	\$906,523	\$2,153,248	\$1,153,593	\$1,153,593

Article 4, Section 2 – License Plate Issuance Delay

- Delays the mandatory reissuance of fully reflective license plates
 - April 1, 2017 to April 1, 2018
 - Re-align with rollout of DMV's new IT system which will make issuing plates easier
- IT project has experienced multiple delays
 - RI currently in legal battle with vendor

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 5th postponement

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

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

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
 - Subcommittee may wish to review expenditure and revenue projections and options for revision

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

Article 4, Section 3 – Highway Maintenance Account

- HMA was created by 2013 Assembly
 - Receives specific surcharges and other revenues as appropriated
 - Phased in increases of surcharge from FY 2014 through FY 2016
 - Vehicle registration and licenses
 - Designed to be used as partial state match for federal funds in lieu of state issuing general obligation bonds

Article 4, Section 3 – Highway Maintenance Account

- 2014 Assembly adopted Article 21
 - Transferring motor vehicle related fees to the Highway Maintenance Account
 - Incremental transfers phase-in over 3yrs.
 - FY 2016 – 25%
 - FY 2017 – 75%
 - FY 2018 – 100%
 - Part of larger plan to address transportation funding and long term maintenance issues
- RIPTA receives 5%

Article 7 – State Funds

- Article 7 – State Funds
 - Medical Marijuana
 - Indirect Cost Recovery
 - Performance Improvement
 - Parks & Recreation Merchandising
 - Eisenhower House
 - Taxation Contingency Contracts

Article 7, Section 1 – Medical Marijuana

- Legislation adopted by 2016 Assembly
 - Made several changes to the state's medical marijuana regulation system
 - Authorized caregiver
 - Instituted a tagging system
 - Required all registration, renewal & license fees be deposited as restricted receipts
 - Exclusive use by DOH and DBR to administer program

Article 7, Section 1 – Medical Marijuana

- Article requires excess restricted receipts to be transferred to general revenues every year
- Budget assumes \$0.3 million in FY 2017 and \$0.7 million in FY 2018
 - Available revenues appears to be overstated by \$0.2 million in each year
 - Administration indicated plans to request amendment

Article 7, Section 2 – Indirect Cost Recovery

- All revenues = general revenue, unless otherwise noted – RIGL 35-3-14 (a)
- 10% indirect charge unless:
 - Prohibited (federal or other)
 - Charitable
 - Specifically listed as exempt
- Represents overhead charges similar to those allowed on federal grants
 - For infrastructure and administration

Article 7 – Section 2, Indirect Cost Recovery

- Adds five accounts to list to be exempt from 10% charge:
 - Lead Poisoning Prevention (Article 22)
 - OPEB System
 - State Park Merchandising (Section 4)
 - DMV Registry Technology (Article 4)
 - OER Reconciliation Funding
 - Governor requested amendment to include statutory authority for account

Article 7, Section 3 – Performance Improvement Fund

- Establishes Government Performance Improvement Fund
 - Provide incentives in support of innovative initiatives
 - Payments made only if performance targets are achieved
 - Determined by an independent evaluator

Article 7, Section 3 – Performance Improvement Fund

- Fund intended for use with current Pay for Success Program
 - Assembly provided \$0.5 million from general revenues for FY 2017
 - FY 2018 includes \$0.4 million
 - Would allow unused funds to be reserved in a special fund
 - Current mechanism to avoid lapse to surplus is re-appropriation language

Article 7, Section 4 – Parks and Recreation Merchandising

- Establishes a new restricted receipt account in DEM
- Stems from the 2016 *New Vision of Outdoor Recreation* report
 - Outdoor Recreation Council
 - Recommendation from the report:
 - Create a unified merchandising brand
 - Develop an outdoor recreation themed day
 - Highlight state's recreation assets

Article 7, Section 4 – Parks and Recreation Merchandising

- Funding shall be used
 - Replenish merchandise stock and
 - Special park projects
- Budget includes \$122,000 from new receipts to fund a new position
 - Inventory distribution and pricing
 - Existing retailers would sell merchandise
 - Assumes sales will allow for at least break-even

Article 7, Sections 4 & 5 – Eisenhower House

- Transfer authority to collect Eisenhower House rental fees from HPHC to DEM
 - Establishes a restricted receipt account for deposit of rental fees
- Budget transfers 1.0 staff and funding from HPHC to DEM – provides enhanced level of funding

Article 7, Sections 4 & 5 – Eisenhower House

General Revenues	FY 2016 Spent	FY 2017 Enacted	FY 2017 Gov.	FY 2018 Gov.
Staff	\$102,721	\$110,023	\$91,816	\$95,365
Operations	32,815	66,014	50,406	54,635
Total	\$135,536	\$176,037	\$ 142,222	\$150,000
Restricted				
Operations	-	-	-	138,150
Grand Total	\$135,536	\$176,037	\$142,222	\$288,150

Article 7, Section 6 – Taxation Contingency Contracts

- Taxation implemented data warehouse in 2008
 - Electronic storage of filer and return data
 - Automation of some compliance functions
 - Data-driven audit process
- 2015 Assembly added staff to manage contingency fee contracts to use data as effectively as possible

Article 7, Section 6 – Taxation Contingency Contracts

- Third party contingency fee contracts
 - Vendor reviews data and records
 - Only if additional taxes, interest, or penalties are owed, or if refunds were too large
 - Vendor paid percentage of collections
- FY 2016 budget assumed \$1.8 million in revenues from these activities
 - First year revenues revised downward in Nov 2015 based on implementation progress

Article 7, Section 6 – Taxation Contingency Contracts

- This section authorizes Taxation to use a portion of funds collected
 - After contingency fees are paid
 - Would be used to support and maintain computer system
 - Must be authorized by OMB director
- Effectively diverts general revenues for DOR expense without appropriation

Article 7 – Requested Amendments

- Governor requested amendment
 - Creates State Police Non-State Agency Reimbursements account
 - Avoids use of expenditure credits when work is reimbursed
 - Converts one-time RI Council on the Arts restricted receipt account to permanent
 - In order to receive RI Foundation grant

Article 16 – Debt Management Act Joint Resolution

- Authority to issue new debt
 - ***IT Improvements - Today***
 - Energy Improvements in State Facilities – 3/1
 - Confined Aquatic Disposal Cells - 3/1
 - URI Energy Performance Phase III – 3/15
 - URI White Horn Brook Apartments - 3/15

Article 16 – Debt Management Act Joint Resolution

- Enacted in 1994
- Subsequently amended to increase Assembly's approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner

Article 16 – Debt Management Act Joint Resolution

- Public Debt Management Act
- Certain quasi-public agencies are exempt:
 - Clean Water Finance Agency
 - Housing & Mortgage Finance Corporation
 - Health & Educational Building Corporation

Article 16 - Public Corporation Debt Management Act

Recommended New Debt Authority	Amount	Debt Service	Source
Certificates of Participation			
<i>IT Improvements</i>	<i>\$16.2</i>	<i>\$2.1</i>	<i>Gen. Rev.</i>
Energy Improvements in State Facilities	12.0	1.7	Energy savings
CAD Cells	10.5	1.4	User fees, Gen. Rev.
URI Energy Performance III	11.6	1.1	Energy savings
Subtotal	\$50.3	\$6.3	
Revenue Bonds			
URI White Horn Brook Apts.	\$88.8	\$5.9	Dorm fees, tuition, Gen. Rev.
Total	\$139.1	\$12.1	

Project Considerations

- Does the project need to be done?
- Is the project ready to be done?
 - When will it start?
 - Is it well thought through and ready for funding/financing?
 - What will the operating budget impacts be?
 - Maintenance costs, staff savings?
 - When will it be complete?

Funding Considerations

- Should a project be financed or pay-as-you-go?
 - IT Investment Fund created for these types of expenses and may be available as pay-go for all or part of project
 - More pay-go equals less future debt service

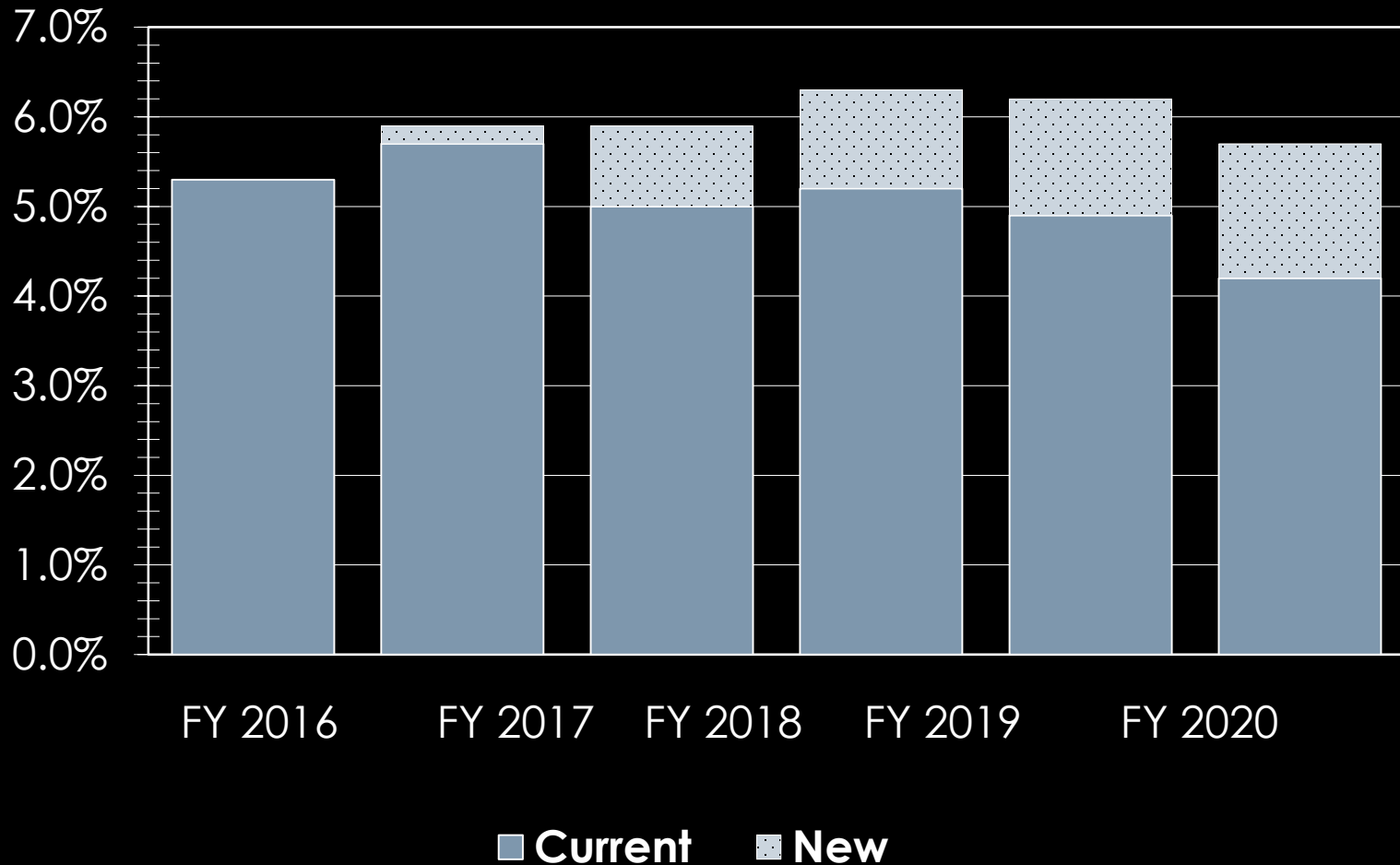
Funding Considerations

- State's overall debt structure
 - Net tax supported debt would decrease thru FY 2022 by \$414.0 million to \$1.5 billion
 - Had dropped to \$1.3 billion in FY 2003 after use of tobacco bonds to defease debt
 - Past practice indicates it will be higher as more projects are added
 - Budget does not assume any new referenda
 - Departure from past practice

Funding Considerations – Debt Ratios

- Debt as a percent of personal income would decrease from 3.2% in FY 2018 to 2.2% into FY 2022
- Likely to be higher based on projects being added
 - Does not assume any new referenda will go before voters in November 2018 or 2020

Debt Service as Percent of Useable General Revenues



Article 16, Section 2 – IT

- Issuance of \$16.2 million through Certificates of Participation for IT projects
 - Annual debt service \$2.1 million
 - Assuming 5.0 percent interest rate and 10 years
- Legislation identifies the specific components to be funded

Article 16, Section 2 – IT

Project	Cost	Annual Maint.
Integrated Tax System – Phase II	\$2.0	Unknown
Health Vital Records	2.5	0.4
New Hospital System	8.1	1.5 ?
Statewide Payroll System	3.5	Unknown
Financing Cost	0.1	
Total (in million)	\$16.2	\$?

Article 16, Section 2 – IT

- Integrated Tax System – Phase II
 - Expand new tax system to replace cash, check and credit card payments
 - 2012 Assembly authorized \$25.0 million
 - First components in use July 2014
 - Other taxes added following year
 - New pricing provided by current vendor
 - Expected to start and end within FY 2018 with enhancements rolling out as ready

Article 16, Section 2 – IT

- Health Vital Records
 - Update paper-based death & marriage records system
 - Link to funeral directors, municipalities and state to one web system
 - Estimate from current birth records vendor
 - Project would begin in FY 2018
 - 2-3 years to develop and implement
 - Ongoing maintenance \$0.4 million

Article 16, Section 2 – IT

- Hospital System
 - Electronic medical records
 - Patient/case management tracking
 - Discharge /transfer information
 - Multiple agencies
 - Corrections - \$0.5 million
 - May be closer to \$1.0 million
 - Veterans Home - \$0.3 million
 - Eleanor Slater Hospital - \$7.4 million
 - Estimate appears to be changing

Article 16, Section 2 – IT

Eleanor Slater Hospital – Electronic Medical Records System	Cost*
Initial Software & Fees	\$0.8
Professional Services	2.2
Equipment & Hardware	0.2
Implementation Training	0.3
Contingency	0.3
Total	\$3.7
*in millions	

Article 16, Section 2 – IT

- Statewide Payroll System
 - Current system is more than 30 years old
 - New system would be cloud-hosted
 - Interface with Time, Leave and Attendance system funded from IT fund
 - Currently being developed
 - Due to launch in 2017
 - Payroll previously to be funded from IT fund
 - Implementation to begin in FY 2018
 - 2-3 years

Article 1, Section 17 – RITBA

- \$2.6 million from Rhode Island Turnpike and Bridge Authority by June 30, 2018
- Authority
 - Operates and maintains the following bridges
 - Mount Hope
 - Jamestown Verrazzano
 - Newport Pell, and
 - Sakonnet River

Article 1, Section 17 – RITBA

- Primary source of revenue is tolls on Newport Bridge
- 2014 Assembly allocated 3.5 cents of the gasoline tax to the Authority
 - No toll on Sakonnet River Bridge
 - No state support prior to this
- Receipts from gasoline tax
 - \$15.4 million in FY 2015
 - \$15.7 million in FY 2016

Article 1, Section 18 – PUC Rent

- Increases rent rate charged to PUC beginning in FY 2018
 - From \$173,040 to \$333,420
 - PUC primarily funded from restricted receipts from billing the regulated utilities
- Headquartered in state-owned building in Warwick
- Since 2004, Commission annually transfers to general fund for rent

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