

# Governor's FY 2021 Budget: Articles

Staff Presentation to the House Finance  
Committee  
February 6, 2020

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# Introduction

<b>H 7170</b>	<b>H 7171</b>	
<b>Article 1- Transfers</b>		
Sec. 15	Sec. 18	Infrastructure Bank
Sec. 19	Sec. 21	Resource Recovery
	Sec. 22	Narragansett Bay Commission
	<b>Article 3, Sec. 9</b>	State Aid
	<b>Article 9</b>	Local Aid

# Revenues Changes

<b>Quasi Transfers</b>	<b>FY 20</b>	<b>FY 20 R</b>	<b>Chg.</b>	<b>FY 21</b>	<b>2Yr Chg.</b>
Resource Recovery	\$ -	\$5.0	\$5.0	\$5.0	\$10.0
RI Housing	1.5	1.5	-	1.1	1.1
IB/MRBF	4.0	12.9	8.9	5.0	13.9
RISLA	1.5	1.5	-	2.0	2.0
QDC	1.2	1.2	-	-	-
NBC	-	-	-	2.0	2.0
RIHEBC	-	-	-	1.0	1.0
<b>Quasi Total</b>	<b>\$8.2</b>	<b>\$22.1</b>	<b>\$13.9</b>	<b>\$16.1</b>	<b>\$30.0</b>
Other Transfers	5.0	7.8	2.8	-	2.8
<b>Grand Total</b>	<b>\$13.2</b>	<b>\$29.9</b>	<b>\$16.7</b>	<b>\$16.1</b>	<b>\$32.8</b>

\$ in millions

# H 7170/7171 Quasi Public Agency Transfers

- Require payments to the General Fund
  - Various amounts from quasi-state agencies
  - Similar to last four years' proposals

<b>Quasi Transfers</b>	<b>FY 20</b>	<b>FY 20 R</b>	<b>Chg.</b>	<b>FY 21</b>	<b>2Yr Chg.</b>
Resource Recovery	\$ -	\$5.0	\$5.0	\$5.0	\$10.0
Infrastructure Bank	4.0	4.0	-	5.0	5.0
IB: Muni Road/Bridge	-	-	8.9	-	8.9
Narr. Bay Commission	-	-	-	2.0	2.0
<b>Total</b>	<b>\$4.0</b>	<b>\$17.9</b>	<b>\$13.9</b>	<b>\$12.0</b>	<b>\$25.9</b>

\$ in millions

# H 7170/7171 Sec. 19 and 21 Resource Recovery

- Requires transfer of \$10 million
  - \$5 million each by end of FY 2020/FY 2021
  - RRC had approximate unrestricted cash assets of \$45.5 million as of June 30, 2019
  - Unclear how transfer amount was determined
- Recommended annually since FY 2016
  - Varying amounts - \$1.5 - \$6 million increments
  - None enacted by Assembly
  - Last transfer was FY 2012 - \$3.5 million

# H 7170/7171 Sec. 19 and 21 Resource Recovery

## History of Transfers

Fiscal Year	Transfer	Fiscal Year	Transfer
1994	(\$6,000,000)*	2003	6,000,000
1995	6,000,000	2005	4,300,000
1996	15,000,000	2006	7,500,000
1998	2,000,000	2007	3,300,000
1999	4,000,000	2008	5,000,000
2001	3,115,000	2009	7,500,000
2002	3,000,000	2012	3,500,000
<b>*state subsidy</b>		<b>Total \$ 64,215,000</b>	

# H 7170/7171 Sec. 19 and 21

## Resource Recovery

- Possible cash reduction impacts
  - Some capital work is time sensitive
- Next scheduled review of municipal tip fees will occur in October 2020
  - Changes affect users in FY 2022 and FY 2023
- Commercial fees will increase in FY 2021 by \$15 for 300 tons or more contracts

# H 7170/7171 Sec. 19 and 21 Resource Recovery

<b>Cash Position</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Beginning Cash	\$48.7	\$52.1	\$35.6	\$17.1	\$2.2	(\$10.8)
Cash from Operations	23.9	24.1	21.8	21.1	19.9	19.1
Debt Service	(4.8)	(4.9)	(4.8)	(4.9)	(0.3)	(0.3)
Capital Spending	(15.7)	(35.7)	(35.5)	(31.1)	(32.6)	(18.6)
Cash Flow	3.4	(16.5)	(18.5)	(14.9)	(13.0)	0.2
Ending Cash	\$52.1	\$35.6	\$17.1	\$2.2	(\$10.8)	(\$10.6)
Proposed Transfer	(5.0)	(5.0)	-	-	-	-
<b>Ending Cash w/Transfer</b>	<b>\$47.1</b>	<b>\$25.6</b>	<b>\$7.1</b>	<b>(\$7.8)</b>	<b>(\$20.8)</b>	<b>(\$20.6)</b>

\$ in millions



# H 7170/7171 Sec. 19 and 21

## Resource Recovery

- Governor's capital plan includes \$6.0 million from Rhode Island Capital Plans for Corporation's Landfill Phase VI Construction project
  - FY 2023 and FY 2024
  - Included in the DOA capital budget
  - Unclear how this number was determined
  - Future pay-go capital support for operating cash today?

# H 7170/7171 – Infrastructure Bank Transfers

- Infrastructure Bank - formerly Clean Water Finance Agency
  - Wastewater & drinking water projects
  - Municipal Road and Bridge Fund
- 2015 Assembly expanded purview
  - Renewable energy and efficiency projects
  - Efficient Buildings Fund
    - Funding & administrative support to public entities for efficient & renewable energy upgrades to public buildings and infrastructure

# H 7170/7171 – Infrastructure Bank Transfers

- Municipal Road and Bridge Fund
  - Offers financing for municipality infrastructure projects below market rate
    - Funded mostly by bond premiums from state
    - Established as part of FY 2014 budget
- H 7170 Article 1, Section 15
  - Requires \$8.9 million of premiums issued to fund transferred back to general revenues
    - Enacted budget includes \$4.0 million from Bank
  - Represents half of the \$17.8 million of premiums received in FY 2020

# H 7170/7171 – Infrastructure Bank Transfers

<b>MRBF Balance Information</b>	
FY 2020 Beginning Balance	\$12.5
Bond Premiums Received	17.8
Committed Loans	(12.5)
Transfer to State	(8.9)
<b>Ending Balance</b>	<b>\$8.9</b>
Anticipated Loans*	(20.0)
Ending Balance w. Anticipated Loans	(\$11.1)

\$ in millions

\*Providence Public Buildings Authority is expected to request a loan of \$20.0 million in the spring

# H 7170/7171 – Infrastructure Bank Transfers

<b>MRBF Sources and Spending</b>			
<b>Year</b>	<b>Bond Premiums/ State Funds</b>	<b>Agency Funds or Bonds</b>	<b>Loans Disbursed</b>
FY 2014	\$10.3	\$ -	\$ -
FY 2015	5.0*	3.5	18.5
FY 2016	2.6	-	6.2
FY 2017	6.6	-	8.0
FY 2018	6.5	15.0	17.4
FY 2019	12.5	17.9	24.0
FY 2020	17.8	-	12.5
<b>Total</b>	<b>\$61.4</b>	<b>\$36.4</b>	<b>\$86.6</b>

\$ in millions; \*tobacco settlement funds

# H 7170/7171 – Infrastructure Bank Transfers

<b>Top 7 MRBF Recipients through FY 2019</b>			
<b>Community</b>	<b>Loans</b>	<b>Amount</b>	<b>Most Recent</b>
Pawtucket	6	\$18.5	2019
Westerly	1	\$15.0	2019
Providence	1	\$10.0	2018
East Greenwich	2	\$7.0	2017
Middletown	1	\$5.0	2018
Barrington	1	\$3.5	2019
Warren	1	\$2.0	2019

\$ in millions

# H 7170/7171 – Infrastructure Bank Transfers

- H 7171 – Article 1, Section 18
  - Requires transfer of \$5.0 million from Bank sources to general revenues in FY 2021
  - Fourth consecutive year with transfer

<b>Prior Bank Transfers</b>	
FY 2018	\$3.5
FY 2019	4.0
FY 2020 Enacted	4.0
FY 2021 Proposal	5.0
<b>Total</b>	<b>\$16.5</b>

\$ in millions

# H 7170/7171 – Infrastructure Bank Transfers

<b>Unrestricted Cash Position</b>	
Beginning Cash as of 6/30/19	\$27.2
FY 2020 Enacted Transfer	(4.0)
Committed Cash (IB data)	(16.5)
<b>Ending Cash</b>	<b>\$6.7</b>
FY 2021 Unrestricted Total Estimate	13.5
FY 2021 Proposed Transfer	(5.0)
<b>FY 2021 Available Cash</b>	<b>\$15.2</b>
Identified Capital Needs*	(23.0)
<b>FY 2021 Availability w. Capital Needs</b>	<b>(\$7.8)</b>

\$ in millions, data based on Bank projections

\* Infrastructure Bank info for FY 2020/FY 2021



# H 7170/7171 – Infrastructure Bank Transfers

- 2019 Public Finance Management Board Debt Affordability Study recommends
  - Maintain minimums of 1.25x debt service coverage and 1.3x asset to liability ratios

<b>Fund</b>	<b>Fitch's Bond Rating</b>	<b>Asset Liability Ratio</b>	<b>Debt Service Coverage</b>	<b>Largest Borrower</b>
Clean Water	AAA	1.5x	1.3x	41.4%
Drinking Water	AAA	1.6x	1.5x	33.5%
Efficient Buildings	AA	1.8x	1.3x	43.0%
Municipal Road and Bridge	AA	3.03x	2.44x	26.0%

# H 7171 Article 1, Section 22 – Narragansett Bay Commission

- Requires transfer of \$2.0 million to state general revenues from the Narragansett Bay Commission by June 30, 2021
- Recent transfer proposals
  - FY 2018 - \$5.0 million - approved
  - FY 2017 - \$1.5 million – not approved
  - FY 2016 - \$2.8 million - not approved

# H 7171 Article 1, Section 22 – Narragansett Bay Commission

- Prior year transfers proposals were linked to state paid debt service on bonds issued for Commission
  - No discussions this year that this is the case
  - Total outstanding debt service in FY 2021 is \$0.6 million, after which all debt is retired

# Article 9 – Local Aid

- Summary
  - Allows municipalities to tax a portion of nonprofit properties currently exempt
  - New Tangible Tax Reimbursement program
    - Reimbursement for lost revenues, similar to motor vehicle tax phase-out
  - Delays motor vehicle tax phase-out elimination

# Article 9 – Local Aid

- Current law property tax exemptions
  - Property of the government
    - State or federally owned, military use, public school buildings, airports
  - Religious buildings & estates
  - Buildings & estates of public non-profit incorporated charities/entities
    - Libraries, schools, hospitals, specified charities
  - Property exempt by charter
  - Burial grounds

# Article 9 – Local Aid

- Current law property tax exemptions
  - Property of volunteer fire departments
  - Manufacturer's inventory
  - Household items
  - Limited and specific exemptions
    - \$10,000 for Brown University president & professors if claimed prior to Dec. 31, 1996
    - \$400,000 for veterans organizations incorporated by an act of Congress
    - \$1,500 for an EMA-approved fallout shelter

# Article 9 – Local Aid

- Article 9 removes the tax exempt status from portions of properties of nonprofit higher education & hospitals
  - Those portions that are not used exclusively for educational or hospital activities
    - Removes exemption for all vacant lots, regardless of improvements
  - In some cases communities may see new tax revenues

# Payment in Lieu of Taxes (PILOT)

- Program reimburses cities & towns for property taxes which would have been due on specific untaxable property
  - Private, nonprofit educational institutions, hospitals, or state-owned hospital, veterans' facility, or correctional facility
- Reimbursement up to 27% of the tax that would have been collected
  - Subject to appropriation



# Payment in Lieu of Taxes (PILOT) - History

Assembly	Change
1986	Established a 25% reimbursement for private, nonprofit educational institutions, hospitals
1988	Expanded eligibility to state-owned hospital, veterans' facility, or correctional facility over 100 residents
1997	Increased the reimbursement rate to 27%
2002	Allowed a ratable reduction for all communities if appropriated at less than 27%

# Payment in Lieu of Taxes (PILOT)

- Governor recommends the enacted level of \$46.1 million for FY 2021
  - \$1.5 million less than full funding = 26.1%
  - FY 2020 payment is 26.6%
- Removal of tax exempt status for these properties will affect future aid payments

# Article 9 – Local Aid

Municipality	State	Higher Ed	Hospital	% Hosp./Ed
Barrington		X		100%
Bristol	X	X		74.6%
Burrillville	X			0%
Cranston	X	X		6.7%
East Greenwich		X	X	100%
East Providence			X	100%
Newport		X	X	100%
North Kingstown			X	100%
Pawtucket			X	100%
Providence		X	X	100%
Smithfield		X		100%
South Kingstown			X	100%
Warwick		X	X	100%
Westerly			X	100%
Woonsocket			X	100%

# Article 9 – Tangible Tax Reimbursement

- Municipal Tangible Tax
  - Local tax levied on personal property based on industry group & property class
    - Rates & exemptions vary by community
      - Total FY 2020 collections est. \$192.1 million
      - About 8% of total municipal levies
      - Statewide effective rate of 3.9%

	Rate per \$1K=%		Levy*	Per Capita
Average	\$ 29.96	3.00%	\$ 4.93	\$ 280.33
Median	\$ 22.24	2.22%	\$ 1.48	\$ 92.71
Lowest	\$ 6.16	0.62%	\$ 0.11	\$ 2.60
Highest	\$ 73.11	7.31%	\$55.22	\$ 3,161.43

\* Levy data in millions

# Article 9 – Tangible Tax Reimbursement

- Enables local establishment of uniform minimum filing thresholds
  - Avoids special statutory exemptions
- Creates process for reimbursing lost tax revenues for some that lower rates
  - Competitive process
    - Administered by DOR w/ Commerce Corp.
    - FY 2021 includes \$85k in Commerce for a study
    - Capped \$2.5 million in FY 2022; \$5.0 million annually

# Article 9 – Tangible Tax Reimbursement

- Tiered reimbursement possible for rates over 2.15%
  - Reimbursements higher for larger rate reductions
    - Decline as rate levels go down
  - Reimbursed based on how much collections (levy) decrease
    - Year prior to application set as base rate
- 18 communities with rates < 2.15%

# Article 9 – Tangible Tax Reimbursement

- Only 7 communities would be eligible for higher level reimbursements
  - Central Falls – 7.3%
  - North Providence – 6.9%

	<b>Tier 1 – 10%</b>	<b>Tier 2 – 25%</b>	<b>Tier 3 – 50%</b>
Current Eligible	14	5	2
Tax Rate Range	2.15% - <5.0%	5.00% - <6.49%	6.50%+
Average	4.3%	6.1%	7.1%
Median	4.1%	6.0%	7.1%
Maximum	7.3%	7.3%	7.3%
Minimum	2.2%	5.2%	6.9%

# Article 9 – Tangible Tax Reimbursement

- Applications to Municipal Finance
  - Standards established w/ Commerce Corp.
  - Including rate reduction, method of absorbing revenue loss, compliance w/ other laws
  - Locals must declare intent to continue
- Funding limited to 5 consecutive years
- Includes annual reporting requirements



# Motor Vehicle Excise – History

- General Laws authorize municipalities to administer and collect an excise tax on motor vehicles
- A phase-out plan was adopted in 1998 to begin with FY 2000 tax bills
  - Altered numerous times then frozen in 2002
  - Exemptions grew in 2005 and 2006 to \$6,000 using new lottery revenue
  - Rolled back in 2010 Session to \$500 including immediate reduction in aid

# Motor Vehicle Excise: Exemption \$ Change History

Session	1998	2000	2002	2005	2006	2010	2011
FY 2000	1,500	1,500	1,500	1,500	1,500	1,500	1,500
FY 2001	2,500	2,500	2,500	2,500	2,500	2,500	2,500
FY 2002	3,500	3,500	3,500	3,500	3,500	3,500	3,500
FY 2003	8,000	5,000	4,500	4,500	4,500	4,500	4,500
FY 2004	10,000	6,900	4,500	4,500	4,500	4,500	4,500
FY 2005	15,000	9,400	4,500	4,500	4,500	4,500	4,500
FY 2006	Full	13,000	4,500	5,000	5,000	5,000	5,000
FY 2007	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2008	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2009	Full	Full	4,500	5,000	6,000	6,000	6,000
FY 2010*	Full	Full	4,500	5,000	6,000	6,000*	6,000
FY 2011	Full	Full	4,500	5,000	6,000	500	500
FY 2012	Full	Full	4,500	5,000	6,000	500	500

\*Current year budget reduction; paid 88% of total due

# Motor Vehicle Excise - History

- 1998 plan froze rates at FY 1998 levels
  - Authorized inflation adjustments to account for lost growth
    - 2003 change ended adjustments
    - 2008 change reduced reimbursement to 98% to align with collection rates
- 2010 change allowed rates to be lowered but kept ceiling
  - Only Providence lowered rates

# Motor Vehicle Excise - History

- 2017 Assembly restarted the phase-out
- Over time the phase-out
  - Reduces the tax rate levied
  - Reduces the percentage of value assessed
  - Increases the minimum exemption
  - Tax collections phased-out in FY 2024
    - Cars older than 15 years exempt since FY 2018

# Article 9 – Motor Vehicle Excise Tax Phase-Out

Fiscal Year	Current Law		
	% of Retail Value	Rate cap / \$1,000	Exempt. Floor
2017	100	\$ -	\$ 500
2018	95	\$60	\$1,000
2019	90	\$50	\$2,000
2020*	85	\$35	\$3,000
2021	80	\$35	\$4,000
2022	75	\$30	\$5,000
2023	70	\$20	\$6,000
<b>2024</b>	<b>No Tax Levied</b>		

\* Actual reimbursements \$4.0 million less than enacted w/ no methodology change

# Article 9 – Motor Vehicle Excise Tax Phase-Out

- Article 9 proposes to delay the elimination of the tax by 5 years
  - Cost/tax relief shifted to later years
  - Changes also proposed last year
- FY 2021 Recommendation
  - \$100.7 million
    - \$11.8 million less than the current law
- FY 2020 revised funding \$90.3 million
  - \$4.0 million less based on updated data

# Article 9 – Motor Vehicle Excise Tax Phase-Out

Fiscal Year	2020-H 7171 / Change to Current Law					
	% of Retail Value		Rate cap/\$1,000		Exempt. Floor	
<b>2020</b>	<b>85</b>	<b>-</b>	<b>\$35</b>	<b>-</b>	<b>\$3,000</b>	<b>\$ -</b>
2021	82.5	2.5	\$35	-	\$3,800	(\$200)
2022	80	5.0	\$33	\$ 3	\$4,000	(\$1,000)
2023	77.5	7.5	\$25	\$11	\$4,500	(\$1,500)
2024	75.0	75.0	\$27	\$27	\$5,000	\$5,000
2025	72.5	72.5	\$23	\$23	\$5,500	\$5,500
2026	70.0	70.0	\$19	\$19	\$6,000	\$6,000
2027	67.5	67.5	\$15	\$15	\$7,000	\$7,000
2028	65.0	65.0	\$10	\$10	\$7,500	\$7,500
<b>2029</b>	<b>No Tax Levied</b>					

# Article 9 – Motor Vehicle Excise Tax Phase-Out

Fiscal Year	Current Law	Proposed	Variance
2020	\$ 90.3	\$ 90.3	\$ -
2021	\$112.6	\$100.7	(\$11.8)
2022	\$140.4	\$112.6	(\$27.7)
2023	\$175.3	\$124.4	(\$50.8)
2024	\$234.6	\$141.4	(\$93.1)
2025	\$241.6	\$157.1	(\$84.5)
2026	\$247.1	\$171.6	(\$75.6)
2027	\$252.7	\$190.5	(\$62.2)
2028	\$258.3	\$209.0	(\$49.4)



# Local Aid Programs

<b>Program</b>	<b>FY 2020 Enacted</b>	<b>FY 2020 Rev.</b>	<b>FY 2021 Rec.</b>	<b>Current Law/Full Funding</b>	<b>Change</b>
PILOT	\$46.1	\$46.1	\$46.1	\$47.6	(\$1.5)
MV Excise Phase-Out	94.3	90.3	100.7	112.6	(11.8)
Distressed Communities	12.4	12.4	6.2	12.4	(6.2)
Prop. Revaluation	0.7	0.7	1.1	1.1	-
<b>Total</b>	<b>\$153.4</b>	<b>\$149.5</b>	<b>\$154.1</b>	<b>\$173.7</b>	<b>(\$19.5)</b>

\$ in millions

# Local Aid Programs

- Distressed Communities
  - Aid to locals with highest property tax burdens with respect to wealth
    - Lowest 20% of eight categories
  - \$6.2 million
  - Half the enacted
  - Redistribution based on data
- 7 recipients
  - Central Falls
  - North Providence
  - Pawtucket
  - Providence
  - West Warwick
  - Woonsocket
  - Cranston

# Article 3, Sec. 9 – State Aid

- Adds more options for the state to withhold funds from municipalities that owe state agencies or entities
  - Current options not large enough or do not capture all municipalities
  - Exeter does not reimburse State Police for services provided
    - FY 2021 assumes Exeter reimburses \$0.4 million
- Shortens the delinquency period from 180 days after invoicing to 90 days

# Article 3, Sec. 9 – State Aid

- Current law allows withholding from certain direct aid programs
  - Distressed and PILOT
  - Other unfunded programs
- Article adds items “passed through”
  - Public Service Corporation Tax - \$13.3 million
  - 1% Meals and Beverage - \$30.8 million
  - Local Share of Hotel Taxes – \$11.2 million
    - Exeter’s share estimated at \$0.2 million

# Other Issues

- Other items of local interest to be covered in future article hearings
  - Budget assumes \$0.8 million in revenues from charging 2% assessment on taxes collected at state level and passed through to locals
  - Meals & beverage, state & local hotel taxes
    - Article 8
  - Real estate conveyance tax
    - Article 12

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