Governor’s FY 2019 Budget: Articles

Staff Presentation to the House Finance Committee
March 22, 2018
Introduction

- Article 5, Section 1 – School Construction Bond
- Article 9 – Education
  - School for the Deaf
  - School Construction
- Governor requested amendment to Article 9 on March 16
School for the Deaf

- Would allow non-deaf/hard-of-hearing students to attend the School for the Deaf
  - Commissioner to promulgate rules/regs.
  - Beginning FY 2019
- These students would be funded pursuant to the funding formula
  - Budget does not assume any revenues or expenses from this
School Construction Aid

- History
- Recent Activity
- Program Changes
- How to Pay
- Issues & Considerations
School Construction Aid

- State reimburses cities and towns for a share of school capital projects
  - Includes principal and interest
- State shares are based on a district’s wealth compared to state wealth
- Minimum state share is 35%
  - 18 communities for FY 2018
- Charter schools get 30%
- Bonuses for regionals & specific types of projects
## School Construction Aid: Current State Shares

<table>
<thead>
<tr>
<th>Districts FY 2018</th>
<th>Share Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burrillville</td>
<td>58.2%</td>
</tr>
<tr>
<td>Coventry</td>
<td>47.6%</td>
</tr>
<tr>
<td>Central Falls</td>
<td>96.7%</td>
</tr>
<tr>
<td>Cranston</td>
<td>48.4%</td>
</tr>
<tr>
<td>Cumberland</td>
<td>40.7%</td>
</tr>
<tr>
<td>East Providence</td>
<td>54.4%</td>
</tr>
<tr>
<td>Johnston</td>
<td>44.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Districts FY 2018</th>
<th>Share Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Providence</td>
<td>57.0%</td>
</tr>
<tr>
<td>Pawtucket</td>
<td>83.6%</td>
</tr>
<tr>
<td>Providence</td>
<td>82.9%</td>
</tr>
<tr>
<td>West Warwick</td>
<td>65.9%</td>
</tr>
<tr>
<td>Woonsocket</td>
<td>88.1%</td>
</tr>
</tbody>
</table>
## School Construction Aid: Current State Shares

<table>
<thead>
<tr>
<th>Regional Districts FY 2018</th>
<th>Base w/Min</th>
<th>Regional Bonus</th>
<th>Total Share Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol-Warren</td>
<td>35.0%</td>
<td>28.0%</td>
<td>63.0%</td>
</tr>
<tr>
<td>Chariho</td>
<td>35.0%</td>
<td>26.0%</td>
<td>61.0%</td>
</tr>
<tr>
<td>Exeter/West Greenwich</td>
<td>35.0%</td>
<td>26.0%</td>
<td>61.0%</td>
</tr>
<tr>
<td>Foster/Glocester</td>
<td>37.7%</td>
<td>14.0%</td>
<td>51.7%</td>
</tr>
</tbody>
</table>

- All other districts not listed get 35%
- Charter schools get 30%
Prior to FY 1998 only projects supported by local GO bonds were reimbursed.

1997 Assembly expanded program:
- Projects financed by lease revenue bonds, capital leases, & capital reserves.

Beginning in 2003, Assembly made various legislative changes in effort to control growth:
- Concerns over escalating costs.
2003 Assembly:

- Limited bond interest aid to those financed through RIHEBC for favorable rates and low administrative cost to districts
- Sunset Regents’ approval after 3 years
- Instructed RIDE to study cost of building new schools
  - Report submitted on March 29, 2004
  - School Construction Regulations adopted by Regents in May 2007
School Construction Aid - History

- 2007 Assembly required its approval for any local borrowing requiring voter approval
  - Providence PBA does not require voter approval
- 2008 Assembly required bonds be refunded when savings are available
  - Savings split based on share ratio
- 2010 funding formula had 2-year increase in state’s min. share to 40% by FY 2013
  - Previously 30%
2012 Assembly adopted Governor’s proposal to freeze state’s minimum share at 35%.

2013 Assembly allowed locals to keep 80% of refunding savings:
- Time-limited to encourage districts with higher state shares to refund bonds and save money.
School Construction Aid - History

- 2011 Assembly imposed a 3-year moratorium on new project approvals
  - Exception for health and safety reasons
  - Requires RIDE to develop recommendations for cost containment strategies
- 2014 Assembly extended to May 1, 2015
  - $197.8 million of health & safety projects approved during the moratorium
School Building Authority

- 2015 Assembly created new School Building Authority Capital Fund
  - Administered by newly created School Building Authority
  - Advisory board created to advise Authority
  - Council still has final approval of all projects

- SBA fund created to
  - Support smaller projects – same cost sharing
  - Address emergent needs faster than traditional program
FY 2016 Budget allocated $20 million to seed the Fund

- Available from restructuring state debt

Governor’s FY 2016 budget indicated plan to budget $80 million per year for school construction beginning in FY 2017

- Amounts over what’s needed for traditional construction aid would go to the SBA fund

- Traditional program cost $70.9 million in FY 2016
RIDE uses 4 metrics to evaluate “necessity” of school housing projects for traditional program

- However law works as entitlement program
  - Project meeting standards get funded
- This is why moratorium was statutory not administrative
  - RIDE cannot reject projects because of overall funding constraints

<table>
<thead>
<tr>
<th>Metric</th>
<th># of Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Condition Index</td>
<td>35</td>
</tr>
<tr>
<td>Weighted Priority Score</td>
<td>35</td>
</tr>
<tr>
<td>Utilization of Buildings</td>
<td>15</td>
</tr>
<tr>
<td>Wealth Index</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
School Construction Aid – Approval Processes

**Traditional Program**
- School Committee
- Local Municipality
- Department
- Council Approval
- Assembly (if needed)
- Voters (if needed)

**School Building Authority Fund**
- RIDE (School Building Authority Office)
- School Building Authority Advisory Board
- Council Approval
School Construction Aid

- History
- Recent Activity
- Program Changes
- How to Pay
- Issues & Considerations
Statewide Assessment

- Current law allows RIDE to use funding from School Building Authority Fund for “one-time or limited expenses”
  - Intended to allow for professional assessment
- RIDE hired firm to identify statewide need
  - 2017 State of Rhode Island Schoolhouses
    - “Jacobs” Study - $4.4 million
      - RIHEBC paid $1.0 million
      - $3.4 million from newly created SBA Fund from the initial seeding of $20 million
Statewide Assessment

- Prior estimates of statewide need
  - $1.8 billion to bring all schools to good condition based on RIDE’s 2013 Public Schoolhouse Assessment
    - Districts self reported
    - Statewide need does not necessarily align with ability or willingness to pay
  - Districts and municipalities may not have the bonding capacity to address all needs
Assessment began in February 2015
State of RI Schoolhouses report issued in September 2017 identified:
- $627.5 million for safe, warm, & dry projects
  - $54.5 million in “priority” repairs
- $2.2 billion in facility deficiencies
- $793.5 million for future facility costs over the next 5 years
- $3.0 billion in total 5-year need
# State of RI Schoolhouses

<table>
<thead>
<tr>
<th>Priority</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Mission Critical</strong>: safety, code compliance, components severely damaged or failing</td>
<td>$106.9</td>
</tr>
<tr>
<td>2</td>
<td><strong>Indirect Impact to Education</strong>: items may become priority 1 if not fixed in near term</td>
<td>708.0</td>
</tr>
<tr>
<td>3</td>
<td><strong>Short-Term Conditions</strong>: necessary but not critical, includes efficiency improvements</td>
<td>1,108.8</td>
</tr>
<tr>
<td>4</td>
<td><strong>Long-Term Needs</strong>: improvements to instructional environment</td>
<td>760.5</td>
</tr>
<tr>
<td>5</td>
<td><strong>Enhancements</strong>: aesthetic upgrades such as repainting or recarpeting</td>
<td>331.9</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>$3,016.2</td>
</tr>
</tbody>
</table>
## State of RI Schoolhouses

<table>
<thead>
<tr>
<th>Element</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural, interior, exterior, roofs</td>
<td>$1,252.1</td>
</tr>
<tr>
<td>Mechanical, electrical, plumbing systems</td>
<td>837.7</td>
</tr>
<tr>
<td>Site improvements (sidewalks, stairs)</td>
<td>387.4</td>
</tr>
<tr>
<td>Technology</td>
<td>376.3</td>
</tr>
<tr>
<td>Support items (desks, lockers)</td>
<td>90.5</td>
</tr>
<tr>
<td>Life and Safety</td>
<td>72.0</td>
</tr>
<tr>
<td><strong>$ in millions</strong></td>
<td><strong>Total Reported Need</strong></td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td><strong>$3,016.2</strong></td>
</tr>
</tbody>
</table>
State of RI Schoolhouses

- Structural, Interior, Exterior & Roof: 42%
- Mechanical, Electrical & Plumbing: 28%
- Site Improvements: 13%
- Technology: 12%
- Support Items: 3%
- Life & Safety: 2%
State of RI Schoolhouses

- Facilities Condition Index
  - General indicator of a facilities' health
  - FCI = total repair costs/replacement cost
# State of RI Schoolhouses

<table>
<thead>
<tr>
<th>5-Yr. Facility Condition</th>
<th>Public School Campuses</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good</td>
<td>10</td>
<td>3.3 %</td>
</tr>
<tr>
<td>Average</td>
<td>28</td>
<td>9.1%</td>
</tr>
<tr>
<td>Below Average</td>
<td>56</td>
<td>18.3%</td>
</tr>
<tr>
<td>Poor</td>
<td>143</td>
<td>46.7%</td>
</tr>
<tr>
<td>Very Poor</td>
<td>51</td>
<td>16.7%</td>
</tr>
<tr>
<td>Replacement Candidate</td>
<td>18</td>
<td>5.9%</td>
</tr>
<tr>
<td>Total</td>
<td>306</td>
<td>100 %</td>
</tr>
</tbody>
</table>
Governor Raimondo established the School Building Task Force by Executive Order 17-09

- Chaired by Treasurer Magaziner & Commissioner Wagner
- Included more than a dozen stakeholders
- Met 6 times between September and December 2017
- Submitted recommendations December 15
Recommendations include:

- Temporary incentives to increase state share
- Increased oversight by the SBA
- Additional maintenance requirements
- Development of prototypes
- $500 million of general obligation bonds
- $250 million each in 2018 and 2022

Many included in Governor’s proposal
## Task Force vs Governor

<table>
<thead>
<tr>
<th>Task Force Recommendation</th>
<th>Governor’s FY 2019 Budget and Capital Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved but not started projects eligible for 20% share increase</td>
<td>Approved but not started projects by Jan 1, 2018 eligible for 5% share increase</td>
</tr>
<tr>
<td>$500 million of GO bonds</td>
<td>$250 million of GO bonds</td>
</tr>
<tr>
<td>Maintenance = 3% of replacement value</td>
<td>RIDE must develop maintenance checklist</td>
</tr>
<tr>
<td></td>
<td>Increase charter school minimum from 30% to 35%</td>
</tr>
<tr>
<td></td>
<td>Permanent 4% increase for Career &amp; Tech Facilities</td>
</tr>
<tr>
<td></td>
<td>Additional SBA Board Members</td>
</tr>
</tbody>
</table>
Task Force vs Regulations

- Recommendations already in regulations
  - State claw back for facilities sold within 30 years of project
    - Currently 50 years
  - Development of prototypes/“Kit of Parts”
  - Maintenance guidelines & asset protection requirements
  - Commissioning agents
  - Use of Women & Minority-Owned Contractors
Some regulations are not being followed
- Development of prototypes/“Kit of Parts” has not yet happened
- Maintenance & asset protection requirements
  - No approval for any project resulting from lack of maintenance or negligence by district
    - No denials under this provision
  - No approval if district has not spent at least 50% of its asset protection in each of the previous three years
    - Applications have been delayed for noncompliance
    - Low spending in prior year means even lower standard next year – allowing compliance a year later
Jacobs Recommendations

- Jacobs recommendations not included in Task Force or Governor proposals:
  - Lower state minimum share ratio to 30%
  - Create an exceptional needs program for financially distressed districts
  - Use RIDE’s capital budget request for STEAM & CTE programmatic improvements
  - Establish a dedicated funding stream
School Construction Aid

- History
- Recent Activity
- **Program Changes**
- How to Pay
- Issues & Considerations
- School for the Deaf
Program Changes

- Goals:
  - Incentivize $1 billion in school construction activity over the next five years
    - Task force called for $600 million of Priority 1 and 2 deficiencies to be remediated
      - Also prioritized “21st century learning environments” and overall improvements in every district
  - Reduce local borrowing
    - Use state’s borrowing capacity where possible
Program Changes

- New State Share Incentives
- Charter Schools
- Expenses
- Infrastructure Bank
- Facility Use
- Project Requirements
## Current State Share Bonuses

<table>
<thead>
<tr>
<th>Current Law Bonuses</th>
<th>State Share Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each regionalized grade</td>
<td>2% per grade (up to 26% for a fully regionalized district)</td>
</tr>
<tr>
<td>Energy efficiency, access for people with disabilities, or asbestos abatement - Must be 75% of project cost</td>
<td>Law: 4% (regulations: 2% - 4% for energy efficiency projects)</td>
</tr>
<tr>
<td>Former state CTE facilities that have been transferred to local districts</td>
<td>One-time 4% upon transfer of facility</td>
</tr>
</tbody>
</table>
Current bonuses are and would remain permanent

New “incentives” are added but are time-limited

- New incentives only require 25% or minimum of $250,000 to be spent toward each incentive to qualify
  - Existing bonus for energy, ADA, asbestos requires 75% of project to be directly related to bonus

Existing and new bonuses can be stacked for a maximum of 20%
<table>
<thead>
<tr>
<th>New Incentive</th>
<th>Add</th>
<th>Start By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; safety (GBA adds school security)</td>
<td>5%</td>
<td>2022</td>
</tr>
<tr>
<td>Educational enhancements for STEAM, CTE, early ed. &amp; technology enabled facilities</td>
<td>5%</td>
<td>2022</td>
</tr>
<tr>
<td>Replacing a facility with a Facilities Condition Index of 65%+</td>
<td>5%</td>
<td>2023</td>
</tr>
<tr>
<td>Increase functional utilization of a facility from less than 60% to 80%</td>
<td>5%</td>
<td>2023</td>
</tr>
<tr>
<td>Decrease functional utilization of a facility from &gt;120% to between 85% and 105%</td>
<td>5%</td>
<td>2023</td>
</tr>
<tr>
<td>Consolidation of 2 or more buildings within or across districts</td>
<td>5%</td>
<td>2023</td>
</tr>
</tbody>
</table>
New State Share Incentives

- Article makes 4.0% bonus for former state career & tech facilities transferred to local districts permanent
  - Was one-time only, occurred upon transfer
    - To encourage districts to take facilities
  - Would be available annually
  - Adds a facility in Coventry as being eligible
  - CTE Funding Working Group included recommendation in its February 2018 report
New State Share Incentives

- Article allows for 5% increase to state share for projects approved but not started by January 1, 2018
  - As long as Owners Program Manager & commissioning agent are used
  - Regardless of project meeting any new incentive standards
  - Approved projects that are withdrawn & resubmitted are not eligible for any increase
# Outstanding Projects

- Projects approved but not started
  - Includes phases or sub-projects
  - 30 districts
  - 3 charter schools
- Aid payments begin when project is completed
  - Phases allowed

<table>
<thead>
<tr>
<th>Approval Year</th>
<th>Remaining Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2017</td>
<td>$129.7</td>
</tr>
<tr>
<td>FY 2016</td>
<td>161.8</td>
</tr>
<tr>
<td>FY 2015</td>
<td>34.6</td>
</tr>
<tr>
<td>FY 2014</td>
<td>23.7</td>
</tr>
<tr>
<td>FY 2007</td>
<td>4.9</td>
</tr>
<tr>
<td>FY 2006</td>
<td>0.3</td>
</tr>
<tr>
<td>FY 2005</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$356.6</strong></td>
</tr>
</tbody>
</table>

$ In millions
New State Share Incentives

- Eligibility
  - Construction must begin by December 30, 2022 or 2023
    - Amendment adds 5-year window for completion
  - 25% of total project costs or a minimum of $250,000 must be specifically directed to any of the specific incentives
- Amendment ties all new incentives to passage of $250M bond – Article 5
Limitations:

- Maximum increase in any LEAs state share is 20%
- An LEA’s local share cannot decrease by more than half
  - With this measure, no local project will be 100% state funded
### Example 1 – Asbestos Project

- $50.0 million approval for hazardous material removal & consolidate 2 buildings

<table>
<thead>
<tr>
<th>Description</th>
<th>State Share Ratio</th>
<th>State Share of Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Law</td>
<td>35%</td>
<td>$17.5</td>
</tr>
<tr>
<td>Asbestos abatement</td>
<td>4%</td>
<td>$2.0</td>
</tr>
<tr>
<td>Health &amp; safety</td>
<td>5%</td>
<td>$2.5</td>
</tr>
<tr>
<td>Consolidation</td>
<td>5%</td>
<td>$2.5</td>
</tr>
<tr>
<td><strong>Sum of Bonuses</strong></td>
<td>14%</td>
<td>$7.0</td>
</tr>
<tr>
<td><strong>New State Share</strong></td>
<td>49%</td>
<td>$24.5</td>
</tr>
</tbody>
</table>

$ in Millions
Example 2 – Career & Tech

- $50.0 million for renovations, including CTE enhancements w/energy efficiency

<table>
<thead>
<tr>
<th>$ in Millions</th>
<th>State Share Ratio</th>
<th>State Share of Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Law</td>
<td>80%</td>
<td>$40.0</td>
</tr>
<tr>
<td>Health &amp; safety</td>
<td>5%</td>
<td>$2.5</td>
</tr>
<tr>
<td>CTE enhancements</td>
<td>5%</td>
<td>$2.5</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>4%</td>
<td>$2.0</td>
</tr>
<tr>
<td>Sum of Bonuses</td>
<td>14%</td>
<td>$7.0</td>
</tr>
<tr>
<td>Reduction in local share capped at 50%: 20% share = 10% max</td>
<td>(4%)</td>
<td>($2.0)</td>
</tr>
<tr>
<td>New State Share</td>
<td>90%</td>
<td>$45.0</td>
</tr>
</tbody>
</table>
Program Changes: Charter Schools

- Article establishes 35% minimum state share ratio for all local education agencies, “not withstanding any other law to the contrary”
  - Extends to charter schools
    - Language effectively overrides RIGL 16-77-1.5 which sets charter state share ratio at 30%
    - Applicable statute not directly amended
  - Charter schools are eligible for current bonuses & would be eligible for new incentives
Temporary swing space would be a reimbursable expense if only option
  ▪ Amendment adds that use of temporary space is “time-limited” (not defined)
Environmental remediation reimbursable up to $1.0 million per project
If a new school is sold to a private entity within 30 years of construction, the state will receive a portion of the payment
  ▪ Current regs. - clawback after 50 years
Program Changes: RI Infrastructure Bank

- Removes existing prohibition of Infrastructure Bank from receiving state housing aid
  - Any approved project that is predominately energy or environmental in nature would be eligible for school housing aid assistance through Infrastructure Bank
RIIB would be able to receive housing aid directly
- Currently aid is paid directly to school district or to RIHEBC
- Similar to provision in 2017-H 5842
  - Was not enacted

Amendment prevents municipalities from using housing aid towards existing debt with Infrastructure Bank
Program Changes: Facility Use

- Current law: facilities combined with municipal uses or operated with non-profit or for-profit agencies not eligible for housing aid

- Article 9 allows for other uses of facilities
  - Does not define “primarily”
<table>
<thead>
<tr>
<th>Who</th>
<th>What</th>
<th>When</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Contractor</td>
<td>Construction contractor responsible for completion</td>
<td>Projects over $10 million</td>
<td>Part of project</td>
</tr>
<tr>
<td>Owners Program Manager</td>
<td>Entity engaged to provide project management services on behalf of state for construction &amp; supervision</td>
<td>Projects over $1.5 million starting FY 2020</td>
<td>100% state (bond funds)</td>
</tr>
<tr>
<td>Commissioning Agent</td>
<td>Ensures systems are designed, installed, tested, capable, conform w/design intent</td>
<td>CA currently required by regs.</td>
<td></td>
</tr>
</tbody>
</table>
Regulations currently require

- Commissioning agents
  - Cost reimbursed as part of project
- “project managers”
  - Hired by locals; cost reimbursed as part of project

Article 9 requires state to hire & pay both

- Commissioning agents & OPMs estimated to be 3% of total construction costs
  - Current pipeline & expected investments would mean cost of $30 million over several years
## Program Changes: SBA Responsibilities

<table>
<thead>
<tr>
<th>Article 9</th>
<th>Current Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statewide process for remediating new school sites w/DEM July 1, 2019</td>
<td>DEM has site remediation program</td>
</tr>
<tr>
<td>Promulgate rules that conform with minority business requirements</td>
<td>Current regs require 10% of costs &gt; $500,000 be performed by minority, women, or disadvantaged</td>
</tr>
<tr>
<td>Develop a statewide maintenance checklist beginning June 30, 2021</td>
<td>Require maintenance guidelines consistent with Northeast - CHPS</td>
</tr>
<tr>
<td>Pre-qualify for prime contractors –originally Article says “certify”</td>
<td>Districts choose own contractors w/o Dept. input</td>
</tr>
<tr>
<td>Quarterly reporting</td>
<td>Reports occur annually for traditional program</td>
</tr>
<tr>
<td>Retaining experts</td>
<td>Done at local level as part of bid</td>
</tr>
</tbody>
</table>
Program Changes: SBA Responsibilities

- Develop minimum annual maintenance spending requirement for each district
  - Beginning June 30, 2019
- Develop review and pre-qualification process for prime contractors
  - Multiple contractors affected
  - Valid for maximum of 2 years
  - Not clear how long developing process will take or cost
School Building Authority Advisory Board currently has 7 members

Article adds two new members

- Commissioner of Elementary & Secondary Education, or designee
- RIHEBC Chair

Requested amendment:

- Allows Treasurer to send designee
- Requires 1 of 4 public members to represent RI League of Cities & Towns
School Construction Aid

- History
- Recent Activity
- Program Changes
- How to Pay
- Issues & Considerations
- School for the Deaf
## Fiscal Impact Scenario - 10% Share Increase - New Projects

<table>
<thead>
<tr>
<th>New Projects</th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>FY 24</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY18</td>
<td>300.0</td>
<td>-</td>
<td>5.3</td>
<td>10.6</td>
<td>15.9</td>
<td>15.9</td>
</tr>
<tr>
<td>FY19</td>
<td>300.0</td>
<td>-</td>
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<td>5.3</td>
<td>10.3</td>
<td>15.9</td>
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<tr>
<td>FY 20</td>
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<td>-</td>
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<td>10.3</td>
</tr>
<tr>
<td>FY 21</td>
<td>300.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5.3</td>
</tr>
<tr>
<td>FY 22</td>
<td>200.0</td>
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<td><strong>Total</strong></td>
<td><strong>1,400.0</strong></td>
<td><strong>$ -</strong></td>
<td><strong>$5.3</strong></td>
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<tr>
<td>Pre-FY 2018</td>
<td>$356.4</td>
<td>$5.4</td>
<td>$10.9</td>
<td>$16.3</td>
<td>$16.3</td>
<td>$16.3</td>
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<tr>
<td>Current Completed</td>
<td>65.6</td>
<td>62.3</td>
<td>59.2</td>
<td>56.3</td>
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<tr>
<td>Total Current/Pre-FY18</td>
<td>$71.1</td>
<td>$78.5</td>
<td>$75.5</td>
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<td>$67.1</td>
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<tr>
<td><strong>Change to $80M</strong></td>
<td><strong>($8.9)</strong></td>
<td><strong>($1.5)</strong></td>
<td><strong>$11.4</strong></td>
<td><strong>$24.4</strong></td>
<td><strong>$37.4</strong></td>
<td><strong>$48.9</strong></td>
</tr>
</tbody>
</table>
SBA Capital Fund

- Currently, unspent funds from traditional program appropriation transferred to SBA capital fund
- Article 9 allows unspent funds from SBA fund to be transferred to the traditional program
  - To be used "on a pay-as-you-go basis and not as a reimbursement of debt service for previously completed projects"
  - Related to proposed bond proceeds
GO Bonds deposited in SBA Capital Fund

SBA may transfer funds not needed for use on traditional program to reduce local bonds

Distributed based proportionately on total state share of new projects awarded that year
## How to Pay – Article 5 & 9

<table>
<thead>
<tr>
<th>SBA</th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>FY 24</th>
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<tbody>
<tr>
<td>Capital Fund Requests</td>
<td>$32.1</td>
<td>$31.8</td>
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<td>$31.1</td>
<td>$30.8</td>
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<tr>
<td>Local Share impact</td>
<td>(4.8)</td>
<td>(4.8)</td>
<td>(4.8)</td>
<td>(4.7)</td>
<td>(4.7)</td>
<td>(4.7)</td>
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<tr>
<td>Capital Fund Need</td>
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<td>$27.0</td>
<td>$26.7</td>
<td>$26.4</td>
<td>$26.1</td>
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<tr>
<td>Traditional Program excess from $80M</td>
<td>$8.9</td>
<td>$1.5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>GO Bonds to meet Capital fund need</td>
<td>18.3</td>
<td>25.5</td>
<td>26.7</td>
<td>26.4</td>
<td>26.2</td>
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<tr>
<td>Annual GO Bonds*</td>
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<td>(50.0)</td>
<td>(50.0)</td>
<td>(50.0)</td>
<td>(50.0)</td>
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<td>Bonds Available for Traditional Program</td>
<td>$31.7</td>
<td>$24.5</td>
<td>$23.3</td>
<td>$23.6</td>
<td>$23.8</td>
<td>n/a</td>
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</tbody>
</table>

*Proposal allows for up to $100m in a single year – no 2nd bond – SBA fund projects would move to traditional or require separate approp.
## Fiscal Impact: Scenario - 10% Share Increase

<table>
<thead>
<tr>
<th>New Projects – net of newly available GO</th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>FY 24</th>
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<tbody>
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<td>-</td>
<td>5.3</td>
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<tr>
<td>FY19</td>
<td>268.3</td>
<td>-</td>
<td>-</td>
<td>4.7</td>
<td>9.5</td>
<td>14.2</td>
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<tr>
<td>FY 20</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>4.9</td>
<td>9.7</td>
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<tr>
<td>FY 21</td>
<td>276.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4.9</td>
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<tr>
<td>FY 22</td>
<td>176.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3.1</td>
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<tr>
<td><strong>Total</strong></td>
<td>$1,296.9</td>
<td>$ -</td>
<td>$5.3</td>
<td>$15.3</td>
<td>$30.3</td>
<td>$44.7</td>
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<tr>
<td>Pre-FY 2018</td>
<td>$356.4</td>
<td>$5.4</td>
<td>$10.9</td>
<td>$16.3</td>
<td>$16.3</td>
<td>$16.3</td>
</tr>
<tr>
<td>Current Completed</td>
<td>65.6</td>
<td>62.3</td>
<td>59.2</td>
<td>56.3</td>
<td>53.5</td>
<td>50.8</td>
</tr>
<tr>
<td><strong>Total Current/Pre-FY18</strong></td>
<td>$71.1</td>
<td>$78.5</td>
<td>$75.5</td>
<td>$72.6</td>
<td>$69.8</td>
<td>$67.1</td>
</tr>
<tr>
<td><strong>Change to $80M</strong></td>
<td>($8.9)</td>
<td>($1.5)</td>
<td>$10.8</td>
<td>$22.9</td>
<td>$34.5</td>
<td>$44.7</td>
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</table>
## How to Pay – Article 5 & 9

<table>
<thead>
<tr>
<th></th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY 23</th>
<th>FY 24</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Law/Estimate</strong></td>
<td>$80.0</td>
<td>$80.0</td>
<td>$80.0</td>
<td>$80.0</td>
<td>$80.0</td>
<td>$80.0</td>
</tr>
<tr>
<td><strong>Debt Service on new bonds</strong>*</td>
<td>1.7</td>
<td>5.9</td>
<td>10.1</td>
<td>14.3</td>
<td>18.5</td>
<td>20.7</td>
</tr>
<tr>
<td><strong>Additional cost to traditional program</strong></td>
<td>-</td>
<td>-</td>
<td>10.8</td>
<td>22.9</td>
<td>34.5</td>
<td>44.7</td>
</tr>
<tr>
<td><strong>Total Impact</strong></td>
<td>$1.7</td>
<td>$5.9</td>
<td>$20.9</td>
<td>$37.2</td>
<td>$53.0</td>
<td>$65.4</td>
</tr>
</tbody>
</table>

*full impact of new bonds would be $20.7 million annually but does not phase in until all are issued – estimated to be FY 2024
New SBA Account

- Establishes a restricted account to be funded from RIHEBC fees and reserves
  - RIDE expenses for administering the school construction program
  - FY 2019 Budget includes $0.7 million to support 4.0 positions and overhead expenses
    - 3.0 positions currently filled and 1.0 new
New SBA Account

- Would also support new required costs
  - Owners Program Managers
  - Commissioning agents
    - Any costs associated with new certification process
- Budget does not assume any of these costs for FY 2019
  - Costs intended to come from bond proceeds
New SBA Account

- RIHEBC collects a limited number of fees
- Uses reserves for small loans & grants
  - Contributed $1.0 million to facilities study
- FY 2018 enacted budget requires transfer $6.0 million to state general revenues
  - At the end of FY 2017, $12.6 million in reserves
  - Balance of $6.6 million
    - Intent is for RIHEBC to support RIDE programming & bond funds to pay for OPMs and commissioning agents but not explicit in legislation
## New Requested Debt – GO November 2018

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount</th>
<th>Annual Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rhode Island School Buildings</td>
<td>$250.0</td>
<td>$20.7</td>
</tr>
<tr>
<td>URI Narragansett Bay Campus</td>
<td>45.0</td>
<td>3.6</td>
</tr>
<tr>
<td>RIC Horace Mann Hall</td>
<td>25.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Green Economy &amp; Clean Water</td>
<td>48.5</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$368.5</strong></td>
<td><strong>$30.2</strong></td>
</tr>
</tbody>
</table>

Assumes 5% rate and 20 year term  
Data in millions
Proposes $250.0 million of general obligation bonds be submitted to voters on November ballot

- Supports school construction and renovation projects
- Funding to be disbursed over 5 years
- No more than $100 million could be issued in any year
Article 5, Question 1

- Capital budget assumes $50 million annually for 5 years
- Task Force recommended $500 million total, $250 million each 2018 and 2022
  - Budget documents are silent on a second ballot measure
    - No referenda for any project beyond 2018
Assembly Role

- Appropriate Pay-Go (Articles 1 & 10)
- Approve General Obligation Bond Referenda
  - Voters approve or reject
  - Debt service automatic
- Other Financing (Kushner)
  - Approve or reject resolution
  - Generally appropriate debt service
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?
  - Rhode Island Capital Plan funds available as pay-go for all or part of project
  - More pay-go equals less future debt service
State’s overall debt structure

- Net tax supported debt would decrease by $120.9 million to $1,648.5 million
- Had dropped to $1.3 billion in FY 2003 after use of tobacco bonds to decrease debt
- Past practice indicates it will be higher as more projects are added
## Funding Considerations – Debt Service

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Tax Supported Debt Service*</th>
<th>Pct. of Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$219.7</td>
<td>5.7%</td>
</tr>
<tr>
<td>2019</td>
<td>$217.5</td>
<td>5.5%</td>
</tr>
<tr>
<td>2020</td>
<td>$246.4</td>
<td>6.1%</td>
</tr>
<tr>
<td>2021</td>
<td>$259.8</td>
<td>6.3%</td>
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<tr>
<td>2022</td>
<td>$248.7</td>
<td>5.9%</td>
</tr>
<tr>
<td>2023</td>
<td>$249.8</td>
<td>5.8%</td>
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</tbody>
</table>

*Millions
Debt Service as Percent of Useable Revenues

FY 2018
FY 2019
FY 2020
FY 2021
FY 2022
FY 2023

Current Debt Service
New Debt Service

0.0%
1.0%
2.0%
3.0%
4.0%
5.0%
6.0%
7.0%
School Construction Aid

- History
- Recent Activity
- Program Changes
- How to Pay
- Issues & Considerations
One goal appears to be to encourage districts to do most needed projects

- Locals’ priorities ultimately decide projects brought forward
  - Fiscal capacity and other considerations
- Would any projects not qualify for at least some bonus?
- What other options could encourage projects to be done?
Issues & Considerations

- State share ratios currently affected by how projects are grouped
  - Currently approval structure does not link to eventual components in reimbursement structure
    - Projects grouped to get highest share ratio
  - Incentive combinations and timelines suggest opportunities for gaming bonuses
    - Should more prescriptive language be included to ensure similar projects are treated similarly?
Issues & Considerations

- Housing aid is an entitlement program
  - No statutory limits on size of approvals or reimbursements
  - Unchanged from current program

- Out-year impact of higher state share
  - Long tail on incentives
    - Last project may not start getting paid until FY 2029
  - Some increases are permanent
    - Increase to charter school share
    - Career & tech center bonus
    - State responsibility for OPM & Agents
Issues and Considerations

- Local reporting and compliance issues
  - Lack of uniformity on how districts budget and report expenses
    - Facilities personnel costs
    - Contracted personnel costs
    - Regular maintenance
    - Repairs
  - Incentives committed before issues resolved
Issues and Considerations

- How much should be specified included in law?
  - How much should be left to administrative discretion?
- Current state ability to hold districts to maintenance and other standards
  - Administrative capacity to enforce?
- What happens when a district does not comply?
  - What prevents future state of disrepair?