

# Governor's FY 2020 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 6, 2019

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# Introduction

H 5150		H 5151	
<b>Article 1</b>		<b>Article 1</b>	
Sec. 13	RI Health & Educational Building Corporation	Sec. 14	Neighborhood Opportunities
Sec. 14	RI Housing	Sec. 15	RI Housing
Sec. 15	Resource Recovery	Sec. 16	Infrastructure Bank
Sec. 16	RI Student Loan Authority	Sec. 17	RI Student Loan Authority
<b>Art. 4</b>			
	Transfers		

# H 5150 & H 5151

## Article 1 Quasi Transfers

- Require payments to the General Fund
  - Various amounts from quasi-state agencies
  - Similar to last four years' proposals
  - \$13 million in new transfers for FY 2019
  - \$7.0 million in FY 2020
- Budgets for these entities appear in the budget publication program supplements
  - Data there do not reflect these transfers

# H 5150 & H 5151

## Article 1 Quasi Transfers

Quasi Transfers	FY 2019	FY 2019 R	Chg.	FY 2020	2Yr Chg.
Resource Recovery	\$ -	\$5.0	\$5.0	\$ -	\$5.0
RI Housing	-	2.5	2.5	1.5	4.0
Infrastructure Bank	4.0	4.0	-	4.0	4.0
RISLA	-	1.5	1.5	1.5	3.0
QDC	-	2.0	2.0	-	2.0
RIHEBC	-	2.0	2.0	-	2.0
<b>Total</b>	<b>\$4.0</b>	<b>\$17.0</b>	<b>\$13.0</b>	<b>\$7.0</b>	<b>\$20.0</b>

\$ in millions

# H 5150 Article 1, Section 15 – Resource Recovery

- Requires RRC to transfer \$5.0 million by June 30, 2019
  - RRC had approximate unrestricted cash assets of \$41.9 million as of June 30, 2018
  - Unclear how transfer amount determined
- Transfers have been recommended in every budget since FY 2016
  - Total of \$20.0 million; varying amounts
  - None enacted by Assembly
  - Last transfer was FY 2012 - \$3.5 million

# H 5150 Article 1, Section 15 – Resource Recovery

## 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
<b>*state subsidy</b>		<b>Total \$ 64,215,000</b>	

# H 5150 Article 1, Section 15 – Resource Recovery

- Current Prices:
  - Municipal: \$47.00 per ton
    - End of two-year phased increase
      - Was \$39.50 prior to July 1, 2018; \$32.00 prior to July 1, 2017
    - First increase in 25 years
    - Previously frozen by annual legislative action
    - Mechanism in place to calculate future increases
  - Commercial: \$80 per ton
    - Multiple recent increases
    - Driven by both market and capacity

# H 5150 Article 1, Section 15 – Resource Recovery

- Possible cash reduction impacts
  - Some capital work is time sensitive
  - If at the time of tip fee calculation, balance is below \$11.0 million, tip fees increase
- Next scheduled review of municipal tip fees will occur in November 2020



# H 5150 Article 1, Section 15 – Resource Recovery

Cash Position	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Beginning Balance	\$41.9	\$38.9	\$30.4	\$16.2	\$10.1
Revenue: Operations	24.3	21.4	21.1	20.2	19.8
Expense: Debt Service	(4.8)	(4.8)	(4.8)	(4.8)	(4.8)
Expense: Capital Spending	(18.4)	(21.1)	(26.5)	(17.4)	(18.5)
Expense: Sinking Fund MRF	(4.1)	(4.0)	(4.0)	(4.1)	(4.0)
<b>Ending Balance</b>	<b>\$38.9</b>	<b>\$30.4</b>	<b>\$16.2</b>	<b>\$10.1</b>	<b>(\$2.6)</b>
Operating Balance	(3.0)	(8.5)	(14.2)	(6.1)	(7.5)
Proposed Transfer	(5.0)	-	-	-	-
<b>Ending Balance w/Transfer</b>	<b>\$33.9</b>	<b>\$25.4</b>	<b>\$11.2</b>	<b>\$5.1</b>	<b>(\$2.4)</b>

\$ in millions

# RI Housing

- Three sections
  - Rhode Island Housing Transfers
    - \$2.5 million transfer by June 30, 2019
    - \$1.5 million transfer by June 30, 2020
  - Neighborhood Opportunities

# H 5150, Sec. 14 & H 5151, Sec. 15 - RI Housing

<b>Cash Position</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
Beginning Cash	\$231.8	\$206.7	\$175.8	\$188.0	\$256.2
Cash from Operations	125.5	85.5	63.6	58.6	50.6
Noncapital Financing	(172.7)	(144.5)	(71.7)	(31.9)	(79.9)
Investing Activities	22.4	28.6	20.2	41.4	(1.3)
<b>Ending Cash</b>	<b>\$206.7</b>	<b>\$175.8</b>	<b>\$188.0</b>	<b>\$256.2</b>	<b>\$225.6</b>

\$ in millions

# H 5150, Sec. 14 & H 5151, Sec. 15 - RI Housing

<b>Cash Flow</b>	<b>FY 2018</b>
Total Cash & Cash Equivalents	\$225.6
Customer & Program Escrow	(100.2)
Single Family mortgage bond Repayment	(65.2)
Multi-Family mortgage bond Repayment	(51.9)
Restricted Federal Programs (Section 8)	(3.1)
Actual cash on hand	\$5.2

\$ in millions

# H 5150, Sec. 14 & H 5151, Sec. 15 - RI Housing

- Revenue Sources:
  - Net interest
    - Interest on loans
    - Earnings on investments
  - Sale of loans
    - FY 2014 funding model change
    - Sold to Fannie Mae
  - Grants
  - Loan related fees
    - Origination, late, and management

# Rhode Island Housing

- Prior Budget Actions
  - FY 2008: Neighborhood Opportunities
    - \$26.0 million transfer to state to reimburse the expenditures made to support program
  - FY 2016: Affordable Housing
    - \$3.0 million to RIH from general revenues
- G.O. Bonds for Affordable Housing
  - \$50 million – 2006
  - \$25 million – 2012
  - \$40 million – 2016

# H 5150, Sec. 14 & H 5151, Sec. 15 - RI Housing

- Public Finance Management Board Debt Affordability Study – May 2017
  - Moody's Investor Service
    - Aa2: Asset to debt 1.02x-1.04x
    - Aa: Cash flow meets stress tests; Strong ability to absorb financial stress
    - Aa: Profitability average above 10% to 15%

Bond Rating	Single Family		Multi Family	
	Asset to Debt	Profit	Asset to Debt	Profit
Aa2	1.19x	17.7%	1.12x	42.1%

# H 5151, Sec. 14 Neighborhood Opportunities Program

- Neighborhood Opportunities Program was created by 2001 Assembly
  - Provide gap financing
  - Construction of affordable housing
  - Established operating reserve
    - Cover gap between rent and actual operating cost of each unit



# H 5151, Sec. 14 Neighborhood Opportunities Program

- NOP consisted of three components
  - *Family Housing* - for very low income
  - *Permanent Supportive Housing* - for disabled, homeless, or in danger of homelessness
  - *Building Better Communities* - construction and homeownership opportunities
    - Revitalized communities

# H 5151, Sec. 14 Neighborhood Opportunities Program

- State support of \$45.5 million from FY 2002 through FY 2011
  - \$10.0 million from general revenues
  - \$9.0 million from RICAP
  - \$26.5 million in debt issued through RIHMFC
    - State paid the debt service
    - Debt has been defeased
- Number of housing units created
  - Approximately 1,250

# H 5151, Sec. 14 Neighborhood Opportunities Program

- Section 14 of Article 1 requires:
  - RI Housing to provide amount “as appropriate” from its resources to support NOP
  - Agency must also provide report to
    - Chairpersons of both House and Senate Finance Committees
    - Director of Department of Administration
  - Detailing amount of funding provided and number of units created

# H 51, Sec. 14 Neighborhood Opportunities Program 51

- Article 1 requirement for NOP support first appeared in FY 2012 budget
  - Amount specified in FY 2012 at \$1.5 million
  - FY 2013 – FY 2019 and FY 2020 proposal calls for amount “as appropriate”
- Through FY 2019, RI Housing:
  - Committed \$6.4 million
    - Each year’s commitments are paid out over several years
  - Support of 335 existing units

# H 5151, Sec. 14 Neighborhood Opportunities Program

<b>FY</b>	<b>Committed</b>	<b>#of Years</b>	<b>Units Supporting</b>	<b>Expensed</b>	<b>% Exp.</b>
2012	\$1,500,000	10	27	\$1,500,000	100.0%
2013	1,300,000	10	25	629,389	48.4%
2014	1,189,701	4-5	166	1,150,095	96.7%
2015	1,300,000	1-4	86	1,086,939	83.6%
2016	680,435	5	24	37,310	5.5%
2017	291,447	2	7	223,405	76.7%
2018	No new commitments as no existing units depleted				
2019	180,756	As of January 24, 2019			
<b>Total</b>	<b>\$6,442,339</b>		<b>335</b>	<b>\$4,627,138</b>	<b>71.8%</b>

# H 5151 Article 1, Section 17 – Infrastructure Bank

- Infrastructure Bank was formerly the Clean Water Finance Agency
  - Wastewater & drinking water projects
  - Municipal Road and Bridge fund
- 2015 Assembly expanded purview
  - Renewable energy and efficiency projects
  - Efficient Buildings Fund
    - Funding & administrative support to public entities for efficient & renewable energy upgrades to public buildings and infrastructure

# H 5151 Article 1, Section 17 – Infrastructure Bank

- Requires transfer of \$4.0 million to general revenues by June 30, 2020
  - FY 2019 enacted budget includes a transfer of \$4.0 million by June 30, 2019
  - FY 2018 final budget included a transfer of \$3.5 million
    - Governor proposed increase to \$8.5 million during FY 2018 which was not enacted

# H 5151 Article 1, Section 17 – Infrastructure Bank

<b>Unrestricted Cash Position</b>	
Beginning Cash as of 6/30/18	\$26.9
FY 2019 Enacted Transfer	(4.0)
Committed Cash (IB data)	(19.0)
<b>Ending Cash</b>	<b>\$3.9</b>
FY 2020 Proposed Transfer	(4.0)
<b>Ending Cash with Transfer</b>	<b>(\$0.1)</b>
Identified Capital Needs*	(32.5)
<b>Ending Cash Including Needs</b>	<b>(\$32.6)</b>

\$ in millions



# H 5151 Article 1, Section 17 – Infrastructure Bank

- Public Finance Management Board Debt Affordability Study – May 2017
  - Recommendations:
    - Maintain a minimum of 1.2x debt service coverage
    - Maintain asset to liability ratios at a minimum of 1.3x

<b>Fund</b>	<b>Fitch's Bond Rating</b>	<b>Asset/Liability Ratio</b>	<b>Projected Minimum Debt Service Coverage</b>	<b>Largest Borrower</b>
Clean Water	AAA	1.5x	1.3x	47.0%
Drinking Water	AAA	1.6x	1.5x	30.6%

# H 5150, Sec. 16 & H 5151, Sec. 17 - Student Loan Authority

- Requires transfer of \$1.5 million by June 30, 2019 & \$1.5 million by June 30, 2020
- Rhode Island Student Loan Authority runs the College Planning Center and issues tax-exempt bonds to provide:
  - Private, fixed-rate student loans
  - Refinancing of private or federal loans
  - Loan forgiveness for nurse practitioners, physicians assistants & internships

# H 5150, Sec. 16 & H 5151, Sec. 17 - Student Loan Authority

- RISLA originated \$50 million in fixed rate student loans & refinanced \$29.5 million in existing loans in FY 2018
  - \$72.3 million total expected in FY 2019
  - Governor proposed \$3.0 million transfer as part of FY 2018 revised budget – not enacted
  - Unclear how the amount of the scoop was determined

# H 5150, Sec. 16 & H 5151, Sec. 17 - Student Loan Authority

<b>Operating Cash Flow</b>	<b>FY 2019</b>	<b>FY 2020</b>
Revenues	\$35.0	\$35.0
Expenses	\$30.2	\$31.3
Proposed Transfer	(\$1.5)	(\$1.5)
<b>Ending Balance with Transfer</b>	<b>\$3.3</b>	<b>\$2.2</b>

\$ in millions

- Revenues primarily generated by FFELP, RISLA fixed rate and refinanced loans
- Expenses depend on loan volume & losses

# H 5150 Article 1, Section 13 – RIHEBC

- Requires transfer of \$2.0 million by June 30, 2019
  - RIHEBC had approximate unrestricted cash assets of \$7.2 million as of June 30, 2018
  - Unclear how the transfer was determined
- Governor's prior transfer proposals
  - \$1.2 million FY 2018; \$5.0 million each FY 2017 & FY 2016
  - FY 2018 budget included \$6.0 million

# H 5150 Article 1, Section 13 – RIHEBC

- RIHEBC reserves used to support school construction staff at RIDE
  - Governor's recommendations
    - \$0.7 million in FY 2019 for 4.0 FTE
    - \$0.9 million in FY 2020 for 5.0 FTE
- Reserves are also used for grants
  - Nonprofit organizations for health & education projects
  - Contributed \$1.0 million to 2017 school building facilities assessments

# H 5150 Article 1, Section 13 – RIHEBC

<b>RIHEBC</b>	<b>FY 2018</b>
Administrative Fees	\$2,388,962
Loan Interest	18,737
Operating Expenses	(1,759,695)
<b>Net Operating Income</b>	<b>\$648,004</b>
Non-Operating Revenues	173,221
Reserve Balance	6,399,076
<b>Total Available Resources</b>	<b>\$7,220,301</b>

# H 5150 Article 1, Section 13 – RIHEBC

- Transfer may impact future ability to support RIDE staff

<b>Available Resources</b>	<b>Amount</b>
FY 2019 Beginning Balance	\$7.2
FY 2019 RIDE Staff	(0.7)
FY 2020 RIDE Staff	(0.9)
Remaining Resources	\$5.6
Proposed Transfer	(2.0)
<b>Remaining Resources</b>	<b>\$3.6</b>

\$ in millions



# H 5150 Article 4 Transfers

- 2017 Assembly required future budgets with transfer recommendations to also have alternative proposals
  - Frustration with volume and frequency of proposals
  - Put alternatives in the mix for public hearing & budget deliberations
- Article 4 repeals the requirement

# H 5150 Article 4 Transfers

- No alternatives provided with FY 2019
  - Governor's budget letter expressed hope that revenues improve to avoid transfers
  - Recurring feature of prior cover letters
- Letter submitted separately from Director of Administration this year
  - Follow-up letter outlined decision making process
    - Not alternative proposals

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