Department of Revenue

FY 2015 Revised
FY 2016 Recommended
FY 2016 – FY 2020 Capital
Staff Presentation
April 15, 2015

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

<table>
<thead>
<tr>
<th>(In millions)</th>
<th>FY 2015 Enacted</th>
<th>FY 2015 Revised</th>
<th>FY 2016 Gov.</th>
<th>FY 2016 to Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director’s Office</td>
<td>$ 1.1</td>
<td>$ 1.1</td>
<td>$ 1.1</td>
<td>$ 0.0</td>
</tr>
<tr>
<td>Office of Revenue Analysis</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Lottery</td>
<td>342.3</td>
<td>330.6</td>
<td>303.4</td>
<td>(38.5)</td>
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<tr>
<td>Municipal Finance</td>
<td>2.3</td>
<td>2.3</td>
<td>2.2</td>
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<tr>
<td>Taxation</td>
<td>22.1</td>
<td>22.0</td>
<td>22.8</td>
<td>0.7</td>
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<tr>
<td>Motor Vehicles</td>
<td>24.8</td>
<td>22.3</td>
<td>21.5</td>
<td>(3.4)</td>
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<tr>
<td>State Aid</td>
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<td>67.2</td>
<td>63.2</td>
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<td><strong>Total</strong></td>
<td><strong>$ 460.2</strong></td>
<td><strong>$ 446.1</strong></td>
<td><strong>$ 415.2</strong></td>
<td><strong>$ (45.0)</strong></td>
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</tbody>
</table>

- Includes adjustments for COLA and medical benefit savings
- Includes turnover to reflect current staffing
- Restores $0.2 million in turnover savings for DMV based on current needs
- $0.6 million from federal funds for Division of Taxation
- Brings processing of International Fuel Tax Agreement returns in-house
Target Issues

- Budget Office provided a general revenue target of $105.5 million
  - Current service adjustments of $0.1 million
  - 7.5% reduction of $3.3 million

- Budget submitted by the Department $7,320 below the target
  - Included two proposals:
    - Governor recommends $0.3 million less than target

- Department's constrained request included savings from two proposals:
  - Elimination of 26.0 Revenue Officers
    - 13.0 compliance and collections positions
    - 13.0 field audit positions
    - Total savings - $1.5 million
    - FY 2016 Revenue loss - $21.1 million
  - DMV Branch Closures
    - Woonsocket, Wakefield, Westerly, and Warren
    - 44.0 positions laid off
    - Total savings $1.6 million

- Governor does not include proposals
FY 2016 Sources of Funding

- General Revenues: 28.5%
- Other Funds: 70.2%
- Federal Funds: 0.8%
- Restricted Receipts: 0.6%

FY 2016 Sources of Funding – Lottery Funds Excluded

- General Revenues: 94.5%
- Federal Funds: 1.2%
- Restricted Receipts: 3.5%
- Other: 0.9%
## Personnel

<table>
<thead>
<tr>
<th>Full-Time Positions</th>
<th>FTEs</th>
<th>Change to Enacted</th>
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<tbody>
<tr>
<td>Enacted Authorized</td>
<td>505.0</td>
<td>-</td>
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<tr>
<td>FY 2015 Revised</td>
<td>505.0</td>
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<tr>
<td>FY 2016 Request</td>
<td>513.5</td>
<td>8.5</td>
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<td>FY 2016 Governor</td>
<td>514.5</td>
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<td>FY 2014 Average Filled</td>
<td>461.0</td>
<td>(44.0)</td>
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<tr>
<td>Filled as of April 4th</td>
<td>455.1</td>
<td>(36.9)</td>
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## Full-time Equivalent Positions

<table>
<thead>
<tr>
<th></th>
<th>FY 2015 Authorized</th>
<th>FY 2015 Revised</th>
<th>FY 2016 Governor</th>
<th>FY 2016 to Enacted</th>
</tr>
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<tbody>
<tr>
<td>Director’s Office</td>
<td>9.0</td>
<td>9.0</td>
<td>9.0</td>
<td>-</td>
</tr>
<tr>
<td>Revenue Analysis</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>-</td>
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<tr>
<td>Lottery</td>
<td>84.0</td>
<td>84.0</td>
<td>84.0</td>
<td>-</td>
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<tr>
<td>Municipal Finance</td>
<td>17.0</td>
<td>17.0</td>
<td>17.0</td>
<td>-</td>
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<tr>
<td>Taxation</td>
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<td>225.0</td>
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<td>Motor Vehicles</td>
<td>170.0</td>
<td>170.0</td>
<td>176.5</td>
<td>6.5</td>
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<tr>
<td>Unidentified</td>
<td>(1.0)</td>
<td>(1.0)</td>
<td>(1.0)</td>
<td>-</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>505.0</strong></td>
<td><strong>505.0</strong></td>
<td><strong>514.5</strong></td>
<td><strong>9.5</strong></td>
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</tbody>
</table>
Salaries and Benefits

<table>
<thead>
<tr>
<th>(In millions)</th>
<th>FY 2015 Enacted</th>
<th>FY 2015 Revised</th>
<th>FY 2016 Governor</th>
<th>FY 2016 to Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue</td>
<td>$33.6</td>
<td>$33.0</td>
<td>$35.5</td>
<td>$1.8</td>
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<tr>
<td>Federal Funds</td>
<td>$1.2</td>
<td>$1.2</td>
<td>$1.3</td>
<td>$0.1</td>
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<tr>
<td>Restricted Receipts</td>
<td>$0.8</td>
<td>$0.8</td>
<td>$0.9</td>
<td>$0.0</td>
</tr>
<tr>
<td>Other Funds</td>
<td>$9.4</td>
<td>$9.5</td>
<td>$9.8</td>
<td>$0.4</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$45.1</strong></td>
<td><strong>$44.6</strong></td>
<td><strong>$47.4</strong></td>
<td><strong>$2.3</strong></td>
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</tbody>
</table>

Office of the Director

- Oversight of departmental operations
  - Administration
  - Legal services
  - Financial management
- Funded from general revenues
- Authorized 9.0 full-time positions
Office of the Director

- FY 2016 includes $1.1 million
  - $1.1 million for salaries and benefits
    - Reflects COLA and updated benefit costs
    - Maintain senior internal auditor position vacant
  - $22,294 for operations expenses
    - Includes Office 365 licenses

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 4.0 positions
Office of Revenue Analysis

- FY 2016 includes $0.5 million
  - $0.5 million for salaries and benefits
    - Includes $5,595 turnover savings consistent with constrained request
  - $20,608 for operations expenses
    - Does not include requested economic impact analysis model expansion/upgrade

Lottery Division

- Established in statute in 1974
- Quasi-state agency until July 2005
  - Transferred to Department of Administration
  - Transferred to Department of Revenue in 2006
- Operates on-line games, Keno, instant games, Powerball tickets
  - Collects all revenues and remits prize funds
- Funded from Lottery funds
### Lottery Division

<table>
<thead>
<tr>
<th>(In millions)</th>
<th>FY 2015 Enacted</th>
<th>FY 2015 Revised</th>
<th>FY 2016 Gov.</th>
<th>FY 2016 to Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prizes and Payments</td>
<td>$ 324.4</td>
<td>$ 312.2</td>
<td>$ 283.4</td>
<td>$ (41.0)</td>
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<tr>
<td>Salaries and Benefits</td>
<td>8.5</td>
<td>8.6</td>
<td>8.9</td>
<td>0.4</td>
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<tr>
<td>All Other Operations</td>
<td>9.4</td>
<td>9.8</td>
<td>11.5</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 342.3</strong></td>
<td><strong>$ 330.6</strong></td>
<td><strong>$ 303.9</strong></td>
<td><strong>$ (38.5)</strong></td>
</tr>
</tbody>
</table>

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### Lottery Division – Prizes and Payments

- Prizes and payments for FY 2015 and FY 2015 reflect November 2014 Revenue Estimating Conference

<table>
<thead>
<tr>
<th>(In millions)</th>
<th>FY 2015 Enacted</th>
<th>FY 2015 Revised</th>
<th>FY 2016 Gov.</th>
<th>FY 2016 to Enacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table Gaming</td>
<td>$ 72.2</td>
<td>$ 85.0</td>
<td>$ 87.4</td>
<td>$ 15.2</td>
</tr>
<tr>
<td>Traditional and Keno</td>
<td>252.3</td>
<td>227.1</td>
<td>196.1</td>
<td>(56.2)</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$ 324.4</strong></td>
<td><strong>$ 312.2</strong></td>
<td><strong>$ 283.4</strong></td>
<td><strong>$ (41.0)</strong></td>
</tr>
</tbody>
</table>
Lottery Division – Table Gaming

- $3.1 million for salaries and benefits
  - 33.0 full-time positions
- $1.5 million for State Police Gaming Unit – Both years
  - Created by 2013 Assembly
  - Investigates gaming-related crime in state
  - 10.0 sworn members of State Police
- $0.1 million for other operations

Lottery Division – All Other Operations

- FY 2016 - Salaries and Benefits
  - $5.7 million - Includes COLA and updated benefit costs
- $10.0 million for operations
  - $8.5 million for advertising and printing costs
    - Includes $1.9 million for Twin River, consistent with Article 13 of 2015 Enacted Budget
  - $0.1 million for fleet purchases
  - All other expenses at enacted $1.3 million
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

$0.5 million for FY 2015 and $0.1 million for FY 2016 for actuarial and legal services
- Reflective of actual expenditures and current actuarial contract – both years
  - $0.1 million for distressed communities legal svcs
  - $0.1 million actuarial contract for Locally Administered Pension Plans Study Commission
- Includes $0.3 million for Central Coventry Fire District legal expenses
Division of Municipal Finance

- $0.1 million for FY 2015 and FY 2016 to reimburse municipalities 50% of cost for financial oversight
  - Enacted by 2013 Assembly
  - Reimbursement for 50% of salary and benefit costs for a finance advisor
  - Reimbursement each year for 5 years after abolishment of fiscal overseer

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Central Falls</td>
<td>$56,005</td>
<td>$65,762</td>
<td>$65,762</td>
<td>$65,495</td>
</tr>
<tr>
<td>East Providence</td>
<td>51,282</td>
<td>64,778</td>
<td>63,277</td>
<td>64,589</td>
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<tr>
<td>Woonsocket</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Central Coventry Fire District</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,824</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$107,287</strong></td>
<td><strong>$130,540</strong></td>
<td><strong>$129,039</strong></td>
<td><strong>$155,908</strong></td>
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</table>
Division of Municipal Finance

- **FY 2016 - Salaries and Benefits**
  - $1.9 million - Includes COLA and updated benefit costs
    - 17.0 full-time positions – authorized level
  - $24,327 for all other operations
    - Includes Office 365 licenses

Division of Taxation

- **Tax Processing Unit** – performs activities relating to receipt of cash payments; processes tax returns
- **Office of Assessment & Review** – assesses and collects taxes; holds administrative hearings
Division of Taxation

- Field Audit – audits business corporations and individuals
- Tax Compliance and Collection – enforces actions to collect overdue taxes

Division of Taxation

- Combined Reporting/ Business Taxes Restructuring
  - Enacted by 2014 Assembly for TY 2015.
  - Includes 7.0 full-time positions
  - FY 2016 Recommendation - $0.9 million from general revenues
    - $0.8 million for full year salaries and benefits
    - $0.1 million for operations
Division of Taxation

- FY 2016 - $20.1 million from all sources for salaries and benefits
  - $17.4 million from general revenues
  - Includes COLA and updated benefit costs
  - 218.0 full-time positions
    - 3.0 new positions to administer revenue initiatives included in Article 11
      - 1.0 principal revenue agent - managed self audits
      - 2.0 revenue agents - contingency fee contracts
  - Budget includes net increase of $1.9 million from revenue initiatives

Division of Taxation

- FY 2016 - $1.9 million for all other operations
  - $1.9 million from general revenues
    - $1.4 million includes postage, subscription and service fees, staff training and travel
  - Includes $34,518 for Division’s Office 365 Licenses
  - Includes $68,000 in savings from internal processing of International Fuel Tax Agreement returns
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

Branch offices
- Cranston (Pastore Center, Headquarters)
- Woonsocket
- Middletown
- Wakefield (Monday to Thursday)
- Warren (Tuesday and Wednesday)
- Westerly (Fridays only)
FY 2016: $14.1 million from all sources for salaries and benefits
- $14.1 million from general revenues
- Includes COLA and updated benefit costs
- Includes $0.3 million for 12 part-time customer service representatives
  - Work peak days, hours to decrease wait times
- 176.5 full-time equivalent positions
DMV Modernization Project

- 2006 Assembly authorized DOA to borrow $13.0 million to modernize DMV computer system
  - Debt service supported by a $1.50 surcharge on transaction
  - Extended surcharge from 7 to 10 years because receipts were yielding less than anticipated

DMV Modernization Project

- Allows for more website 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
- Began testing in September 2009
  - Testing schedule revised December 2013
- Fourth revision of contract made in fall 2013
  - Set project completion date in May 2014
  - Deadline not met

DMV Modernization Project

- Administration and HP met in May/June 2014
  - Altered methodology for system development and testing
    - Old method: Waterfall
    - New method: Agile
- Summer 2014 – trial of new methodology
  - Deemed successful
**DMV Modernization Project**

- FY 2015 Revised includes $3.4 million
  - $2.8 million from federal funds
  - $0.6 million from restricted receipts
- FY 2015 Revised includes $0.2 million for new operating system for existing architecture
- FY 2016 includes $2.1 million from restricted receipts for continued development
- Require fifth contract amendment
  - May require additional funding

**Division of Motor Vehicles**

- $5.2 million from general revenues for all other operations - both years
  - Funds office operations, building maintenance, software and database agreements, and telecomm access costs
  - Does not include $2.6 million for license plate reissuance
    - Article 26 of 2015-H 5900 postpones reissuance to 2016
State Aid

- Calculates and administers multiple programs
  - Distressed Communities Relief Fund
  - Municipal Incentive Aid
  - Motor Vehicles Excise Tax
  - Payment in Lieu of Taxes
  - Property Revaluation Reimbursement
  - Actuarial Valuations
- State aid for libraries remains in DOA

Local Aid Programs

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Dist. Communities</td>
<td>$ 10.4</td>
<td>$ 10.4</td>
<td>$ 10.4</td>
</tr>
<tr>
<td>PILOT</td>
<td>40.1</td>
<td>40.1</td>
<td>35.1</td>
</tr>
<tr>
<td>Motor Vehicle Excise</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Muni Incentive Aid</td>
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<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 65.5</strong></td>
<td><strong>$ 65.5</strong></td>
<td><strong>$ 60.5</strong></td>
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</table>
Distressed Communities Relief Fund

- Established in 1990 to provide assistance to communities with highest property tax burdens relative to wealth
- Communities falling into 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

$10.4 million for FY 2016, consistent with enacted budget

- Eligible communities:
  - Central Falls
  - North Providence
  - Pawtucket
  - Providence
  - West Warwick
  - Woonsocket
  - East Providence receives 50.0% allocation in entrance year
Municipal Incentive Aid

- Governor includes enacted $5.0 million
- 3-year program to encourage:
  - Sustainable funding of retirement plans
  - Reduce unfunded liabilities
- Distributed to municipalities on population basis if certain conditions are met
  - Coventry did not meet FY 2014 criteria - share reappropriated to FY 2015
  - Coventry and Johnston did not meet FY 2015 criteria

Payment in Lieu of Taxes (PILOT)

- Program reimburses cities and towns for property taxes which would have been due on untaxable property
- 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 FY 2014 enacted level of $35.1 million for FY 2016
  - FY 2015 enacted level is $40.1 million
    - $5.0 million from tobacco bond refinancing
- State makes one payment, in July each year
  - FY 2015 payment made July 2014

Motor Vehicle Excise Tax

- Recommends enacted level of $10.0 million for FY 2016
- 2010 Assembly – state will reimburse for $500 exemption, subject to appropriation
- Legislation allows municipalities to provide an additional exemption
  - Additional exemption not subject to reimbursement
**Property Revaluation Reimbursements**

- Current law requires municipalities update property valuations every third and sixth year after a full revaluation
- Recommends $0.7 million for FY 2015 and $1.8 million for FY 2016
- Expenditures fluctuate annually
  - Determined by communities conducting revaluation
    - Three municipalities in FY 2015
    - Fifteen municipalities in FY 2016

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**Capital Budget**

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Total Cost (millions)</th>
<th>Financing</th>
<th>End Date</th>
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</thead>
<tbody>
<tr>
<td>Lottery HQ</td>
<td>Revised</td>
<td>$ 0.6</td>
<td>RICAP</td>
<td>FY 2015</td>
</tr>
<tr>
<td>DMV Modernization</td>
<td>Revised</td>
<td>$ 20.0</td>
<td>COPS, surcharge</td>
<td>FY 2017</td>
</tr>
<tr>
<td>Lifts Replace</td>
<td>Ongoing</td>
<td>$ 0.3</td>
<td>RICAP</td>
<td>FY 2015</td>
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<tr>
<td>Integrated Tax System</td>
<td>Ongoing</td>
<td>$ 25.0</td>
<td>COPS</td>
<td>FY 2017</td>
</tr>
</tbody>
</table>
Lottery Building Renovations

- Recommends project total of $0.6 million
  - Consistent with approved plan
  - Renovation to heating system
  - Parking lot repairs
  - Replace HVAC system

- Includes $0.3 million for FY 2015
  - Design and installation of new HVAC system

Lifts Replacement

- Recommends $0.3 million from RICAP for FY 2015 to replace 2 lifts within the safety and emission control inspection garage

- Lifts are used daily for the inspection of school buses and other vehicles
  - In service for more than 15 years
  - Require maintenance on a frequent basis
Integrated Tax System

- Total of $25.0 million from COPs for ongoing project
- Consolidates separate programs into one computer system
  - Enhance customer service
  - Reduce operating costs
  - Enhance compliance and collections
- Assumes $5.0 million per year from FY 2013 through FY 2017

Annual Reporting Requirements

- 2013 Assembly enacted legislation requiring OMB to prepare, review and inventory all reports filed with Assembly
  - Report to be presented to Assembly as part of budget submission annually
  - Department is required to submit 26 reports
Annual Reporting Requirements

- **Office of Director**
  - Required to submit Annual Unified Economic Development report
    - Report due in January - not yet submitted for 2015

- **Division of Taxation**
  - Required to submit 13 reports
    - All current

- **Lottery**
  - Required to submit 2 reports
    - Both current

Annual Reporting Requirements

- **Municipal Finance**
  - Required to submit 4 reports
    - All are current

- **Division of Motor Vehicles**
  - Required to submit 1 report
    - DMV Commission report never submitted
Annual Reporting Requirements

- Office of Revenue Analysis
  - Required to submit Tax Expenditures Report
    - Due every other January – next due 2016
  - Required to submit Tax Incentives Evaluation Reports by 2017
    - FY 2015 – Reporting was planned for 5 credits
      - Enterprise Zone Wage Credit
      - Resident Business Owner Tax Modification
      - Jobs Development Act Tax Rate Reduction
      - Motion Picture Production Company Tax Credit
      - Incentives for Innovation and Growth Credit
    - Will not be submitted on time

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