

Governor's FY 2015 Budget: Articles

Staff Presentation to the House Finance
Committee
March 4, 2014

Introduction

- Article 3 – Restricted Receipts
- Article 7 – Regional Greenhouse Gas Initiative
- Article 9 – FICA Alternative Retirement Plan
- Article 12 – Tax Enforcement
- Article 17 – State Government
- Article 18 – Government Reorganization

Article 3 – Restricted Receipts

- All revenues = general revenue, unless otherwise noted – RIGL 35-3-14 (a)
- Indirect charge unless:
 - Prohibited
 - Charitable
 - Exempt

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Article 3 – Restricted Receipts

- Article creates and exempts a Veterans' Home Construction restricted receipt account
- Exempts HIV Care Grant Drug Rebates
 - No statutory authority creating it

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Article 7 – Regional Greenhouse Gas Initiative

- 2007 Assembly enacted initiative
- A cooperative effort by Northeastern and Mid-Atlantic states to reduce carbon dioxide emissions
- Fund is supported by receipts from the sale of emission allowances
- 22 auctions so far
 - \$25.4 million in revenues, deposited as restricted receipts

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Article 7 – Regional Greenhouse Gas Initiative

- Currently, DEM & Energy Resources can use \$300K or 5% of auction proceeds whichever is less for administration costs
- Article increases administrative percentage to 10% or \$300K, whichever is greater
 - Essentially doubles amount for admin. costs

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Article 9 – FICA Alternative Plan

- 2013 Assembly adopted legislation to establish an alternative retirement plan for:
 - Part-time employees – works less than 20 hours/week
 - Those not eligible for state retirement system
 - Current employees may opt out
 - New employees automatically enroll

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Article 9 – FICA Alternative Plan

- Article makes a technical correction
- Clarifies that an eligible participant of plan would be an employee who works less than 20 hours per week
 - Current law says 20 hours or less

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Article 12

- Article 12
 - Section 1 – Auto Registration Block
 - Section 2 – Electronic Filing
 - Section 5 – Use Tax Safe Harbor
 - Section 7 – State Employee Income Tax Compliance
 - Section 8 – Automatic Sales Suppression Devices

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Article 12, Sec. 1 – Auto Registration Block

- Block on new vehicle registrations by persons who have neglected to file returns or pay taxes owed
- Law currently allows block of renewal of auto registrations and operator's licenses
 - If delinquent, written notice of registration block and procedures to rectify issue are sent to registrant

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Article 12, Sec. 1 – Auto Registration Block

- If delinquent taxpayer purchases a new vehicle, block is lifted to register new vehicle
- Upon payment of taxes and any penalties or interest owed, registrant receives Certificate of Good Standing
 - DMV may issue renewals

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Article 12, Sec. 1 – Auto Registration Block

- Governor's FY 2015 Budget includes \$0.5 million in new revenues
 - Personal Income Tax: \$0.3 million
 - Penalties and Interest: \$0.2 million
 - In 1st Quarter of FY 2014: Lifted 17 blocks for new registrations for filers who owed \$122,000

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Article 12, Sec. 2 – Electronic Filing

- Prohibits charging a separate or additional fee for electronic filing of state tax documents
 - Includes tax return preparers and software companies' tax software packages and programs
- Establishes civil penalties for violations
 - \$500 for first violation
 - \$1,000 for each successive violation

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Article 12, Sec. 5 – Use Tax Safe Harbor

- Purchases made out of state or from remote sellers who do not charge RI sales tax are subject to use tax
 - If no sales tax was charged, 7% is owed
 - Example: Taxable purchase from Amazon.com
 - If sales tax less than 7% is charged, difference is owed
 - Example: Car purchase in Massachusetts
 - Mechanism exists to collect tax owed

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Article 12, Sec. 5 – Use Tax Safe Harbor

- Tax Administrator will develop tool for personal income tax forms
 - Use tax owed equal to 0.08% of federal adjusted gross income
 - Additional itemized tax owed on purchases of \$1,000 or more
 - Proper use of tool is “safe harbor”
 - Taxpayer not liable for additional tax, penalties, or interest

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Article 12, Sec. 5 – Use Tax Safe Harbor

- Governor’s FY 2015 Budget includes \$2.2 million in additional revenue
 - Tool would be included in Tax Year 2014 income tax return forms
 - Maine collected \$3.0 million for 2009
 - Massachusetts collected \$5.5 million for 2012

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Article 12, Sec. 7 – State Employees Compliance

- Establishes compliance with personal income tax law as a condition for employment by state government
 - Does not include elected officials or municipal employees

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Article 12, Sec. 7 – State Employees Compliance

- Each August, DOA will provide Taxation a report of all state employees
- By December, Taxation will notify any state employee out of compliance with income tax laws

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Article 12, Sec. 7 – State Employees Compliance

- Division notification includes:
 - Explanation of employee's non-compliance
 - Includes statement of tax, penalties, and interest owed, or a list of tax years for which returns have not been filed
 - Statement that non-compliance will lead to wage garnishment
 - Compliance procedures

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Article 12, Sec. 7 – State Employees Compliance

- Employees abiding by payment agreements are considered compliant
- Those who do not come into compliance or who are non-responsive will have wages garnished by State Controller
 - All tax, penalties, and interest due

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Article 12, Sec. 7 – State Employees Compliance

- Governor's FY 2015 Budget includes \$0.4 million in new revenues
 - Taxation reports approximately 850 employees have not filed returns
 - 187 state employees owe total of \$440,000

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Article 12, Sec. 8 – Automatic Sales Suppression Devices

- Criminalizes software or other technology that allows the modification of point-of-sale records or transaction data
 - Technology creates second set of records
 - Vendors report lower sales totals to the Division of Taxation

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Article 12, Sec. 8 – Automatic Sales Suppression Devices

- Any person who sells, purchases, installs, transfers, or possesses is also liable for:
 - All taxes, penalties, and interest owed on actual sales totals
 - All profits associated with sales suppression device's use
 - Safe harbor for those who provide info. and pay taxes due by Oct. 1, 2014
- Governor's FY 2015 budget includes \$0.8 million in associated revenues

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Article 17

- Article 17
 - Section 1 – Retirement Transfer and Direct Deposit
 - Sections 2 & 3 – Directors' Salaries
 - Section 5 – State Leases
 - Section 4 & 6 – Privatization Contracts/Consultant Reports
 - Section 7 – Contracted Services Assessment

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Article 17, Sec. 1 – Retirement Transfer

- Removes requirement that any surplus revenue beyond final estimate be transferred to the Retirement System to pay down unfunded liability
 - Effective for FY 2014
- FY 2012 transfer of \$12.9 million
- FY 2013 transfer of \$0.2 million
- Similar to last year's proposal

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Article 17, Sec. 1 – Retirement Transfer

- This is one of two laws that force savings into System to improve funding
- Other requires that for any fiscal year in which contribution rates are lower than prior year, 20% of rate reduction be transferred to System
- Both provisions retained by Assembly when it enacted pension reform in 2011
- Originally enacted in 2005 and 2007

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Article 17, Sec. 1 – Direct Deposit

- Requires the controller to implement a direct deposit payroll system for state employees
 - Automatic for employees hired after Sept. 30, 2014
 - Employees hired before Sept. 30, 2014, must do so by June 30, 2016

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Article 17, Sec. 1 – Direct Deposit

- Administration in process of implementing a new payroll system
- April 1, 2014
 - Employees can obtain payroll stubs online
 - Subsequent phase will allow employees to obtain W-2 forms online as well

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Article 17, Sec. 2 & 3 – Directors' Salaries

- Directors' Salaries
 - Repeals legislation that requires Administration to refer proposed salaries for cabinet directors to Assembly
 - If Assembly does not act, goes into effect
 - Effective Jan. 1, 2015
 - Would be treated as all other unclassified positions

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Article 17, Sec. 2 & 3 – Directors' Salaries

- Still be subject to public hearing process
- Last across-the-board raise that directors received was in June 2002
 - Governor Carcieri increased salaries for several directors between 2005 and 2008
- Governor withdrew 2013 proposal submitted to Assembly
 - 3% on June 1 and 3% on Dec. 29

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Article 17, Sec. 5 – State Leases

- Current law requires departments to obtain legislative approval before entering into:
 - Long-term lease; five years or more
 - Lease agreements in excess of \$0.5 million
- Adopted by 2006 Assembly
- Repeals the requirement

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Article 17, Sec. 5 – State Leases

- 25 state leases are in effect:
 - 2 are on a month-to-month basis
 - 1 set to expire in FY 2014
 - 6 set to expire in FY 2015
- All leases total \$10.3 million annually
- Range from \$1 to \$2.2 million

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Contracted Services
 - Over the past few years, Assembly required state agencies to be held more accountable for contract services they purchase

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- General Assembly requirements:
 - Quarterly reports of non-state employee expenditures for legal and services – 1985
 - Copies of all contract agreements over \$0.1 million – 2006
 - List all privatization contracts as part of budget request - 2006
 - 5.5% assessment to be paid to the retirement system - Pension Reform 2011

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- 2006 legislation requires agencies to list all privatization contracts as part of the budget request
- List must contain name of contractor, duration of contract and costs of previous, current and upcoming years

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Alters requirements so that agencies provide actual information for the prior fiscal year and projected costs for the current and fiscal years
 - List will be published annually
 - Using the state's transparency portal or an equivalent website
 - No later than Dec. 1 of each year

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Currently, agencies are required to report contracted services in excess of \$100K to Secretary of State on an annual basis
- Adopted by 2006 Assembly

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Based on information obtained from Secretary of State
- Reporting varies
- Fiscal staff review of Secretary of State files
 - Not all agencies are in compliance
 - Some file annually not quarterly

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

Level of Compliance*	State Agencies	Percent of Total
Full compliance	7	18.4%
Partial compliance	14	36.9%
No compliance	17	44.7%
Total	38	100%

* Compliance over FY 2011 – FY 2013

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

Level of Compliance*	Quasi-Agencies	Percent of Total
Full compliance	7	38.9%
Partial compliance	6	33.3%
No compliance	5	27.8%
Total	18	100%

* Compliance over FY 2011 – FY 2013

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Increases threshold to \$150K to mirror other statute in current law
- Reporting would be annually submitted to Budget Office electronically

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Article 17, Sec. 4 & 6 – Privatization/Consultant Reports

- Budget Office will post all contracts and reports
 - State's transparency portal or an equivalent website
 - No later than Dec. 1 of each year

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Article 17, Sec. 7 – Contracted Services Assessment

- Part of pension reform legislation adopted in 2011
- 5.5% assessment on contractual costs
 - When agencies/quasi agree to obtain contractual services that are substantially similar to and in lieu of services provided by regular employees

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Article 17, Sec. 7 – Contracted Services Assessment

- Paid to the retirement system
- Generated \$0.4 million in FY 2013
- Section 7 repeals the assessment

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Article 18

- Article 18
 - Section 1 – Emergency Management Agency
 - Section 2 – Low Income Home Energy Assistance Program

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Article 18, Sec. 1 – Emergency Management Agency

- EMA and National Guard are separate programs under Military Staff
 - Article would replace Adjutant General with EMA Executive Director as “head” of Emergency Management Agency
- Legislation included to reflect the current emergency procedures

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Article 18, Sec. 1 – Emergency Management Agency

- Have been combined since 1996
 - Reflected operations in mostly weather related emergencies
- Role for EMA has changed in recent years to include:
 - Homeland Security
 - Floods, hurricanes, blizzards

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Article 18, Sec. 1 – Emergency Management Agency

- EMA's across country have a variety of structures
 - Military Staff – 18 states
 - Public Safety – 14 states
 - Governor's Office – 8 states
 - Combined w/ Homeland Security – 8 states
 - Under State Police – 2 states

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Article 18, Sec. 1 – Emergency Management Agency

- Supporting documents do not provide clear reasons for separation
 - No findings included
- Budget does not include savings or additional costs from separation

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Article 18, Sec. 2 – Low Income Home Energy Assist. Program

- Technical Correction to change Office of Energy Resources to Department of Human Services
- LIHEAP was transferred 7/2010 to DHS
- PUC statute regarding assessments on electric and natural gas used to supplement federal LIHEAP funds

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