Governor’s FY 2018 Budget: Articles

Staff Presentation to the House Finance Committee
February 28, 2017
Introduction

- Article 4 – DMV
- Article 7 – State Funds
- Article 16, Section 2 – Information Technology Improvements
- Article 1, Section 17 – RITBA Transfer
- Article 1, Section 18 – PUC Rent
Article 4 – DMV

- Technology Surcharge
- License Plate Reissuance Delay
- Highway Maintenance Account
Article 4 Section 1–
Technology Surcharge

- 2006 Assembly authorized borrowing for a new DMV computer system
  - Debt funded from unspecified charge
  - $1.50 technology surcharge implemented for period of 7 years through FY 2014
    - Law restricted use for debt service only
- 2009 Assembly extended surcharge from 7 to 10 years through FY 2017
  - Expanded use to include project costs
Article 4, Section 1—Technology Surcharge

- Article 4, Section 1:
  - Extends $1.50 technology surcharge for 5 years through June 30, 2022
  - Expands use to include on-going enhancements

- Article 7 exempts these receipts from state indirect cost recovery
Surcharge has averaged $2.1 million recently and generated $2.2 million in FY 2016

- 5 extra years = $10.4 million to $11 million
- FY 2018 budget assumes use of $2.1 million
  - Continued implementation costs
  - Enhancements
### Article 4, Section 1–Technology Surcharge

<table>
<thead>
<tr>
<th></th>
<th>FY 2008-2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Year Balance</td>
<td>N/A</td>
<td>$906,523</td>
<td>$2,153,248</td>
<td>$1,153,593</td>
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<tr>
<td>Receipts</td>
<td>16,922,631</td>
<td>2,186,713</td>
<td>2,080,345</td>
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<tr>
<td>HPE Transfer</td>
<td>-</td>
<td>2,000,000</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total Available</td>
<td>$16,922,631</td>
<td>$5,093,236</td>
<td>$4,233,593</td>
<td>$3,233,593</td>
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<tr>
<td>Project Expenses</td>
<td>4,524,433</td>
<td>1,804,936</td>
<td>3,080,000</td>
<td>2,080,000</td>
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<tr>
<td>Debt Service</td>
<td>11,491,675</td>
<td>1,135,052</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Balance</td>
<td>$906,523</td>
<td>$2,153,248</td>
<td>$1,153,593</td>
<td>$1,153,593</td>
</tr>
</tbody>
</table>
Article 4, Section 2 – License Plate Issuance Delay

- Delays the mandatory reissuance of fully reflective license plates
  - April 1, 2017 to April 1, 2018
  - Re-align with rollout of DMV’s new IT system which will make issuing plates easier
- IT project has experienced multiple delays
  - RI currently in legal battle with vendor
State law requires reissuance of plates every 10 years

Last full reissuance was “Wave” plates done over 1996 and 1997

This would be 5th postponement

<table>
<thead>
<tr>
<th>Assembly</th>
<th>Current Date</th>
<th>New Date</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>9/2013</td>
<td>9/2015</td>
</tr>
<tr>
<td>2016</td>
<td>7/2016</td>
<td>4/2017</td>
</tr>
<tr>
<td>2017</td>
<td>4/2017</td>
<td>4/2018</td>
</tr>
</tbody>
</table>
No change to issuance plan:
- At the time of initial registration
- Upon registration renewal

Expenditures expected to be $10.7 million over 24 months
- Partially offset by $5.2 million in revenues from charges for new plates
- $6.00 per set cost in statute - unchanged
As with prior years, the budget shifts expected revenues and expenditures to coincide with the new schedule.

- Error in the current revenue assumptions overstate collections based on proposal:
  - Example: Assumes $1.8 million for FY 2017
  - April start equates to only $0.6 million

- Subcommittee may wish to review expenditure and revenue projections and options for revision.
Article 4, Section 3 – Highway Maintenance Account

- Requires transfer of 0.5% of Highway Maintenance Account receipts to DMV
  - Fund salary/benefit costs of DMV staff
  - HMA resources estimated at $86.9 million for FY 2018 - 0.5% equates to $0.4 million
- Budget assumes savings of $0.5 million from proposal
  - Effectively a shift in resources from DOT
HMA was created by 2013 Assembly
- Receives specific surcharges and other revenues as appropriated
  - Phased in increases of surcharge from FY 2014 through FY 2016
  - Vehicle registration and licenses
- Designed to be used as partial state match for federal funds in lieu of state issuing general obligation bonds
Article 4, Section 3 – Highway Maintenance Account

- 2014 Assembly adopted Article 21
  - Transferring motor vehicle related fees to the Highway Maintenance Account
  - Incremental transfers phase-in over 3 yrs.
    - FY 2016 – 25%
    - FY 2017 – 75%
    - FY 2018 – 100%
  - Part of larger plan to address transportation funding and long term maintenance issues
- RIPTA receives 5%
Article 7 – State Funds

- Medical Marijuana
- Indirect Cost Recovery
- Performance Improvement
- Parks & Recreation Merchandising
- Eisenhower House
- Taxation Contingency Contracts
Legislation adopted by 2016 Assembly

- Made several changes to the state’s medical marijuana regulation system
  - Authorized caregiver
  - Instituted a tagging system
  - Required all registration, renewal & license fees be deposited as restricted receipts
    - Exclusive use by DOH and DBR to administer program
Article requires excess restricted receipts to be transferred to general revenues every year

Budget assumes $0.3 million in FY 2017 and $0.7 million in FY 2018

Available revenues appears to be overstated by $0.2 million in each year

Administration indicated plans to request amendment
Article 7, Section 2 – Indirect Cost Recovery

- All revenues = general revenue, unless otherwise noted – RIGL 35-3-14 (a)
- 10% indirect charge unless:
  - Prohibited (federal or other)
  - Charitable
  - Specifically listed as exempt

- Represents overhead charges similar to those allowed on federal grants
  - For infrastructure and administration
Article 7 – Section 2, Indirect Cost Recovery

- Adds five accounts to list to be exempt from 10% charge:
  - Lead Poisoning Prevention (Article 22)
  - OPEB System
  - State Park Merchandising (Section 4)
  - DMV Registry Technology (Article 4)
  - OER Reconciliation Funding
    - Governor requested amendment to include statutory authority for account
Establishes Government Performance Improvement Fund

- Provide incentives in support of innovative initiatives
- Payments made only if performance targets are achieved
  - Determined by an independent evaluator
Fund intended for use with current Pay for Success Program

- Assembly provided $0.5 million from general revenues for FY 2017
- FY 2018 includes $0.4 million
- Would allow unused funds to be reserved in a special fund
  - Current mechanism to avoid lapse to surplus is re-appropriation language
Establishes a new restricted receipt account in DEM
Stems from the 2016 New Vision of Outdoor Recreation report
  - Outdoor Recreation Council
  - Recommendation from the report:
    - Create a unified merchandising brand
    - Develop an outdoor recreation themed day
    - Highlight state’s recreation assets
Funding shall be used
- Replenish merchandise stock and
- Special park projects

Budget includes $122,000 from new receipts to fund a new position
- Inventory distribution and pricing
- Existing retailers would sell merchandise
- Assumes sales will allow for at least break-even
Transfer authority to collect Eisenhower House rental fees from HPHC to DEM
  - Establishes a restricted receipt account for deposit of rental fees

Budget transfers 1.0 staff and funding from HPHC to DEM – provides enhanced level of funding
## Article 7, Sections 4 & 5 – Eisenhower House

<table>
<thead>
<tr>
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<th></th>
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<tbody>
<tr>
<td>Staff</td>
<td>$102,721</td>
<td>$110,023</td>
<td>$91,816</td>
<td>$95,365</td>
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<tr>
<td>Operations</td>
<td>32,815</td>
<td>66,014</td>
<td>50,406</td>
<td>54,635</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$135,536</strong></td>
<td><strong>$176,037</strong></td>
<td><strong>$142,222</strong></td>
<td><strong>$150,000</strong></td>
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</table>

<table>
<thead>
<tr>
<th>Restricted</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>138,150</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$135,536</strong></td>
<td><strong>$176,037</strong></td>
<td><strong>$142,222</strong></td>
<td><strong>$288,150</strong></td>
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</table>
Article 7, Section 6 – Taxation
Contingency Contracts

- Taxation implemented data warehouse in 2008
  - Electronic storage of filer and return data
  - Automation of some compliance functions
  - Data-driven audit process
- 2015 Assembly added staff to manage contingency fee contracts to use data as effectively as possible
Third party contingency fee contracts

- Vendor reviews data and records
  - Only if additional taxes, interest, or penalties are owed, or if refunds were too large
- Vendor paid percentage of collections
- FY 2016 budget assumed $1.8 million in revenues from these activities
  - First year revenues revised downward in Nov 2015 based on implementation progress
This section authorizes Taxation to use a portion of funds collected
- After contingency fees are paid
- Would be used to support and maintain computer system
- Must be authorized by OMB director
- Effectively diverts general revenues for DOR expense without appropriation
Governor requested amendment

- Creates State Police Non-State Agency Reimbursements account
  - Avoids use of expenditure credits when work is reimbursed
- Converts one-time RI Council on the Arts restricted receipt account to permanent
  - In order to receive RI Foundation grant
Article 16 – Debt Management Act Joint Resolution

- Authority to issue new debt
  - IT Improvements - Today
  - Energy Improvements in State Facilities – 3/1
  - Confined Aquatic Disposal Cells - 3/1
  - URI Energy Performance Phase III – 3/15
  - URI White Horn Brook Apartments - 3/15
Article 16 – Debt Management Act Joint Resolution

- Enacted in 1994
- Subsequently amended to increase Assembly’s approval role
- Ensures that debt with a state tie was not issued without legislative review
- Result of Commission chaired by Rep. Linda Kushner
Article 16 – Debt Management Act Joint Resolution

- Public Debt Management Act
- Certain quasi-public agencies are exempt:
  - Clean Water Finance Agency
  - Housing & Mortgage Finance Corporation
  - Health & Educational Building Corporation
<table>
<thead>
<tr>
<th>Recommended New Debt Authority</th>
<th>Amount</th>
<th>Debt Service</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Certificates of Participation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>IT Improvements</strong></td>
<td>$16.2</td>
<td>$2.1</td>
<td>Gen. Rev.</td>
</tr>
<tr>
<td>Energy Improvements in State Facilities</td>
<td>12.0</td>
<td>1.7</td>
<td>Energy savings</td>
</tr>
<tr>
<td>CAD Cells</td>
<td>10.5</td>
<td>1.4</td>
<td>User fees, Gen. Rev.</td>
</tr>
<tr>
<td>URI Energy Performance III</td>
<td>11.6</td>
<td>1.1</td>
<td>Energy savings</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$50.3</td>
<td>$6.3</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue Bonds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>URI White Horn Brook Apts.</td>
<td>$88.8</td>
<td>$5.9</td>
<td>Dorm fees, tuition, Gen. Rev.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$139.1</td>
<td>$12.1</td>
<td></td>
</tr>
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</table>
Project Considerations

- Does the project need to be done?
- Is the project ready to be done?
  - When will it start?
  - Is it well thought through and ready for funding/financing?
    - What will the operating budget impacts be?
      - Maintenance costs, staff savings?
  - When will it be complete?
Funding Considerations

- Should a project be financed or pay-as-you-go?
  - IT Investment Fund created for these types of expenses and may be available as pay-go for all or part of project
  - More pay-go equals less future debt service
Funding Considerations

State’s overall debt structure

- Net tax supported debt would decrease thru FY 2022 by $414.0 million to $1.5 billion
- Had dropped to $1.3 billion in FY 2003 after use of tobacco bonds to defease debt
  - Past practice indicates it will be higher as more projects are added
  - Budget does not assume any new referenda
    - Departure from past practice
Funding Considerations – Debt Ratios

- Debt as a percent of personal income would decrease from 3.2% in FY 2018 to 2.2% into FY 2022
- Likely to be higher based on projects being added
  - Does not assume any new referenda will go before voters in November 2018 or 2020
Debt Service as Percent of Useable General Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Current</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2016</td>
<td>5.5%</td>
<td></td>
</tr>
<tr>
<td>FY 2017</td>
<td>6.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>FY 2018</td>
<td>6.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>FY 2019</td>
<td>7.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>FY 2020</td>
<td>7.5%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Issuance of $16.2 million through Certificates of Participation for IT projects
- Annual debt service $2.1 million
  - Assuming 5.0 percent interest rate and 10 years
- Legislation identifies the specific components to be funded
## Article 16, Section 2 – IT

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
<th>Annual Maint.</th>
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</thead>
<tbody>
<tr>
<td>Integrated Tax System – Phase II</td>
<td>$2.0</td>
<td>Unknown</td>
</tr>
<tr>
<td>Health Vital Records</td>
<td>2.5</td>
<td>0.4</td>
</tr>
<tr>
<td>New Hospital System</td>
<td>8.1</td>
<td>1.5 ?</td>
</tr>
<tr>
<td>Statewide Payroll System</td>
<td>3.5</td>
<td>Unknown</td>
</tr>
<tr>
<td>Financing Cost</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td><strong>Total (in million)</strong></td>
<td><strong>$16.2</strong></td>
<td>$?</td>
</tr>
</tbody>
</table>
Integrated Tax System – Phase II

- Expand new tax system to replace cash, check and credit card payments
- 2012 Assembly authorized $25.0 million
  - First components in use July 2014
  - Other taxes added following year
- New pricing provided by current vendor
- Expected to start and end within FY 2018 with enhancements rolling out as ready
Health Vital Records

- Update paper-based death & marriage records system
- Link to funeral directors, municipalities and state to one web system
- Estimate from current birth records vendor
  - Project would begin in FY 2018
  - 2-3 years to develop and implement
  - Ongoing maintenance $0.4 million
Article 16, Section 2 – IT

- Hospital System
  - Electronic medical records
  - Patient/case management tracking
  - Discharge/transfer information
  - Multiple agencies
    - Corrections - $0.5 million
    - May be closer to $1.0 million
    - Veterans Home - $0.3 million
    - Eleanor Slater Hospital - $7.4 million
      - Estimate appears to be changing
## Eleanor Slater Hospital – Electronic Medical Records System

<table>
<thead>
<tr>
<th></th>
<th>Cost*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Software &amp; Fees</td>
<td>$0.8</td>
</tr>
<tr>
<td>Professional Services</td>
<td>2.2</td>
</tr>
<tr>
<td>Equipment &amp; Hardware</td>
<td>0.2</td>
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<tr>
<td>Implementation Training</td>
<td>0.3</td>
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<tr>
<td>Contingency</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$3.7</strong></td>
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</tbody>
</table>

*in millions
Statewide Payroll System

- Current system is more than 30 years old
- New system would be cloud-hosted
- Interface with Time, Leave and Attendance system funded from IT fund
  - Currently being developed
  - Due to launch in 2017
- Payroll previously to be funded from IT fund
  - Implementation to begin in FY 2018
  - 2-3 years
$2.6 million from Rhode Island Turnpike and Bridge Authority by June 30, 2018

Authority

- Operates and maintains the following bridges
  - Mount Hope
  - Jamestown Verrazzano
  - Newport Pell, and
  - Sakonnet River
Primary source of revenue is tolls on Newport Bridge
2014 Assembly allocated 3.5 cents of the gasoline tax to the Authority
- No toll on Sakonnet River Bridge
- No state support prior to this
Receipts from gasoline tax
- $15.4 million in FY 2015
- $15.7 million in FY 2016
Article 1, Section 18 – PUC Rent

- Increases rent rate charged to PUC beginning in FY 2018
  - From $173,040 to $333,420
  - PUC primarily funded from restricted receipts from billing the regulated utilities
- Headquartered in state-owned building in Warwick
- Since 2004, Commission annually transfers to general fund for rent
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