Governor’s FY 2019 Budget: Articles

Staff Presentation to the House Finance Committee
February 8, 2018
Introduction

- Article 1, Section 14 – Neighborhood Opportunities Program
- Article 1 Sec. 16, Article 10 Sec. 6 – Rhode Island Housing Transfers
- Article 10 Section 5, Infrastructure Bank Transfer
- Article 10 Section 12 – Water Resources Board Corporate
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
Article 1, 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
Article 1, 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
Section 14 of Article 1 requires:

- RI Housing to provide amount “as appropriate” from its resources 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
Article 1, Sec. 14, Neighborhood Opportunities Program

- **Article 1 requirement for NOP support first appeared in FY 2012 budget**
  - Amount specified in FY 2012 at $1.5 million
  - FY 2013 – FY 2018 and FY 2019 proposal calls for amount “as appropriate”

- **Through FY 2017, RI Housing:**
  - Committed $6.3 million
    - Each year’s commitments are paid out over several years
  - Support of 335 existing units
## Article 1, Sec. 14, Neighborhood Opportunities Program

<table>
<thead>
<tr>
<th>FY</th>
<th>Committed</th>
<th># of Years</th>
<th>Units Supporting</th>
<th>Expensed</th>
<th>% Exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,500,000</td>
<td>10</td>
<td>27</td>
<td>$1,500,000</td>
<td>100.0%</td>
</tr>
<tr>
<td>2013</td>
<td>1,300,000</td>
<td>10</td>
<td>25</td>
<td>598,967</td>
<td>46.1%</td>
</tr>
<tr>
<td>2014</td>
<td>1,189,701</td>
<td>4-5</td>
<td>166</td>
<td>1,001,957</td>
<td>84.2%</td>
</tr>
<tr>
<td>2015</td>
<td>1,300,000</td>
<td>1-4</td>
<td>86</td>
<td>1,050,771</td>
<td>80.8%</td>
</tr>
<tr>
<td>2016</td>
<td>680,435</td>
<td>5</td>
<td>24</td>
<td>37,310</td>
<td>5.5%</td>
</tr>
<tr>
<td>2017</td>
<td>291,447</td>
<td>2</td>
<td>7</td>
<td>87,529</td>
<td>30.0%</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$6,261,583</td>
<td></td>
<td>335</td>
<td>$4,276,534</td>
<td>68.3%</td>
</tr>
</tbody>
</table>
Article 1 & 10 Transfers

- Require payments to the General Fund
  - Various amounts from quasi-state agencies
  - Similar to last three year's proposals
  - Totals $35.1 million in FY 2018
  - Totals $8.0 million in FY 2019
- Budgets for quasi-publics are shown in the budget publication program supplements
  - Data shown do not reflect these transfers
No alternative proposals provided
  - Requirement for these to be submitted along with transfer recommendations was added as part of last year’s budget

Governor’s budget cover letter expresses hope that revenues improve and these transfers can be avoided
  - Recurring feature of cover letters
  - Last year’s legislation was aimed at soliciting more concrete proposals for public hearing
## Article 1 & 10 Transfers

<table>
<thead>
<tr>
<th>Quasi Transfers</th>
<th>FY 18</th>
<th>FY 18 R</th>
<th>Chg.</th>
<th>FY 19</th>
<th>2Yr Chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Recovery</td>
<td>$ -</td>
<td>$ 3.0</td>
<td>$3.0</td>
<td>$3.0</td>
<td>$6.0</td>
</tr>
<tr>
<td>RI Housing</td>
<td>1.0</td>
<td>6.0</td>
<td>5.0</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Infrastructure Bank</td>
<td>3.5</td>
<td>8.5</td>
<td>5.0</td>
<td>-</td>
<td>5.0</td>
</tr>
<tr>
<td>Turnpike &amp; Bridge</td>
<td>-</td>
<td>1.5</td>
<td>1.5</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>RISLA</td>
<td>-</td>
<td>3.0</td>
<td>3.0</td>
<td>-</td>
<td>3.0</td>
</tr>
<tr>
<td>WR Board Corp.</td>
<td>-</td>
<td>1.1</td>
<td>1.1</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>NBC</td>
<td>5.0</td>
<td>5.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>QDC</td>
<td>1.0</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RIHEBC</td>
<td>6.0</td>
<td>6.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$16.5</strong></td>
<td><strong>$35.1</strong></td>
<td><strong>$18.6</strong></td>
<td><strong>$8.0</strong></td>
<td><strong>$26.6</strong></td>
</tr>
</tbody>
</table>
Rhode Island Housing

- $5.0 million transfer by June 30, 2019
- $6.0 million transfer by June 30, 2018
  - The FY 2018 enacted budget includes a transfer of $1.0 million
### Cash Position

<table>
<thead>
<tr>
<th></th>
<th>FY 2013</th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning Cash</strong></td>
<td>$216.5</td>
<td>$231.8</td>
<td>$206.7</td>
<td>$175.8</td>
<td>$188.0</td>
</tr>
<tr>
<td><strong>Cash from Operations</strong></td>
<td>106.5</td>
<td>125.5</td>
<td>85.5</td>
<td>63.6</td>
<td>58.6</td>
</tr>
<tr>
<td><strong>Noncapital financing</strong></td>
<td>(95.5)</td>
<td>(172.7)</td>
<td>(144.5)</td>
<td>(71.7)</td>
<td>(31.9)</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td>(4.4)</td>
<td>22.4</td>
<td>28.6</td>
<td>20.2</td>
<td>41.4</td>
</tr>
<tr>
<td><strong>Ending Cash</strong></td>
<td>$231.8</td>
<td>$206.7</td>
<td>$175.8</td>
<td>$188.0</td>
<td>$256.2</td>
</tr>
</tbody>
</table>

$ in Millions
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
Prior Budget Actions

- Affordable Housing G.O. Bonds
  - $50 million – 2006
  - $25 million - 2012
  - $40 million 2016

- FY 2008: Neighborhood Opportunities
  - $26.0 million transfer back to state to reimburse the state for expenditures made to support program

- FY 2016: Affordable Housing
  - $3.0 million general revenues to RI Housing available from debt restructuring
Article 1 & 10, Sec. 16 & 6,– Rhode Island Housing Transfers

- Public Finance Management Board Debt Affordability Study
  - 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%

<table>
<thead>
<tr>
<th>Bond Rating</th>
<th>Single Family</th>
<th>Multi Family</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Asset to Debt</td>
<td>Profit</td>
</tr>
<tr>
<td>Aa2</td>
<td>1.19x</td>
<td>17.7%</td>
</tr>
</tbody>
</table>
Article 10, Section 5 – Infrastructure Bank

- Infrastructure Bank was formerly the Clean Water Finance Agency
  - Wastewater and drinking water projects
  - Municipal Road and Bridge fund
- 2015 Assembly expanded purview
  - Renewable energy and efficiency projects
  - Efficient Buildings Fund
    - Funding and administrative support to public entities for efficient and renewable energy upgrades to public buildings and infrastructure
Increases transfer to general revenues to $8.5 million by June 30, 2018
- The FY 2018 enacted budget includes a transfer of $3.5 million
- Prior Governor transfer proposals that were not enacted
  - FY 2017: $8.0 million
  - FY 2016: $11.0 million
## Unrestricted Cash Position

<table>
<thead>
<tr>
<th></th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Cash</td>
<td>$30.9</td>
</tr>
<tr>
<td>Committed Cash*</td>
<td>(32.9)</td>
</tr>
<tr>
<td><strong>Ending Cash</strong></td>
<td>($2.0)</td>
</tr>
<tr>
<td>FY 2018 Enacted Transfer</td>
<td>(3.5)</td>
</tr>
<tr>
<td>FY 2018 Proposed Increase</td>
<td>(5.0)</td>
</tr>
<tr>
<td><strong>Ending Cash with Transfers</strong></td>
<td>($10.5)</td>
</tr>
</tbody>
</table>

$_{in Millions; *IB data}$
### Article 10, Section 5 – Infrastructure Bank

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

<table>
<thead>
<tr>
<th>Fund</th>
<th>Fitch’s Bond Rating</th>
<th>Asset/Liability Ratio</th>
<th>Projected Minimum Debt Service Coverage</th>
<th>Largest Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean Water</td>
<td>AAA</td>
<td>1.5</td>
<td>1.3x</td>
<td>47.0%</td>
</tr>
<tr>
<td>Drinking Water</td>
<td>AAA</td>
<td>1.6</td>
<td>1.5x</td>
<td>30.6%</td>
</tr>
</tbody>
</table>
Transfer $1.1 million from residual water quality protection surcharge fund to general revenues by June 30, 2018

Collected by Water Resources Board Corporate

- 2009 Assembly passed legislation to dissolved the Board Corporate
  - Responsibilities were absorbed by Clean Water Finance Agency now the RI Infrastructure Bank
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