

Department of Revenue

FY 2018 Revised
FY 2019 Recommended
FY 2019 – FY 2023 Capital
Staff Presentation
April 4, 2018

Background

- Created by 2006 Assembly to centralize administration of revenues
 - Office of Director
 - Office of Revenue Analysis
- Transferred from Dept. of Administration
 - State Lottery
 - Division of Municipal Finance
 - Taxation
 - Registry of Motor Vehicles
 - State Aid (transferred by 2011 Assembly)

Summary by Source

| <i>(\$ In millions)</i> | FY 2018 Enacted | FY 2018 Revised | FY 2019 Gov. | Change to Enacted |
|--------------------------|----------------------------|----------------------------|-------------------------|------------------------------|
| General Revenue | \$143.6 | \$148.0 | \$177.3 | \$33.7 |
| Federal Funds | 1.6 | 1.5 | 2.1 | 0.5 |
| Restricted Receipts | 4.0 | 3.9 | 2.1 | (1.9) |
| Other Funds | 376.2 | 371.3 | 401.0 | 24.8 |
| Total – All Funds | \$525.4 | \$524.7 | \$582.5 | \$57.1 |

Centralized Services

- 2017 Assembly authorized establishment of internal service funds for centralized services
 - Information technology, capital asset management & maintenance, & HR
- Costs previously budgeted in DOA
 - Methodology on distribution needs review
 - Long term impacts and transparency concerns

Centralized Services

Governor's budget allocates costs to user agencies

| All Sources | FY 2018 | FY 2019 |
|------------------------|----------------|----------------|
| Information Technology | \$4.2 | \$4.2 |
| Facilities | 1.3 | 1.4 |
| Human Resources | 0.8 | 0.8 |
| Total | \$6.3 | \$6.4 |



| General Revenues | FY 2018 | FY 2019 |
|-------------------------|----------------|----------------|
| Information Technology | \$4.2 | \$4.2 |
| Facilities | 1.2 | 1.3 |
| Human Resources | 0.8 | 0.8 |
| Total | \$6.2 | \$6.2 |

Summary by Source

| <i>(\$ In millions)</i> | FY 2018 Enacted | FY 2018 Revised | FY 2019 Gov. | Change to Enacted |
|--------------------------|----------------------------|----------------------------|-------------------------|------------------------------|
| General Revenue | \$143.6 | \$141.8 | \$171.0 | \$27.4 |
| Federal Funds | 1.6 | 1.5 | 2.1 | 0.5 |
| Restricted Receipts | 4.0 | 3.9 | 2.1 | (1.9) |
| Other Funds | 376.2 | 371.1 | 400.8 | 24.7 |
| Total – All Funds | \$525.3 | \$518.3 | \$576.0 | \$50.7 |

Excludes Centralized Services

Summary by Program

| <i>(\$ In millions)</i> | FY 2018 Enacted | FY 2018 Revised | FY 2019 Gov. | Change to Enacted |
|--------------------------|----------------------------|----------------------------|-------------------------|------------------------------|
| Director's Office | \$1.2 | \$1.2 | \$1.4 | \$0.1 |
| Revenue Analysis | 0.8 | 0.7 | 0.9 | 0.1 |
| Lottery | 375.0 | 370.0 | 400.0 | 25.0 |
| Municipal Finance | 3.1 | 2.9 | 2.2 | (0.9) |
| Taxation | 26.3 | 25.5 | 30.4 | 4.1 |
| DMV | 23.5 | 23.9 | 24.9 | 1.4 |
| State Aid | 95.4 | 94.0 | 115.8 | 20.3 |
| Collections Unit | - | - | 0.6 | 0.6 |
| Total – All Funds | \$525.3 | \$518.3 | \$576.0 | \$50.7 |

FY 2019 Recommendation

- Division of Taxation restructuring
- Adds \$2.6 million in new Taxation IT system funding
- Includes new staff for DMV to launch federal Real ID
- Delays license plate reissuance 1-year
- Adds new Collections Unit

Undistributed Savings

- FY 2018 enacted budget includes \$25.0 million of statewide savings
 - Undistributed in DOA's budget
- Governor's revised budget has proposals that total \$25.0 million
 - Not all repeat in FY 2019
- FY 2018 – \$3.4 million
- FY 2019 - \$0.6 million

Undistributed Savings

| Item | FY 2018 | FY 2019 |
|---|--------------------|--------------------|
| Personnel savings* | \$ 0.8 | \$ 0.6 |
| Twin River Payment | 2.0 | - |
| Lottery Expenditure Savings | 0.6 | - |
| Total | \$ 3.4 | \$0.6 |
| <i>In millions</i> | | |
| *Some of this from voluntary retirement incentive program | | |

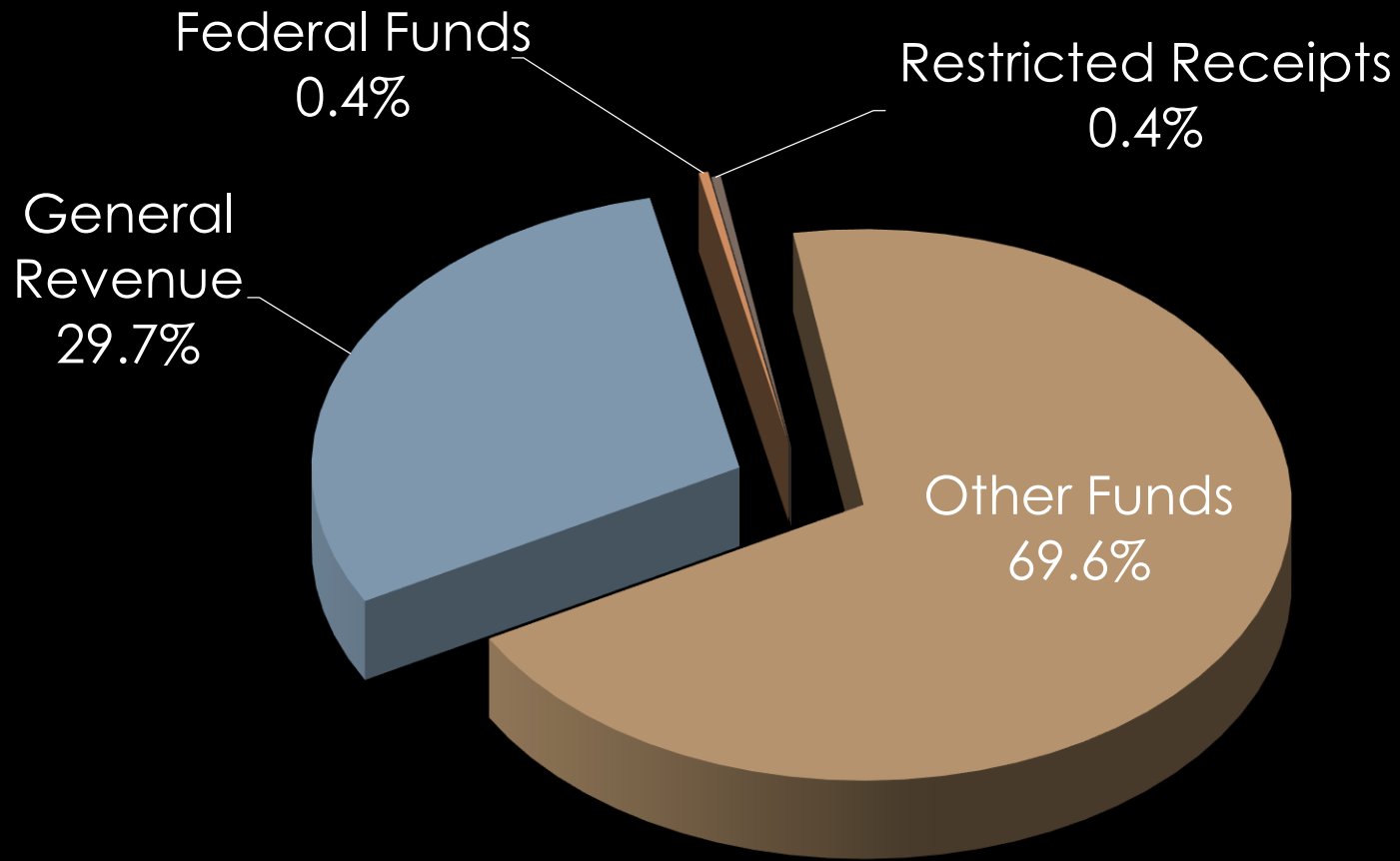
Target Issues

- Budget Office provided a general revenue target of \$170.5 million
 - Current service adjustments of \$31.8 million
 - 10.0% reduction of \$4.9 million
- Budget submitted by the Department \$5.7 million above the target
 - Included proposals for enhanced revenue activities of \$5.7 million
 - Governor recommends \$0.5 million more than target

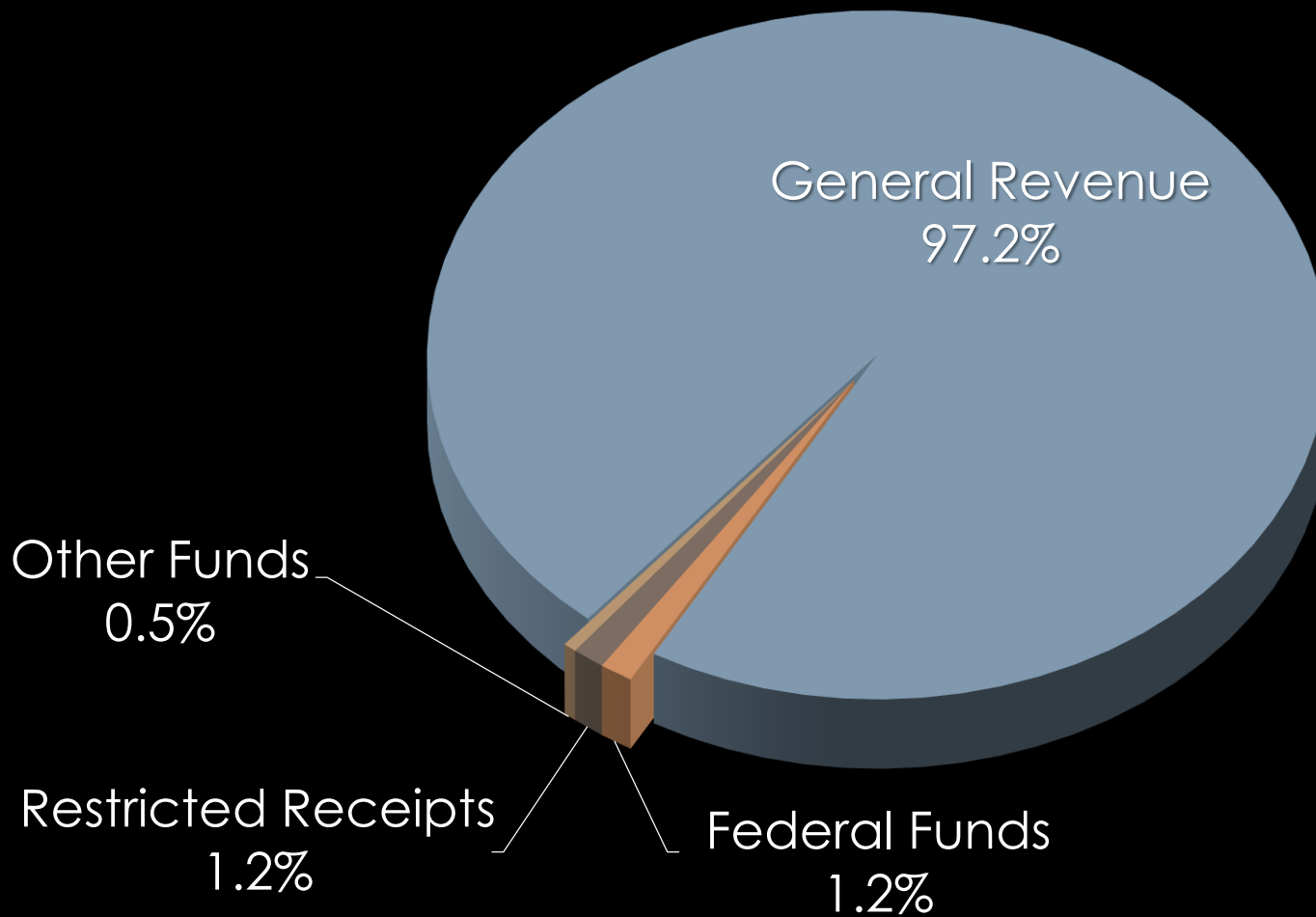
Target Issues

- Department initiatives
 - Sales & use tax on digital products & streaming subscription services
 - Estimated collections \$3.1 million
 - Governor did not recommend– incl. Art. 4
 - to expand sales & use tax to security services and vendor-hosted software; heard 3/15
 - Inspection Suspension Fees- est. \$2.6 million
 - Governor delayed implementation pending Legislative action
 - Budget includes revenues

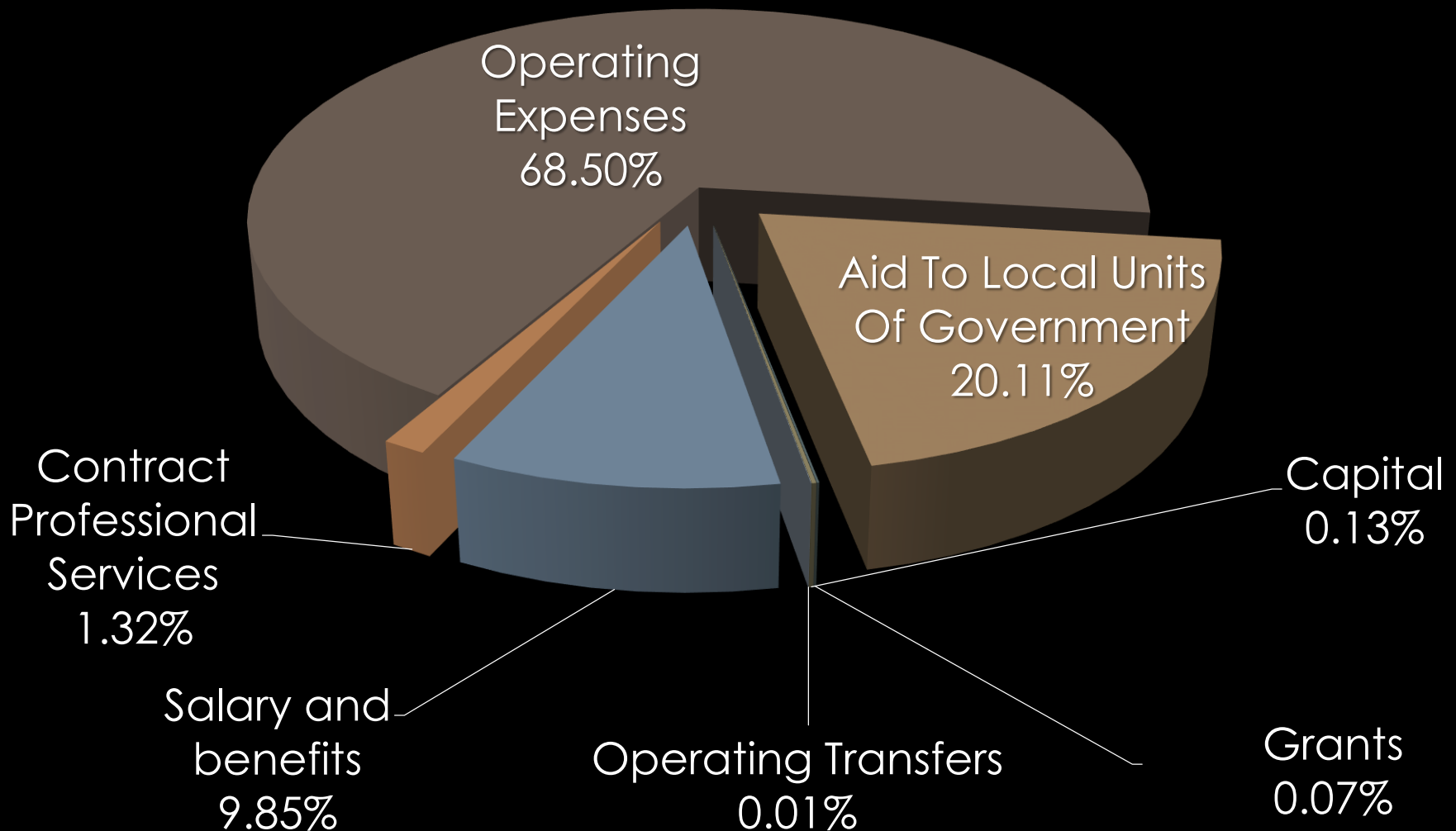
FY 2019 Recommended Sources of Funding



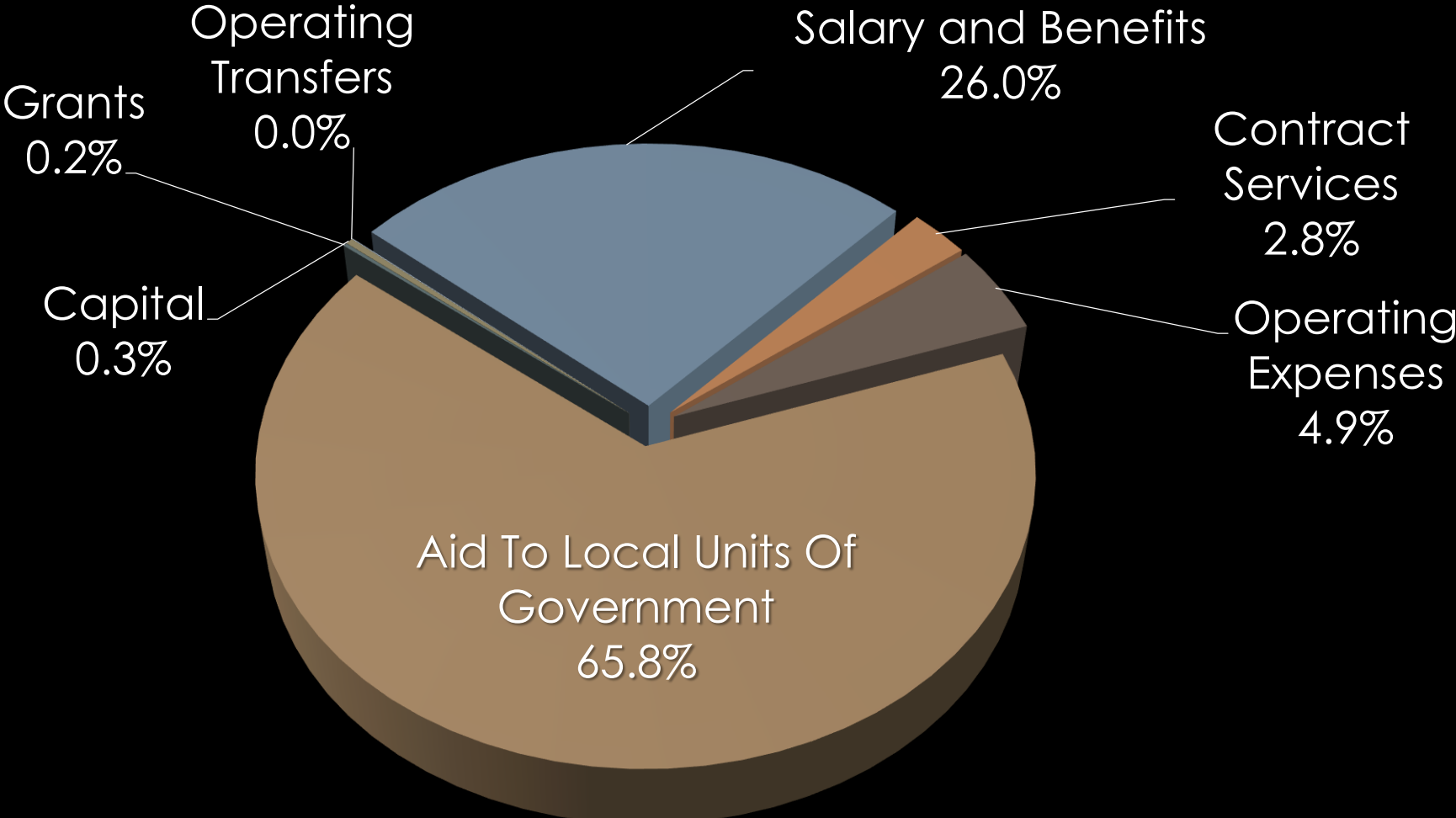
FY 2019 Funding by Category – Lottery Excluded



FY 2019 Funding by Category



FY 2019 Funding by Category – Lottery Excluded



Staffing

| FY 2019 Governor Recommendation | | |
|--|--------|-----------|
| | DOR | Statewide |
| Gross Salaries (in millions) | \$37.9 | \$1,117.1 |
| Turnover (in millions) | (2.9) | (42.9) |
| Turnover % | 7.6% | 3.8% |
| Turnover FTE | 46.4 | 592.2 |
| FY 2019 FTE recommended | 612.5 | 15,426.5 |
| Funded FTE | 566.1 | 14,834.3 |
| Filled as of March 17 | 508.0 | 13,875.0 |
| Funded but not filled* | 58.1 | 959.3 |

*Data skewed by 79 net new positions and staggered start dates

Full-time Equivalent Positions

| | FY 2018 Enacted | FY 2018 Rev. | FY 2019 Gov. | Change to Enacted |
|----------------------|--------------------|-----------------|-----------------|-------------------------|
| Director | 11.0 | 11.0 | 11.0 | - |
| Revenue Analysis | 6.0 | 6.0 | 6.0 | - |
| Municipal Finance | 17.0 | 14.0 | 14.0 | (3.0) |
| Taxation | 236.0 | 233.0 | 255.0 | 19.0 |
| DMV | 179.5 | 182.5 | 214.5 | 35.0 |
| Lottery | 84.0 | 83.0 | 106.0 | 22.0 |
| Collections | - | - | 7.0 | 7.0 |
| Reconciliation | - | - | (1.0) | (1.0) |
| Total | 533.5 | 529.5 | 612.5 | 79.0 |

Salaries and Benefits

| | FY 2018 Enacted | FY 2018 Rev. | FY 2019 Gov. | Change to Enacted |
|-------------------------|----------------------------|-------------------------|-------------------------|----------------------------------|
| <i>(\$ In millions)</i> | | | | |
| General Revenue | \$38.3 | \$37.8 | \$42.4 | \$4.1 |
| Federal Funds | 1.4 | 1.3 | 1.9 | 0.5 |
| Restricted Receipts | 0.9 | 0.9 | 0.6 | (0.3) |
| Other Funds | 10.1 | 9.8 | 11.8 | 1.7 |
| Total | \$50.8 | \$49.7 | \$56.8 | \$6.0 |
| FTE | 533.5 | 529.5 | 612.5 | 79.0 |

Office of the Director

- Oversight of departmental operations
 - Administration
 - Legal services
 - Financial management
- Funded entirely from general revenues
- Nearly all expenses for personnel
- Authorized 11.0 full-time positions

Office of the Director

- FY 2018 –\$29,119 less than enacted
 - Statewide medical benefit savings and adjustments
- FY 2019 –\$1.4 million
 - Essentially the enacted level of spending

Office of Revenue Analysis

- Analyzes, evaluates and appraises state tax system
- Prepares the tax expenditures report
- Prepares cost benefit analysis of all tax expenditures
- Funded from general revenues
- Authorized 6.0 full-time positions

Office of Revenue Analysis

- FY 2018 - \$63,874 less than enacted
 - Turnover savings offset by forecasting software costs
- FY 2019 - \$0.9 million
 - Fully funds the Offices 6.0 FTE
 - Biennial licensing software

Reporting Requirements

- Office of Director
 - Unified Economic Development report
 - Due each January
 - FY 2015 & FY 2016 reports submitted in June and September 2017, respectively
 - FY 2017 submitted in January 2018
- Office of Revenue Analysis
 - Tax Expenditures Report
 - Biennial – due January of even years
 - Last submitted July 2016
 - Tax Incentives Evaluation Report

Reporting Requirements - Status

Tax incentive Evaluation Reports

Investment Credits; Biotech Investment Credits; Specialized Investment Credits; - **Final Review May 2018 – 1 yr late**
R&D Deduction; R&D Property Credits; R&D Expense Credits; Small Business Wage Credit - **June 30, 2018 – 1 yr late**

Job Training Credits - **May 2018 – 1 yr late**
Artist Modification Reducing AGI - **June 30, 2018 – 1 yr late**

Musical and Theatrical Productions - **July 2018**

Artist Modification Reducing AGI - **June 30, 2018 – 1 yr late**

Anchor institution; Qualified Jobs; Rebuild and Sales tax exemption; Wavemaker - **June 2020**

Welfare Bonus Program; Innovation and Growth Incentives; Small Business Investment Deduction; Jobs Growth Act – **Analysis not possible due to lack of usage**

Lottery Division

- Established in statute in 1974
 - Quasi-state agency until July 2005
 - Transferred to DOA then DOR in 2006
 - Operates Keno & Powerball and instant games
 - Administers video lottery and table games
 - Collects all revenues and remits prize funds
- Funded from Lottery funds
- Authorized 84.0 full-time positions

Lottery Division

| <i>(In millions)</i> | FY 2018 Enacted | FY 2018 Rev. | FY 2019 Gov. | Change to Enacted |
|-----------------------|----------------------------|-------------------------|-------------------------|----------------------------------|
| Prizes and Payments | \$352.6 | \$347.5 | \$373.7 | \$21.1 |
| Salaries and Benefits | 9.0 | 8.7 | 11.0 | 2.0 |
| All Other | 13.5 | 14.0 | 15.5 | 2.0 |
| Total | \$375.0 | \$370.2 | \$400.2 | \$25.1 |
| FTE | 84.0 | 83.0 | 106.0 | 22.0 |

Lottery Division

- Twin River Tiverton
 - FY 2019 \$2.6 Million
 - \$1.5 million for 23.0 full-time positions
 - \$0.9 million for the State Police Gaming Unit
 - \$0.2 million for technology and operations infrastructure
 - Governor's budget assumes November 2018 Opening

Lottery Division

| | Tiverton | Lincoln | Lottery Division | Change to Enacted |
|-----------------------------|-----------------|----------------|-----------------------------|----------------------------------|
| <i>(\$ In millions)</i> | | | | |
| Staffing | \$1.5 | \$3.6 | \$6.0 | \$2.0 |
| State Police Gaming Unit | 0.9 | 1.7 | - | 1.0 |
| Operations | 0.2 | 0.1 | 13.7 | 3.0 |
| Total | \$2.6 | \$5.4 | \$19.7 | \$4.0 |
| FTE | 23.0 | 32.0 | 51.0 | 22.0 |

Division of Municipal Finance

- Provides technical support to municipalities
- Administers and distributes local aid
- Determines communities' wealth for use in school aid formulas
- Funded from general revenues
- Authorized 17.0 full-time positions

Division of Municipal Finance

- FY 2018 revised Eliminates 3.0 positions
 - Personnel savings of \$0.2 million
 - \$18,128 less for operations
 - Reflects Central Falls oversight reimbursement savings
- FY 2019 Funds 14.0 full time positions
 - Annualized personnel savings \$0.4 million
 - Includes \$0.1 million savings
 - Lower expenditures for oversight and operations
 - Eliminates \$0.6 million an appropriation for Central Falls

Municipal Transparency Portal

- 2016 Assembly authorized online interface for municipal finances
 - Overseen by Division of Municipal Finance
- Also reduces reporting quarterly reports to 3 per year
 - Budget-to-actual expenditures
 - 6th month, 9th month, 12th month
- No change to current law on annual audit

Municipal Transparency Portal

- Anticipated January 2017 Launch
 - Delayed after feedback from municipalities to May 2017
 - Delayed again based on complexity of data to April 2018
 - All communities included, varying levels of functionality phased in over time
 - Interactive database vs. .pdf format
- FY 2019 Recommendation
 - Funds software license essentially as enacted

Division of Taxation - Sections

- Tax Processing Unit
 - Activities relating to receipt of cash payments; processes tax returns
- Office of Assessment & Review
 - Assesses and collects taxes; holds administrative hearings
- Field Audit
 - Audits corporations and individuals
- Tax Compliance and Collection
 - Collection enforcement

Division of Taxation

- FY 2019 - \$22.7 million to fund 233.0 existing FTEs
 - \$0.2 million less than enacted
 - \$2.3 million for operations
 - \$0.2 million more Multistate Tax Commission
 - Excludes \$0.5 million for Tax Amnesty included in enacted budget

Division of Taxation - Restructuring

- Department has been investigating restructuring for efficiency
- OMB contracted study identified similar operational & organizational efficiencies
 - Enhance discovery through improved intrasectional collaboration
 - Separate compliance & collections activities to increase retention

Division of Taxation - Restructuring

- \$3.4 million to enhance revenue collections
 - \$2.2 million for 22 new FTE for essentially a full year
 - \$1.1 million for analytics & IT support
 - \$0.1 million for operational infrastructure
- Multi-year process
 - Phase I underway, realigning structure
 - Has stabilized some position turnover

Division of Taxation - Restructuring

- Budget assumes revenues of \$13.5 million
 - Net impact \$10.0 million

| Revenue Type | Collections |
|---------------------|--------------------|
| Personal Income Tax | \$4.4 |
| Corporate Tax | 1.1 |
| Sales and Use Tax | 4.4 |
| Fines & Penalties | 3.6 |
| Total | \$13.5 |

Integrated Tax System

- \$25.0 million Certificates of Participation authorized by the 2012 Assembly
 - \$0.2 million of federal funds added for taxpayer portal functionality in FY 2017
- Consolidates separate programs into one computer system
 - Enhance customer service
 - Reduce operating costs
 - Enhance compliance and collection

Integrated Tax System

- FY 2019 \$2.9 million more for contracted maintenance and support costs
- Budget assumes \$0.5 million in savings from taxpayer portal launch
 - Personnel cost reduction of approx. 5 FTE
 - Unclear how the savings are achieved

Annual Reporting Requirements

- Division of Taxation
 - Required to submit 13 reports
 - 12 reports current
 - Sales tax exemption on arts outstanding – jointly reports with Rhode Island State Council on the Arts
 - 2015 Assembly added reporting requirements associated with Commerce Corporation incentives
 - All current

Article 4 Sec. 5 – Sales and Use Taxes

- Expand items subject to RI's 7% sales tax effective July 1, 2018
 - Software as a Service
 - Security Services

| Item | FY 2019 Impact | FY 2020 |
|-----------------------|-----------------------|-----------------------|
| Software as a Service | \$4.8 million | \$6.6 million |
| Security Services | \$9.7 million | \$9.8 million |
| Total | \$14.5 million | \$16.4 million |

Article 4 Sec. 5 – Sales and Use Taxes

- Software as a Service
 - Software access not transferred to the user
 - Office 365
 - Google Apps
 - Citrix GoToMeeting
 - Salesforce
- Currently taxed in both MA and CT

Article 4 Sec. 5 – Sales and Use Taxes

- Security Services – what's included
 - Identified by North American Industrial Classification System (NAICS) code 5161:
 - 611 - Investigation Services
 - Investigation and detective services
 - 612 - Security Guards and Patrol Services
 - Bodyguard, guard dog, and parking security services
 - 613 - Armored Car Services
 - picking up and delivering money, receipts, or other properties in transit

Article 4 Sec. 5 – Sales and Use Taxes

- State's sales tax model used to develop estimate of \$9.7 million in FY 2019
 - Consumption of services in RI
 - Excluding items not proposed for taxation
- Revenues assume full year of collections
 - Consistent with July 1 start date

Division of Motor Vehicles

- Administers and enforces laws pertaining to the operation and registration of motor vehicles
 - Suspension
 - Revocation
 - Inspection of motor vehicles
 - Issues licenses
- Authorized 179.5 full-time positions

Division of Motor Vehicles

- Branch offices
 - Cranston (Pastore Center, Headquarters)
 - Woonsocket
 - Middletown
 - Wakefield (Monday to Thursday)
 - Warren (Tuesday and Wednesday)
 - Westerly (Fridays only)
 - 9 AAA locations
 - Includes South Attleboro

Division of Motor Vehicles

- FY 2019 –\$17.1 million for salaries and benefits
 - \$2.1 million more than enacted for 214.5 full-time equivalent positions
 - 32.0 more than enacted for Real ID Issuance
 - \$5.6 million for operations
 - \$0.5 million more than enacted
 - Mostly general revenues for Real ID activities
- Article 8 – heard February 13, 2018
 - Delays plate reissuance 1-year
 - Increases license Fees to offset Real ID staff

Article 8 Section 1 – License Plate Issuance Delay

- Delays the mandatory reissuance of fully reflective license plates
 - January 1, 2019 to January 1, 2020
 - Reprioritization of system resources and programming for Real ID compliance
- As with prior years, the budget shifts expected revenues and expenditures to coincide with the new schedule

Article 8 Section 2 – Driver's License Update Fees

- Eliminates the lower, \$5 fee for routine information updates
 - All updates would be subject to current \$25 fee for duplicates
 - Change assumed to generate \$1.0 million
 - Section 3 exempts this fee and duplicate permits from Highway Maintenance Account transfer
 - Connected to Real ID compliance rollout
 - Budget also adds \$2.1 million for 32 new FTE for Real ID implementation funded from increased revenues

Article 4 Secs. 3 & 4 – Collections Unit

- Authorizes Department of Revenue to establish a collections unit
 - Collect debts owed to other agencies that meet specific criteria
 - More expansive than current Taxation refund offset program
- Adds fees and penalties to the debt
- Assumes initial pilot program
 - FY 2019 impact \$0.8 million
- Heard March 8, 2018

Article 4 Secs. 3 & 4 – Collections Unit

- Governor's FY 2019 Budget includes \$0.6 million to support operations
 - Includes 7.0 full-time equivalent positions
 - 3.0 Senior accountants
 - 2.0 Collections clerks
 - 1.0 Chief compliance & collections
 - 1.0 Billing specialist
 - Assumes \$1.3 million in revenues
 - Net impact \$0.8 million

State Aid

- Division of Municipal Finance calculates and administers multiple programs
 - Payment in Lieu of Taxes
 - Distressed Communities Relief Fund
 - Property Revaluation Reimbursement
 - Motor Vehicles Excise Tax
- State aid for libraries remains in DOA

Local Aid Programs

| Program | FY 2018 Enacted | FY 2018 Revised | FY 2019 Rec. | Change to Enacted |
|---------------------------|----------------------------|----------------------------|-------------------------|----------------------------------|
| PILOT | \$45.2 | \$45.2 | \$46.1 | \$0.9 |
| Distressed Communities | 12.4 | 12.4 | 12.4 | - |
| Prop. Revaluation | 0.9 | 0.9 | 1.6 | 0.7 |
| Motor Vehicle Excise | 36.0 | 34.5 | 54.7 | 18.7 |
| Total | \$94.5 | \$93.1 | \$114.9 | \$20.3 |
| <i>\$ in millions</i> | | | | |

Payment in Lieu of Taxes (PILOT)

- Program reimburses cities and towns for property taxes which would have been due on untaxable property
 - Private, nonprofit educational institutions, hospitals, or state-owned hospital, veterans' facility, or correctional facility
- Reimbursement up to 27.0% tax that would have been collected
 - Subject to appropriation

Payment in Lieu of Taxes (PILOT)

- Governor recommends \$46.1 million for FY 2019
 - Full funding
 - FY 2018 payment of \$45.2 million also full funding

Distressed Communities Relief Fund

- Established in 1990 to provide assistance to communities with highest property tax burdens relative to wealth
- Communities in the lowest 20.0% for at least 3 of 4 indices to be eligible
 - Percent of tax levy to full value of property
 - Per capita income
 - Personal income as percent of full value of property
 - Per capita full value of property

Distressed Communities Relief Fund

- Recommends \$12.4 million for FY 2019
- Eligible communities:
 - Central Falls
 - Cranston receives 50.0% allocation
 - Johnston
 - North Providence
 - Pawtucket
 - Providence
 - West Warwick
 - Woonsocket

Property Revaluation Reimbursements

- Municipalities update property valuations every third and sixth year after a full revaluation
- Governor includes \$0.9 million for FY 2018 and \$1.6 million for FY 2019
- Expenditures fluctuate annually
 - Depends on communities conducting updates

Motor Vehicle Excise Tax Phase-Out

- FY 2019 Recommendation
 - \$34.5 million for FY 2018; \$1.5 million less than enacted
 - \$54.5 million for FY 2019, \$18.7 million more than enacted
 - \$6.3 million less than the original estimate
 - Recommendations reflect updated estimates
 - 2017 Assembly restarted the phase-out
 - The schedule phases out collections in FY 2024

Motor Vehicle Excise Tax Phase-Out

| Fiscal Year | % of Retail Value | Rate Cap | Exemption Floor | No Tax After Age |
|--------------------|--------------------------|-----------------|------------------------|-------------------------|
| 2017 | 100.0% | \$ - | \$ 500 | 25 |
| 2018 | 95.0% | 60 | 1,000 | 15 |
| 2019 | 90.0% | 50 | 2,000 | 15 |
| 2020 | 85.0% | 35 | 3,000 | 15 |
| 2021 | 80.0% | 35 | 4,000 | 15 |
| 2022 | 75.0% | 30 | 5,000 | 15 |
| 2023 | 70.0% | 20 | 6,000 | 15 |
| 2024 | No Tax Levied | | | |

Capital

- FY 2019 - FY 2023 Capital
 - Integrated Tax System
 - \$0.6 million from Certificates of Participation for FY 2018 – reflects current year payment
 - FY 2019 Lottery Roof
 - \$0.1 million from lottery funds in the operating budget
 - Unclear why it was omitted from the Capital Budget
 - Eligible for RICAP funds as an asset protection project

Other Reporting Requirements

- Municipal Finance
 - Required to submit 4 reports
 - All are current
- DMV
 - Required to submit Vehicle Inspection Commission report
 - No members of Commission appointed
 - Commission has never met
- Lottery
 - Required to submit 2 reports – Both current

Department of Revenue

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April 4, 2018
