Governor’s FY 2016 Budget: Articles

Staff Presentation to the House Finance Committee
April 28, 2015

Introduction

- Article 1, Section 15 – Clean Water Finance Agency transfer
- Article 1, Section 17 – RIHEBC transfer
- Article 8 – Municipalities
- Article 9 – School Building Authority Capital Fund
  - Governor requested amendment
- Article 24 – RI Infrastructure Bank
  - Governor requested amendment
Article 9 - School Building Authority Capital Fund

- Creates a School Building Authority within the Department
- Creates a 2nd housing aid program
- Establishes new School Building Capital Fund
  - Administered by RIHEBC
  - Amendment requested on April 15

Article 9 - Housing Aid Overview

- Under existing housing aid program:
  - State reimburses cities and towns for a share of school capital projects
    - Includes principal and interest
  - State’s share is based on a district’s wealth versus aggregate state wealth
  - Minimum state share is 35%
    - 21 minimum share communities for FY 2015
Bonuses available
- 4.0% for projects where at least 75% of costs are energy conservation, asbestos removal, and/or handicapped access
- 2.0% for each regionalized grade for regional districts and an additional 4% for renovation projects

Current Housing Aid Program
- $70.9 million recommended for FY 2016
  - $3.0 million more than enacted
- Districts must finance through RI Health and Educational Building Corporation (RIHEBC) to receive aid on interest payments
- Reimbursement begins once the project is completed
Article 9 - Housing Aid Overview

- Districts complete multi-phased necessity of school construction application
- Council on Elementary and Secondary Education reviews and certifies the need for the local request
  - This certifies the project for reimbursement
Article 9 - Housing Aid Overview

Historical Expenditures (in millions)

- Article 9 creates:
  - 2nd housing aid program to operate alongside the existing program
  - School Building Authority within Department to manage both programs
    - Intended to elevate existing program
    - Office within Dept. to help municipalities
  - School Building Authority Fund to support school construction projects in new program
    - Through RIHEBC

Article 9 - School Building Authority Capital Fund
Article 9 - School Building Authority Capital Fund

- 4 main roles & duties of Authority:
  - Manage school housing aid programs
  - Ensure districts have asset protection plans
  - Review and make recommendations to Council on:
    - Necessity of school construction project applications
    - Approval of projects from this new fund
  - Develop a project priority system

Council on Elem. & Sec. Ed. to approve projects prior to awards from this fund
- Amendment would set annual deadlines for applications and approvals, to be determined by Dept.
- Currently rolling applications & approvals
- Exempts projects funded from this fund from requiring Assembly approval
- required in existing housing aid program
Article 9 - School Building Authority Capital Fund

- Creates School Building Authority Advisory Board
  - Advise the Authority on best use of funds, statewide priorities, project approval criteria
  - 7 members
    - Director of DOA (chair), General Treasurer, member of Governor’s staff
    - 4 members of public (appointed by Gov.) with expertise in subject matter

Article 9 - School Building Authority Capital Fund

- Changes RIHEBC Board
  - Now: 5 members, $1,500 yearly stipend, 5-year terms, appointed by Gov.
  - Proposed: 7 members, no stipends as of July 1, 2015, appointed by Gov.
    - 5-year terms – no more than 2 terms served
    - Existing members may remain until term ends or successor appointed
Article 9 - School Building Authority Capital Fund

- Section 4 establishes the School Building Authority Capital Fund
  - Governor recommends $20 million from debt restructuring to seed new Fund
    - Funding level is not explicit in the article
  - To be transferred to and administered by RIHEBC
    - Provides financing under current housing aid program

Article 9 - School Building Authority Capital Fund

- School Building Authority Capital Fund
  - Pay-as-you-go program
  - Legislation indicates this is in addition to existing aid program and funding
  - Supporting documents indicate Gov. intent to recommend total $80 million annually for housing aid
    - To be used for both programs
Article 9 - School Building Authority Capital Fund

- Resources for the Fund would include:
  - State Appropriation from debt restructuring ($20 million)
  - Difference between appropriation and cost existing housing aid program
  - Loan repayments (from this Fund)
  - Investment earnings
  - Admin fees levied by RIHEBC

- RIHEBC shall use money for:
  - Finance and/or refinance school housing projects
  - Bond reserve funds, insurance, lines of credit and reserves in case of default
  - Subsidy assistance of 1/3 of market rate or other rate set by RIHEBC
  - Operating expenses for School Building Authority
Article 9 - School Building Authority Capital Fund

- Allows for up to $500,000 to be loaned to municipality without local voter approval
  - Amendment clarifies this would only be allowed if not forbidden by local charter
  - Current program requires local voter approval for bonded projects

- Allows RIHEBC to levy fees on cities, towns, and LEAs to pay for expenses
  - Provided that the fees are agreed upon in the financing contracts
  - Fees are not levied in existing program
**Article 9 - School Building Authority Capital Fund**

- Provides different reimbursement rates for projects funded from new Fund
- Currently:
  - Charters get 30%
  - Districts get state housing aid share ratio, 35% to 95.7% in FY 2015
- Proposed:
  - All get district’s state housing aid share ratio, min. 35% - Charters get same as host district
Amendment adds asset protection requirements for all school buildings
- Not just buildings aid is sought for
- Program must encourage districts to reduce excess capacity
- State to take active role to ensure maximum return on investment

Needs assessment not mentioned in proposal
- Has been discussion about RIHEBC conducting one, paid by RIHEBC
- Last needs assessment was FY 2013
  - Conducted by Dept. of Elementary and Secondary Education
  - Used 2011-2012 school year data
Article 9 - School Building Authority Capital Fund

- Governor includes 1.0 new position for School Building Authority at Dept.
  - School Construction Coordinator
  - Not funded in the recommendation
  - Already several positions at Dept. that work on housing aid
    - Appears intent is to include existing staff into new Authority with new Coordinator

- Not clear if Authority would expand as program develops, grows
  - Or exist with current staffing levels
  - Silent on shifting existing staff to Authority
  - Amendment clarifies that admin costs would come from the Fund
    - Article seems to indicate RIHEBC to fund expenditures of Authority
    - Remains vague on operating costs
Article 9 - School Building Authority Capital Fund

- RIHEBC to submit annual report
  - To Governor, Speaker of the House, and Senate President
  - Within 90 days of end of fiscal year
  - However, language in Article requires first report be due no later than Jan. 1, 2016
    - Only 6 months into 1st fiscal year of program
- Amendment requires the Authority to certify Fund distributions
  - Include list of communities and projects

Impact to current program is unclear
- Continues to work as an entitlement
  - May exceed $80 million/year if high demand and/or approvals for existing aid
- New program subject to appropriation
  - Level of uncertainly from year to year
  - Not clear what mechanisms will drive projects to one program or the other
Article 9 - School Building Authority Capital Fund

- Refunding Savings
  - Municipalities receive 80% of bond refunding proceeds, state receives 20%
    - From July 1, 2013 thru Dec. 31, 2015
    - Article 9 shortens period to June 30, 2015
    - Rate returns to municipalities’ school housing aid ratio after this date
      - minimum of 35%

Article 1, Sections 15 and 17

- Governor’s budget requires payments to the state’s General Fund by June 30, 2016
  - Various amounts from quasi-state agencies
  - Based on reserve balances or related general obligation bond debt
  - Totals $20.1 million in FY 2016
### Article 1, Section 17 - RIHEBC

- $5.0 million from Rhode Island Health and Education Building Corporation by June 30, 2016
- RIHEBC
  - Issues tax-exempt bonds for non-profit health and education institutions
  - Provides financing for state’s school housing aid program

### Article 24 – Introduction

- Renames Clean Water Finance Agency as RI Infrastructure Bank
  - Changes board composition
  - Extends system reliability and least cost procurement by 21 years and electric demand side charge by 20 years
  - Amendment reduces extensions to 12 yrs
- Establishes an Efficient Buildings Fund
- Expands the Property Assessed Clean Energy program to include commercial
Article 24 – Introduction

- State agencies involved
  - Treasurer
  - Clean Water Finance
  - Office of Energy Resources
  - Commerce Corporation
  - Department of Environmental Management

- Involves various energy related programs
  - Energy Efficiency Programs
    - Electric
    - Gas
  - Property Assessed Clean Energy (PACE)
  - Regional Greenhouse Gas Initiative (RGGI)
  - Renewable Energy Development Fund (REF)
    - Amendment removes financial connection with Infrastructure Bank
### Article 24 – Introduction

<table>
<thead>
<tr>
<th>Energy Programs</th>
<th>Surcharges</th>
<th>2014 Rev.</th>
<th>Sunset</th>
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<tbody>
<tr>
<td>Demand Side - Electric</td>
<td>$.00911/kwh</td>
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<tr>
<td>Demand Side Gas/Res.</td>
<td>$0.781/deka</td>
<td>$10.3</td>
<td>2018</td>
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<tr>
<td>Demand Side Gas/Comm.</td>
<td>$0637/deka</td>
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<td>2018</td>
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<tr>
<td>Regional Greenhouse Gas Auction</td>
<td>Auction</td>
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<tr>
<td>Renewable Energy Fund</td>
<td>0.3 mills/kwh</td>
<td>$2.4M</td>
<td>2017</td>
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### Article 24 – Infrastructure Bank

- **Clean Water Finance Agency**
  - Finances projects: water pollution abatement, drinking water and municipal road and bridge
- **Renames CWFA - RI Infrastructure Bank**
  - Changes board composition from 5 to 7 members
    - DEM director or Sec. of Commerce, or designees
  - Amendment: maintains current board composition but adds advisory council
Article 24 – Efficient Buildings Fund

- Establishes an Efficient Buildings Fund
  - Technical, funding & administrative support to public entities
  - Energy efficient & renewable energy upgrades to public buildings & infrastructure
  - Encourages use of project labor agreements and local hiring
- RI Infrastructure Bank
  - Create loan loss reserve funds as security for debt financing

Efficient Buildings Fund would be seeded with
- $2.0 million - debt restructuring savings (discretion of Infrastructure Bank)
  - Article does not specify to what fund/program
- $3.0 million - Regional Greenhouse Gas Initiative (RGGI)
- $2.0 million - Energy Revolving Loan Fund
  - Federal stimulus funds
- $10.9 million - Qualified Energy Conservation Bonds
  - Federal stimulus funds
**Article 24 – Efficient Buildings Fund**

- Expected to leverage $21 million in total project costs
  - Using $3.0 million from Regional Greenhouse Gas Initiative 2014 proceeds and
  - $2.0 million from the Energy Revolving Loan Fund
  - As loan are paid back, Fund will revolve

**Article 24 – Regional Greenhouse**

- A cooperative effort by Northeastern and Mid-Atlantic states to reduce carbon dioxide
  - Sale of carbon emission allowances
  - Proceeds are to be used to invest in projects that reduce long-term energy demands and costs
  - 26 auctions through Dec. 24 - $35.7 million in restricted revenues since inception
**Article 24 – QECB**

- RI Infrastructure Bank
  - Sole issuer of Qualified Energy Con. Bonds
  - American Rec. & Reinvestment Act funds
    - $10.9 million allocated to Rhode Island
    - Funds have not been used
- Purposes and uses
  - Reduce energy consumption in publicly owned buildings by at 20%
  - Mass commuting projects
  - Energy facilities, such as wind, solar and biomass

**Article 24 – Efficient Buildings Fund**

- Extends energy efficiency surcharges by 20 years from 2018 to 2038
  - Effective August 1, 2015,
  - Gas & electric companies to remit 5.0% of monthly program proceeds to Infrastr. Bank
    - To secure debt of Efficient Buildings Fund
- Amendment:
  - Extended by 12 years
  - One-time allocation of 2% of 2014 program collections
Article 24 – Efficient Buildings Fund

Article allows RI Infrastructure Bank to create loan loss reserves
- Debt issued would be secured by
  - First – immediate energy savings
  - Second – 1st loan loss reserve: RGGI, Energy Revolving Loan & debt restructuring funds
  - Third – 2nd loss reserve: energy Efficiency surcharges
    - 2% of 2014 program collections from electric/gas companies

Article 24 – PACE

Property Assessed Clean energy – PACE
- Adopted by 2013 Assembly
- Help qualified homeowners to invest in energy efficiency improvements
- Fixed payment for up to 20 years
- Cost that is financed is on property tax bill
  - If property is sold, financed portion is transferred
- Lien is placed until all financial obligations are met
- Municipality - opt to participate to collect costs
Article 24 – PACE

Property Assessed Clean energy – PACE
- Has been dormant since 2013 creation
- Article expands participants to include commercial – 5 or more housing units
- Infrastructure Bank in lieu of Office of Energy Resources would manage
- Infrastructure Bank to create loan loss reserve in the event of foreclosure
- Option of using $2.0 million from debt savings

Article 24 – Brownfields

New to Requested Amendment
- Establishes Brownfields Revolving Fund
  - Provide financial assistance eligible borrowers:
    - Municipalities, individuals or corporations
  - Remediate or develop brownfields site
  - DEM in consultation with Commerce would develop project priority list
    - Infrastructure Bank to determine which projects will receive funding
Article 1, Section 15 – Clean Water Finance Agency

- Requires the payment of $11.0 million to the state General Fund in FY 2016
- Reflects $8.9 million for the payment of FY 2016 debt service
  - G.O. Bonds totaling $77.0 million over the next 20 years
  - Additional $2.1 million beyond the debt service

Article 8 - Municipalities

- Establishes timeline for toll reimbursements to Jamestown and Newport
- Allows locals to issue bonds for specific projects without charter or referendum approval
Article 8 - Municipalities

- Current law – Jamestown and Newport must reimburse public safety personnel for tolls
  - Crossing toll bridges in course of duty
  - Municipalities then reimbursed by state
  - Municipalities must request reimbursement
    - Jamestown last reimbursed FY 2012
    - Newport last reimbursed FY 1999
  - No time limit on requests

Article 8 - Municipalities

- Governor’s proposal – establish time limit for reimbursement requests
  - Municipality can only request for fiscal year prior
    - Effective July 1, 2015, could request reimbursement for FY 2015 only
  - No fiscal impact
Article 8 - Municipalities

- 2013 Assembly established Municipal Road and Bridge Revolving Fund for FY 2014
  - For large-scale municipal road and bridge projects
  - Guidelines and initial project review by Dept. of Transportation
  - Fund administered by Clean Water Finance Agency

<table>
<thead>
<tr>
<th>Municipality</th>
<th>FY 2014 Requested</th>
<th>FY 2014 Borrowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Providence</td>
<td>$1,215,000</td>
<td>$1,215,000</td>
</tr>
<tr>
<td>Newport</td>
<td>$4,000,000</td>
<td>$1,500,000</td>
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<tr>
<td>Warwick</td>
<td>$1,600,000</td>
<td>$1,600,000</td>
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<tr>
<td>Burrillville</td>
<td>$680,000</td>
<td>$680,000</td>
</tr>
<tr>
<td>New Shoreham</td>
<td>$255,000</td>
<td>$255,000</td>
</tr>
<tr>
<td>Westerly</td>
<td>$625,000</td>
<td>$625,000</td>
</tr>
<tr>
<td>Pawtucket</td>
<td>$7,000,000</td>
<td>$3,500,000</td>
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<tr>
<td>Cumberland</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Coventry</td>
<td>$340,000</td>
<td>$340,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$16,215,000</strong></td>
<td><strong>$10,215,000</strong></td>
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</table>
2014 Assembly authorized bond issuance for projects funded from Revolving Fund without charter or referendum approval
- For Calendar Year 2014

<table>
<thead>
<tr>
<th>Municipality</th>
<th>FY 2015 Requested</th>
<th>FY 2015 Borrowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Warwick</td>
<td>$150,515</td>
<td>$150,515</td>
</tr>
<tr>
<td>Bristol</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Hopkinton</td>
<td>$253,000</td>
<td>$253,000</td>
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<tr>
<td>Pawtucket</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
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<tr>
<td>East Greenwich</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Coventry</td>
<td>$900,000</td>
<td>$900,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$8,803,515</strong></td>
<td><strong>$8,803,515</strong></td>
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</tbody>
</table>
Government’s proposal - extend authority for FY 2016 for projects funded from:

- Municipal Road and Bridge Revolving Loan Fund
  - Administered by Infrastructure Bank (Article 24)
- Efficient Buildings Fund
  - Administered by Infrastructure Bank (Article 24)
- School Building Authority Capital Fund
  - Administered by Department of Elementary and Secondary Education (Article 9)

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