

Governor's FY 2018 Budget: Articles

Staff Presentation to the House Finance
Committee
March 21, 2017

Introduction

- Article 1, Section 13 – Resource Recovery Transfer
- Article 1, Section 16 – RIHEBC Transfer
- Article 11 – Motor Vehicle Excise Tax
- Article 18 – Education Aid

Article 1 Transfers

- Payments to the state's General Fund by June 30, 2018
- Various amounts from quasi-state agencies
 - Similar to last two year's proposals

Infrastructure Bank	\$1.0
Resource Recovery	\$6.0
RIHEBC	\$1.2
RITBA	\$2.6
NBC	\$2.5
Total	\$13.3
<i>\$ in millions</i>	

Article 1, Section 13 – Resource Recovery Transfer

- \$6.0 million transfer from the Resource Recovery Corporation by June 30, 2018
 - RRC had unrestricted cash assets of \$32.0 million as of June 30, 2016
 - Unclear how the \$6.0 million was determined
- Governor's FY 2017 budget recommended \$1.5 million transfer
 - Not enacted by Assembly

Article 1, Section 13 – Resource Recovery Transfer

History of Transfers

Fiscal Year	Transfer	Fiscal Year	Transfer
1994	\$(6,000,000)*	2003	6,000,000
1995	6,000,000	2005	4,300,000
1996	15,000,000	2006	7,500,000
1998	2,000,000	2007	3,300,000
1999	4,000,000	2008	5,000,000
2001	3,115,000	2009	7,500,000
2002	3,000,000	2012	3,500,000
<i>*state subsidy</i>		Total \$ 64,215,000	

Article 1, Section 13 – Resource Recovery Transfer

- Current Prices:
 - Municipal: \$32 per ton
 - Two-year increases to \$47.00 by July 1, 2018
 - Interim increase to \$39.50 July 1, 2017
 - First increase in 25 years
 - Previously frozen by annual legislative action
 - Mechanism in place to calculate future increases
 - Commercial: \$62/ton
 - Multiple recent increases
 - Driven by both market and capacity

Article 1, Section 13 – Resource Recovery Corporation Transfer

- Article 1, Section 13
 - Cash reduction impacts planned capital work or fees or both
 - Some capital work time sensitive
 - Currently planned municipal fee increase generates about \$2 million in new revenue

Article 1, Section 13 – Resource Recovery Corporation Transfer

Cash Position	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Beginning Cash	\$30.0	\$11.5	\$(0.7)	\$(19.5)	\$(33.4)
Cash from Operations	12.1	16.5	15.9	15.4	14.8
Debt Service	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
Capital Spending	(22.0)	(20.1)	(26.1)	(20.7)	(11.8)
Sinking Fund: MRF	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Cash Flow	(18.5)	(12.2)	(18.8)	(13.9)	(5.6)
Ending Cash	\$11.5	\$(0.7)	\$(19.5)	\$(33.4)	\$(39.0)
Proposed Transfer	(6.0)	-	-	-	-
Ending Cash w/Transfer	\$5.5	\$(6.7)	\$(25.5)	\$(39.4)	\$(45.0)

\$ in Millions

Article 1, Section 16 - RIHEBC

- \$1.2 million from RI Health & Educational Building Corporation by June 30, 2018
- Similar to FY 2016 & FY 2017 proposals
 - Prior proposals were for \$5.0 million
- Excluding School Building Authority funds, the Corporation ended FY 2016 with a reserve balance of \$11.9 million

Article 1, Section 16 - RIHEBC

- RIHEBC
 - Issues tax-exempt bonds for non-profit health and education institutions
 - Also provides direct grants and loans to smaller entities
 - Provides financing for state's school construction aid program
 - Disburses payments from School Building Authority Capital Fund

Motor Vehicle Excise - History

- General Laws authorize municipalities to administer and collect an excise tax on motor vehicles
- Phase-out plan adopted in 1998 to begin with FY 2000 tax bills
 - Altered numerous times then frozen in 2002
 - Exemptions grew in 2005 and 2006 to \$6,000 using new lottery revenue
 - Rolled back in 2010 Session to \$500 including immediate reduction in aid

Motor Vehicle Excise: Exemption Change History

Session	1998	2000	2002	2005	2006	2010	2011
FY 2000	1,500	1,500	1,500	1,500	1,500	1,500	1,500
FY 2001	2,500	2,500	2,500	2,500	2,500	2,500	2,500
FY 2002	3,500	3,500	3,500	3,500	3,500	3,500	3,500
FY 2003	8,000	5,000	4,500	4,500	4,500	4,500	4,500
FY 2004	10,000	6,900	4,500	4,500	4,500	4,500	4,500
FY 2005	15,000	9,400	4,500	4,500	4,500	4,500	4,500
FY 2006	Full	13,000	4,500	5,000	5,000	5,000	5,000
FY 2007	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2008	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2009	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2010*	Full	Full	4,500	5,000	6,000	6,000*	6,000
FY 2011	Full	Full	4,500	5,000	6,000	500	500
FY 2012	Full	Full	4,500	5,000	6,000	500	500

*Current year budget reduction; paid 88% of total due

Motor Vehicle Excise - History

- 1998 Plan froze rates at FY 1998 levels
 - Authorized inflation adjustments to account for lost growth
 - 2003 change ended adjustments
 - 2008 change reduced reimbursement to 98% to align with collection rates
- 2010 change allowed rates to be lowered but kept ceiling
 - Only Providence lowered rates

Article 11 Motor Vehicle Excise

- State reimburses municipalities a portion of the mandated \$500 exemption subject to appropriation
 - Has been \$10.0 million per year
 - Falls short of full value of mandated exemption
- Current exemptions vary widely by community
 - Many changed over the years
 - Locals look at all levy options

Article 11 Motor Vehicle Excise

Range of Rates & Exemptions

Communities	Exemption	Avg.	Low	High
16	< \$1,000	\$30.52	\$13.08	\$53.30
6	≥\$1,000 < \$2,000	\$33.85	\$9.75	\$ 48.65
6	\$2,000	\$35.91	\$17.35	\$60.00
4	\$3,000	\$21.87	\$16.05	\$30.66
7	\$6,000	\$20.06	\$13.90	\$30.20

Property Tax Levy – by Category

Fiscal Year	Residential	Comm./ Industrial	Tangible	Motor Vehicle	Total	Levy Per Capita
2010	\$1,363.6	\$445.8	\$125.6	\$101.7	\$ 2,036.8	\$1,935
% total	66.9%	21.9%	6.2%	5.0%	100%	
2011	\$1,367.1	\$469.8	\$132.9	\$162.8	\$2,132.5	\$2,026
2012	\$1,390.1	\$482.6	\$136.1	\$199.8	\$2,208.6	\$2,098
2013	\$1,412.3	\$489.9	\$141.3	\$209.7	\$2,253.2	\$2,138
2014	\$1,450.0	\$487.0	\$152.2	\$211.4	\$2,300.6	\$2,186
2015	\$1,462.3	\$494.1	\$172.8	\$210.5	\$2,339.8	\$2,225
2016	\$1,480.9	\$513.5	\$178.8	\$215.9	\$2,389.1	\$2,268
2017	\$1,516.6	\$518.6	\$184.9	\$220.6	\$2,440.7	\$2,316
% total	62.1%	21.2%	7.6%	9.0%	100.0%	

*Levy totals in millions

Property Tax Levy - Increase

Fiscal Year	Residential	Comm./ Industrial	Tangible	Motor Vehicle	Total	Levy Per Capita
2011	0.26%	5.37%	5.76%	59.98%	4.70%	4.70%
2012	1.68%	2.73%	2.69%	22.75%	3.56%	3.55%
2013	1.60%	1.51%	3.58%	4.98%	2.02%	1.91%
2014	2.67%	-0.59%	7.71%	0.76%	2.10%	2.25%
2015	0.85%	1.45%	13.54%	-0.40%	1.70%	1.78%
2016	1.27%	3.94%	3.44%	2.56%	2.11%	1.93%
2017	2.41%	0.98%	3.44%	2.19%	2.16%	2.12%
Average						
11-17	1.53%	2.20%	5.74%	13.26%	2.62%	2.61%
13-17	1.76%	1.46%	6.34%	2.02%	2.02%	2.00%

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
- Assessment practices can be altered but not exceed 100%

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

Article 11 Motor Vehicle Excise

Budget Estimates: January 2017

Current Law*		Governor's Proposal	
Fiscal Year	Cost	Cost	Change to Current
2018	\$10.0	\$10.0	\$ -
2019	\$10.0	\$68.0	\$58.0
2020	\$10.0	\$69.5	\$59.5
2021	\$10.0	\$70.9	\$60.9
2022	\$10.0	\$72.4	\$62.4

*Subject to appropriation

Article 11 Motor Vehicle Excise

- Issues to consider
 - Reimbursement Methodology?
 - Tax payer/local impacts differ based on how first \$500 exemption is treated
 - Fire Districts
 - Those in Lincoln still levy – no reimbursement
 - Tax cap implications
 - Article does not control for impact this levy relief would have on current law tax caps
 - Would not count towards cap calculation

Article 11 Motor Vehicle Excise

Local Property Tax Cap

Fiscal Year	Maximum Levy Increase
2013 and after	4.00%
2012	4.25%
2011	4.50%
2010	4.75%
2009	5.00%
2008	5.25%

Article 11 Motor Vehicle Excise

Fiscal Year	Max. Increase	Requests to Exceed	Approved	Actual
2016	4.00%	0	0	0
2015	4.00%	2	2	3*
2014	4.00%	0	0	0
2013	4.00%	1	1	1
2012	4.25%	3	3	2
2011	4.50%	17	17	14
2010	4.75%	7	7	4
2009	5.00%	9	8	9

**2014 Assembly allowed a Woonsocket stabilization agreement which resulted in a total levy greater than 4.0%*

Article 18 - Background

- Education Funding in Rhode Island
 - 1960s – 1990s
 - Reimbursement of local expenditures based on a share ratio w/ minimum share
 - No cap on reimbursement incentive for local spend
 - 1980s – early 1990s
 - Special funds created to address specific programs
 - Recession in the early 1990s
 - Many communities faced a declining property tax base = weakened ability to raise funds for education

Article 18 - Background

- 1997 Assembly adopted plan (Article 31)
 - Eliminated calculation under old categories
 - New money added to programs aimed at goals
 - all funding subject to appropriation
 - Often held communities harmless from prior year
- Resources primarily used to maintain funding levels from FY 2006 – FY 2011
 - District with growing populations/increasing poverty did not receive additional aid because of hold harmless provisions
 - Those with declining populations did not lose funding

Article 18 - Background

- Joint Committee to Establish Permanent Foundation Aid Formula - 2004 Assembly
- May 2007 recommendations
 - Required over \$550 million in new funding
 - Almost double
- 3 competing proposals in 2010 session
 - Version drafted by RIDE with assistance from Brown University became basis for new education funding formula

Article 18 - Background

- 2010 Assembly adopted funding formula beginning with FY 2012 budget
- Distributes aid to all districts, charter schools and the state schools
- Based on the principle that the money follows the student
- 10 year phase-in
 - Gaining districts fully funded in 7 - FY 2018
 - Losses spread over 10 years – FY 2021

Article 18 - Background

- Includes:
 - Core instruction amount per pupil
 - Single poverty weight proxy for student need
 - # of students eligible for free & reduced price lunch
 - State share ratio that considers the district's ability to generate revenues & its poverty concentration
 - Ranges from 7.4% to 94.3%
 - Based on New England averages – updated annually

Article 18 - Background

- State funding outside base formula & subject to appropriation:
 - To fill gaps not resolved by formula
 - High-cost special education students
 - High-cost career & technical programs
 - Early childhood education programs
 - Transportation
 - Anticipated to grow over 10 years
- Teacher retirement & school construction aid do not go through formula

Article 18 - Background

- Charter/state schools subject to formula
 - Currently 22 charter & 2 state schools
 - 7.7% of total enrollment
 - Davies & The Met were 100% state funded until FY 2012
 - State share ratio = that of sending district
 - Prior to 2016 Session, local share = per pupil cost of sending district
 - 2016 Assembly enacted measure to reduce local tuition payments by greater of 7% of local per pupil cost or district's "unique" costs

Article 18 - Background

- Why one weight as proxy for student needs?
 - Research showed poverty density is good predictor of concentration of student need
 - Poverty data is defined federally
 - Difficult to manipulate data for favorable outcome
 - Other weights can provide incentive to classify in a particular manner to drive funding

Article 18 - Background

- Oct. 2015, Governor created Working Group to Review the Permanent Education Foundation Aid Formula
- Group made several recommendations
- Governor recommended 2 new aid categories as part of FY 2017 budget
 - English language learners
 - FY 2017= \$2.5 million FY 2018= \$5.0 million
 - “School of choice density aid” for districts w/ 5% + enrolled in charter & state schools

Article 18, English Language Learners

- English Language Learners: Assembly enacted \$2.5 million for FY 2017 only
 - Funding for evidence-based programs proven to increase outcomes
 - Monitored by RIDE
 - Criteria determined by Commissioner
 - Wide discretion
- Article 18 creates ELL funding as a permanent category – same funding

Article 18, English Language Learners

Categorical Funding	FY 2017 Enacted	FY 2018 Recommended	Change to Enacted
High Cost Special Ed	\$ 4,500,000	\$ 4,500,000	-
Early Childhood	5,160,000	6,240,000	1,080,000
Career & Technical	4,500,000	4,500,000	-
Transportation	6,351,360	6,351,360	-
English Language	2,494,939	2,494,939	-
Density Aid	1,492,225	938,900	(553,325)
Total	\$ 24,498,524	\$ 25,025,199	\$ 526,675

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