Governor’s FY 2015 Budget: Articles

Staff Presentation to the House Finance Committee
March 4, 2014

Introduction

- Article 3 – Restricted Receipts
- Article 7 – Regional Greenhouse Gas Initiative
- Article 9 – FICA Alternative Retirement Plan
- Article 12 – Tax Enforcement
- Article 17 – State Government
- Article 18 – Government Reorganization
**Article 3 – Restricted Receipts**

- All revenues = general revenue, unless otherwise noted – RIGL 35-3-14 (a)
- Indirect charge unless:
  - Prohibited
  - Charitable
  - Exempt

**Article 3 – Restricted Receipts**

- Article creates and exempts a Veterans’ Home Construction restricted receipt account
- Exempts HIV Care Grant Drug Rebates
  - No statutory authority creating it
Article 7 – Regional Greenhouse Gas Initiative

- 2007 Assembly enacted initiative
- A cooperative effort by Northeastern and Mid-Atlantic states to reduce carbon dioxide emissions
- Fund is supported by receipts from the sale of emission allowances
- 22 auctions so far
  - $25.4 million in revenues, deposited as restricted receipts

Currently, DEM & Energy Resources can use $300K or 5% of auction proceeds whichever is less for administration costs

- Article increases administrative percentage to 10% or $300K, whichever is greater
  - Essentially doubles amount for admin. costs
2013 Assembly adopted legislation to establish an alternative retirement plan for:

- Part-time employees – works less than 20 hours/week
- Those not eligible for state retirement system
- Current employees may opt out
- New employees automatically enroll

Article 9 – FICA Alternative Plan

Article makes a technical correction

Clarifies that an eligible participant of plan would be an employee who works less than 20 hours per week

Current law says 20 hours or less
Article 12

- Article 12
  - Section 1 – Auto Registration Block
  - Section 2 – Electronic Filing
  - Section 5 – Use Tax Safe Harbor
  - Section 7 – State Employee Income Tax Compliance
  - Section 8 – Automatic Sales Suppression Devices

Article 12, Sec. 1 – Auto Registration Block

- Block on new vehicle registrations by persons who have neglected to file returns or pay taxes owed

- Law currently allows block of renewal of auto registrations and operator’s licenses
  - If delinquent, written notice of registration block and procedures to rectify issue are sent to registrant
Article 12, Sec. 1 – Auto Registration Block

- If delinquent taxpayer purchases a new vehicle, block is lifted to register new vehicle
- Upon payment of taxes and any penalties or interest owed, registrant receives Certificate of Good Standing
  - DMV may issue renewals

Governor’s FY 2015 Budget includes $0.5 million in new revenues
- Personal Income Tax: $0.3 million
- Penalties and Interest: $0.2 million
  - In 1st Quarter of FY 2014: Lifted 17 blocks for new registrations for filers who owed $122,000
Article 12, Sec. 2 – Electronic Filing

- Prohibits charging a separate or additional fee for electronic filing of state tax documents
  - Includes tax return preparers and software companies’ tax software packages and programs

- Establishes civil penalties for violations
  - $500 for first violation
  - $1,000 for each successive violation

Article 12, Sec. 5 – Use Tax Safe Harbor

- Purchases made out of state or from remote sellers who do not charge RI sales tax are subject to use tax
  - If no sales tax was charged, 7% is owed
    - Example: Taxable purchase from Amazon.com
  - If sales tax less than 7% is charged, difference is owed
    - Example: Car purchase in Massachusetts
      - Mechanism exists to collect tax owed
**Article 12, Sec. 5 – Use Tax Safe Harbor**

- Tax Administrator will develop tool for personal income tax forms
  - Use tax owed equal to 0.08% of federal adjusted gross income
  - Additional itemized tax owed on purchases of $1,000 or more
- Proper use of tool is “safe harbor”
  - Taxpayer not liable for additional tax, penalties, or interest

**Governor’s FY 2015 Budget includes $2.2 million in additional revenue**
- Tool would be included in Tax Year 2014 income tax return forms
- Maine collected $3.0 million for 2009
- Massachusetts collected $5.5 million for 2012
Article 12, Sec. 7 – State Employees Compliance

- Establishes compliance with personal income tax law as a condition for employment by state government
  - Does not include elected officials or municipal employees

Article 12, Sec. 7 – State Employees Compliance

- Each August, DOA will provide Taxation a report of all state employees

- By December, Taxation will notify any state employee out of compliance with income tax laws
Article 12, Sec. 7 – State Employees Compliance

- Division notification includes:
  - Explanation of employee’s non-compliance
    - Includes statement of tax, penalties, and interest owed, or a list of tax years for which returns have not been filed
  - Statement that non-compliance will lead to wage garnishment
  - Compliance procedures

- Employees abiding by payment agreements are considered compliant
- Those who do not come into compliance or who are non-responsive will have wages garnished by State Controller
  - All tax, penalties, and interest due
Article 12, Sec. 7 – State Employees Compliance

- Governor’s FY 2015 Budget includes $0.4 million in new revenues
  - Taxation reports approximately 850 employees have not filed returns
  - 187 state employees owe total of $440,000

Article 12, Sec. 8 – Automatic Sales Suppression Devices

- Criminalizes software or other technology that allows the modification of point-of-sale records or transaction data
  - Technology creates second set of records
    - Vendors report lower sales totals to the Division of Taxation
**Article 12, Sec. 8 – Automatic Sales Suppression Devices**

- Any person who sells, purchases, installs, transfers, or possesses is also liable for:
  - All taxes, penalties, and interest owed on actual sales totals
  - All profits associated with sales suppression device’s use
  - Safe harbor for those who provide info. and pay taxes due by Oct. 1, 2014
  - Governor’s FY 2015 budget includes $0.8 million in associated revenues

**Article 17**

- Article 17
  - Section 1 – Retirement Transfer and Direct Deposit
  - Sections 2 & 3 – Directors’ Salaries
  - Section 5 – State Leases
  - Section 4 & 6 – Privatization Contracts/Consultant Reports
  - Section 7 – Contracted Services Assessment
Article 17, Sec. 1 – Retirement Transfer

- Removes requirement that any surplus revenue beyond final estimate be transferred to the Retirement System to pay down unfunded liability
  - Effective for FY 2014
  - FY 2012 transfer of $12.9 million
  - FY 2013 transfer of $0.2 million
  - Similar to last year’s proposal

Article 17, Sec. 1 – Retirement Transfer

- This is one of two laws that force savings into System to improve funding
- Other requires that for any fiscal year in which contribution rates are lower than prior year, 20% of rate reduction be transferred to System
- Both provisions retained by Assembly when it enacted pension reform in 2011
- Originally enacted in 2005 and 2007
Article 17, Sec. 1 – Direct Deposit

- Requires the controller to implement a direct deposit payroll system for state employees
  - Automatic for employees hired after Sept. 30, 2014
  - Employees hired before Sept. 30, 2014, must do so by June 30, 2016

Article 17, Sec. 1 – Direct Deposit

- Administration in process of implementing a new payroll system
  - April 1, 2014
  - Employees can obtain payroll stubs online
  - Subsequent phase will allow employees to obtain W-2 forms online as well
Article 17, Sec. 2 & 3 – Directors’ Salaries

- Directors’ Salaries
  - Repeals legislation that requires Administration to refer proposed salaries for cabinet directors to Assembly
  - If Assembly does not act, goes into effect
  - Effective Jan. 1, 2015
  - Would be treated as all other unclassified positions

- Still be subject to public hearing process
- Last across-the-board raise that directors received was in June 2002
  - Governor Carcieri increased salaries for several directors between 2005 and 2008
- Governor withdrew 2013 proposal submitted to Assembly
  - 3% on June 1 and 3% on Dec. 29
Current law requires departments to obtain legislative approval before entering into:
- Long-term lease; five years or more
- Lease agreements in excess of $0.5 million

Adopted by 2006 Assembly
Repeals the requirement

25 state leases are in effect:
- 2 are on a month-to-month basis
- 1 set to expire in FY 2014
- 6 set to expire in FY 2015

All leases total $10.3 million annually
Range from $1 to $2.2 million
Contracted Services

Over the past few years, Assembly required state agencies to be held more accountable for contract services they purchase.

General Assembly requirements:

- Quarterly reports of non-state employee expenditures for legal and services - 1985
- Copies of all contract agreements over $0.1 million - 2006
- List all privatization contracts as part of budget request - 2006
- 5.5% assessment to be paid to the retirement system - Pension Reform 2011
Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- 2006 legislation requires agencies to list all privatization contracts as part of the budget request.

- List must contain name of contractor, duration of contract and costs of previous, current and upcoming years.

Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Alters requirements so that agencies provide actual information for the prior fiscal year and projected costs for the current and fiscal years:
  - List will be published annually.
  - Using the state’s transparency portal or an equivalent website.
  - No later than Dec. 1 of each year.
Currently, agencies are required to report contracted services in excess of $100K to Secretary of State on an annual basis.

Adopted by 2006 Assembly.

Based on information obtained from Secretary of State.

Reporting varies.
- Fiscal staff review of Secretary of State files.
  - Not all agencies are in compliance.
  - Some file annually not quarterly.
### Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

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<th>Level of Compliance*</th>
<th>State Agencies</th>
<th>Percent of Total</th>
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<tr>
<td>Full compliance</td>
<td>7</td>
<td>18.4%</td>
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<tr>
<td>Partial compliance</td>
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<td><strong>100%</strong></td>
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* Compliance over FY 2011 – FY 2013

<table>
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<th>Level of Compliance*</th>
<th>Quasi-Agencies</th>
<th>Percent of Total</th>
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<tr>
<td>Full compliance</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100%</strong></td>
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* Compliance over FY 2011 – FY 2013
Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Increases threshold to $150K to mirror other statute in current law
- Reporting would be annually submitted to Budget Office electronically

Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Budget Office will post all contracts and reports
  - State’s transparency portal or an equivalent website
  - No later than Dec. 1 of each year
Article 17, Sec. 7 – Contracted Services Assessment

- Part of pension reform legislation adopted in 2011
- 5.5% assessment on contractual costs
  - When agencies/quasi agree to obtain contractual services that are substantially similar to and in lieu of services provided by regular employees

- Paid to the retirement system
- Generated $0.4 million in FY 2013
- Section 7 repeals the assessment
Article 18

- Article 18
  - Section 1 – Emergency Management Agency
  - Section 2 – Low Income Home Energy Assistance Program

Article 18, Sec. 1 – Emergency Management Agency

- EMA and National Guard are separate programs under Military Staff
- Article would replace Adjutant General with EMA Executive Director as “head” of Emergency Management Agency
- Legislation included to reflect the current emergency procedures
Article 18, Sec. 1 – Emergency Management Agency

- Have been combined since 1996
  - Reflected operations in mostly weather related emergencies
- Role for EMA has changed in recent years to include:
  - Homeland Security
  - Floods, hurricanes, blizzards

Article 18, Sec. 1 – Emergency Management Agency

- EMA’s across country have a variety of structures
  - Military Staff – 18 states
  - Public Safety – 14 states
  - Governor’s Office – 8 states
  - Combined w/ Homeland Security – 8 states
  - Under State Police – 2 states
Article 18, Sec. 1 – Emergency Management Agency

- Supporting documents do not provide clear reasons for separation
  - No findings included
  - Budget does not include savings or additional costs from separation

Article 18, Sec. 2 – Low Income Home Energy Assist. Program

- Technical Correction to change Office of Energy Resources to Department of Human Services
- LIHEAP was transferred 7/2010 to DHS
- PUC statute regarding assessments on electric and natural gas used to supplement federal LIHEAP funds