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State Fiscal Note for Bill Number: 2016-H-7192

Date of State Budget Office Approval:

Date Requested: **Friday, January 29, 2016**

Date Due: **Monday, February 08, 2016**

Impact on Expenditures		*Impact on Revenues*	
FY 2016	n/a	FY 2016	n/a
FY 2017	See below	FY 2017	See below
FY 2018	See below	FY 2018	See below

Explanation by State Budget Office:

This bill amends Rhode Island General Law Chapter 42-13, entitled "Department of Transportation" by adding Section 42-13-8 titled "Bridge repair – Restricted receipt account" which creates a restricted receipt account for sole purpose of maintaining and repairing bridges located in the state. The restricted receipt account will be known as "Bridge Works" and the state will annually contribute $1.0 million from the general fund to the Bridge Works account. Under current law, no such restricted receipt account exists.

The bill also amends Rhode Island General Law Section 31-36-7, titled "Motor Fuel Tax – Monthly report of distributors – Payment of tax" to allocate the amount of revenue derived from the increase in the motor fuel tax that is due to the inflation adjustment provided for in Rhode Island General Law Section 31-36-7(c) to the Bridge Works restricted receipt account. Under current law, the revenue derived from the increase in the motor fuel tax attributable to the inflation adjustment is retained by the Intermodal Surface Transportation Fund (ISTF).

The bill further amends Rhode Island General Law Section 31-41.1-7, titled "Adjudication of Traffic Offenses - Application for dismissal based on good driving record" to require the deposit of the revenues received from the $25 surcharge on all dismissals based upon a good driving record into the Bridge Works restricted receipt account. Under current law, this surcharge is deposited into the Rhode Island Highway Maintenance Account (RIHMA).

In addition, the bill amends Rhode Island General Law Section 31-47.1-11, titled, "Motor Vehicle Emissions Inspection Program- Fees" to mandate that $32 of the $55 motor vehicle emissions inspection fee generated per inspection be deposited in the Bridge Works restricted receipt account. Under current law, the revenues generated from the $32 of the $55 motor vehicle emissions inspection fee per inspection are deposited in RIHMA.

The bill also amends Rhode Island General Law Section 35-4-27, titled "State Funds - Indirect cost recoveries on restricted receipt accounts" to exempt the Bridge Works restricted receipt account from the 10 percent indirect cost recovery charge that is generally applied to restricted receipt accounts unless said accounts are specified as exempt.

Further, the bill amends Rhode Island General Law Section 35-16-2, titled "Revenue

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

Estimating Conferences - Meetings" to require the principals of regularly scheduled Revenue Estimating Conference (REC) to "present to the general assembly a recommendation concerning maintaining adequate funding of the bridge works restricted receipt account through the use of past and present state resources." Under current law, no such reporting requirement exists.

In addition, the bill amends Rhode Island General Law Section 39-26-4, titled "Renewable Energy Standard - Renewable energy standard", effective October 1, 2017 and until "such time when the Federal Highway Administration (FHWA) determines that no bridges in the state are structurally deficient" to reduce the percentage amount of electricity that an obligated entity must derive from renewable energy sources that is sold to Rhode Island end-users by "the amount of electricity sold at retail to the state of Rhode Island". Under current regulations, an obligated entity that sells electricity to Rhode Island end-users must derive 11.5 percent of the electricity sold to Rhode Island end-users from new and existing renewable energy sources during calendar year 2016. This provision of the bill is seemingly intended to reduce the obligation of the state to source a portion of its own electricity purchases from renewable sources, presumably achieving cost savings by shifting to less expensive, non-renewable energy.

The bill also amends Rhode Island General Law Section 42-61.2-7, titled "Video Lottery Terminal - Division of revenue" to sunset the additional 1.9 percent of video lottery net terminal income that Newport Grand receives as Additional Newport Grand Marketing NTI on June 30, 2016. Under current law, the Additional Newport Grand Marketing NTI provision is set to sunset on June 30, 2017.

In addition the bill amends Rhode Island General Law Section 42-75.2-4, titled "Allocation for Art for Public Facilities Act - Allocation for art" to reduce the percentage of "any monies appropriated for construction, remodeling, or renovation of any state facility" that is used for the purpose of including works of art in the facility from 1.0 percent to 0.5 percent with the remaining 0.5 percent deposited into the Bridge Works account. Under current law, 1.0 percent of any monies that a state agency is appropriated for construction, remodeling or renovation of a state facility is used for the inclusion of works of art in the facility.

Further, the bill amends Rhode Island General Law Section 44-31.2-5, titled "Motion Picture Production Tax Credits - Motion picture production company tax credit" to reduce the amount of motion picture production company tax credits that can be given to a single production to $2.0 million and the total amount of such credits that can be awarded in a given year to $5.0 million. Under current law, the maximum amount of motion picture production tax credits that can be awarded to a single production is $5.0 million and the total amount of such credits that can be issued in a single year is $15.0 million.

Finally, the bill amends Rhode Island General Law Section 35-4-23, titled "State Funds - Rhode Island capital plan funds" to mandate the appropriation of $25 million per fiscal year to the Bridge Works account effective with FY 2021 and each fiscal year thereafter. Under current law, no such appropriation from Rhode Island capital plan funds is required.

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

Comments on Sources of Funds:

All general fund appropriations are made from general revenues.

Motor fuel tax revenues and Rhode Island Capital Plan (RICAP) monies are considered to be other funds.

All monies that are deposited in the Rhode Island Highway Maintenance Account are restricted receipts.

Personal income tax, business corporations tax, public utilities gross earnings tax, insurance companies gross premiums tax, and lottery transfer revenues are considered to be general revenues.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage but the implementation dates for the various aspects of the bill vary. The transfer of monies from the general fund to the Bridge Works restricted receipt account are assumed to commence on July 1, 2016. The incremental increase in the motor fuel tax due to the inflation adjustment occurred on July 1, 2015. The Department of Revenue's Office of Revenue Analysis (ORA) assumed that the value of this incremental increase in the motor fuel tax would be transferred effective July 1, 2016. The transfer of good driving record dismissal surcharges and the state's share of the motor vehicle emissions inspection fees to the Bridge Works account are assumed to begin on July 1, 2016. The indirect cost recovery exemption for the Bridge Works restricted receipt account is assumed to be July 1, 2016. The reporting requirement for the principals of the Revenue Estimating Conference is assumed to be effective beginning with the November 2016 Revenue Estimating Conference. The reduction in the renewable energy standard is set in the bill to begin on October 1, 2017. The recapture of the 1.9 percent of Newport Grand video lottery net terminal income is set to begin on July 1, 2016. The change in the allocation of appropriated monies for construction, renovation or remodeling of state facilities from works of art to the Bridge Works account is assumed to take effect on July 1, 2016. The reduction in the amount of motion picture production tax credits that can be issued on a project basis or in the aggregate is assumed to occur on January 1, 2017. It should be noted that the motion picture production tax credit is scheduled to sunset on July 1, 2019. The transfer of RICAP monies to the Bridge Works account is specified in the bill to begin in FY 2021.

The bill proposes creating and repurposing the following revenue streams to fund the newly created Bridge Works restricted receipt account:

The general fund appropriation of $1,000,000 annually would reduce general revenue expenditures and increase restricted receipts by the same amount. Based on the implementation assumptions for the bill, this provision would reduce general revenue expenditures by $1,000,000 in both FY 2017 and FY 2018. This appropriation would have no effect on the budget as a whole.

The additional motor fuel tax revenues that result from the inflation adjustment to the state's per gallon motor fuel excise tax are deposited in the ISTF and classified as other funds. The bill would transfer these revenues from ISTF to the Bridge Works restricted receipt account thereby reducing other funds revenues and increasing restricted receipts. The inflation adjustment to the motor fuel excise tax increased the state's motor fuel tax rate by $0.01 per gallon from $0.32 to $0.33 on July 1,

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

2015. Based on the implementation assumptions for the bill and ORA estimates of the per penny yield of the motor fuel tax passage of the bill would transfer $4,332,792 to the Bridge Works account in FY 2017. On July 1, 2017, the inflation adjustment will be applied again and the state's motor fuel tax rate will increase to $0.34 per gallon. ORA assumed that the full amount of the inflation adjustment would be reallocated from ISTF to the Bridge Works account, or $0.02 per gallon of the motor fuel tax. For FY 2018, ORA estimates the per penny motor fuel tax yield to be $4,301,524 resulting in $8,603,048 of incremental motor fuel tax revenues being transferred to the Bridge Works account. This transfer of revenues would have no impact on the budget as a whole.

The allocation of the $25.00 per offense good driving record dismissal surcharge would reduce monies in the Rhode Island Highway Maintenance Account (RIHMA), a restricted receipt account, and increase revenues in the Bridge Works account, also a restricted receipt account by the same amount. Thus, there is no impact on total restricted receipts or the budget as a whole. The Rhode Island Department of Transportation (RIDOT) estimates that good driving record dismissal surcharges will generate $418,183 in FY 2017 and FY 2018 for RIHMA. Note that these funds are already being used to fund transportation infrastructure maintenance projects. Transferring funds to the Bridge Works account will simply require that they be dedicated to bridge repair. It is possible that additional appropriations will be necessary to compensate for foregone revenue in the RIHMA.

The transfer of the $32.00 per inspection of fees retained by the state from the motor vehicle emissions inspections program from RIHMA, a restricted receipt account, to the Bridge Works account, also a restricted receipt account, will have no net effect on total restricted receipts or the budget as a whole. Quite simply, the amount of monies available in RIHMA will be reduced and the amount of revenues available for the Bridge Works account will increase dollar for dollar. RIDOT estimates that transfers into RIHMA from the emissions inspection fees will total $11.6 million in FY 2017 and $11.2 million in FY 2018. Note that these funds are already being used to fund transportation infrastructure maintenance projects. Transferring funds to the Bridge Works account will simply require that they be dedicated to bridge repair. It is possible that additional appropriations will be necessary to compensate for foregone revenue in RIHMA.

The exemption of the Bridge Works account from the state's 10 percent indirect cost recovery surcharge will have no impact on general revenues as the Bridge Works account does not currently exists and thus no indirect cost recovery revenues are currently being received from the account. It is possible that some potential revenues from application of the indirect cost recovery surcharge could be foregone from the exemption of the Bridge Works account from the 10 percent indirect cost recovery surcharge. It would appear that the potential revenues forgone in FY 2017 would be $530,152 in FY 2017 (i.e., ($1,000,000 + $4,301,524) *0.10) and $960,305 in FY 2018 (i.e., ($1,000,000 + $8,603,048) * 0.10). It should be noted that any transfers from RIHMA to the Bridge Works account would have no impact on indirect cost recovery general revenues as RIHMA is already exempt from the 10 percent indirect cost recovery surcharge.

The addition of the requirement for the principals of the Revenue Estimating Conference to present a recommendation regarding "maintaining adequate funding of the bridge works restricted receipt account through the use of past and present state resources" will have no impact on general revenues or expenditures made from general revenues.

The modification of the renewable energy standard to remove the requirement that a certain percentage of retail electricity sold by each entity selling electricity in the state be derived from renewable sources would be effective October 1, 2017 and thus have no impact in FY 2017 and an indeterminable impact on state expenditures from all sources in FY 2018. This provision would remain in effect until such time as the Federal Highway Administration determines that no bridges in the state are structurally deficient. It should be noted that the role of long-term energy purchase agreements will present an administrative and contractual challenge to achieving significant cost savings from this provision of the bill. After a competitive auction process conducted in October 2015, the Office of Energy Resources (OER) along with the Rhode Island Resource Recovery Corporation entered into a 22-month energy purchase agreement governing 86 percent of total state agency consumption. Although the current Renewable Energy Standard required that 10 percent of the energy portfolio be renewably sourced, OER reports that the final purchase agreement included a total of 20 percent renewable energy at no incremental cost to the state. This recent experience suggests that it may not be possible to make simple generalizations regarding cost savings when engaged in bulk energy purchasing.

The reduction of Newport Grand's share of the video lottery net terminal income generated at the facility by 1.9 percentage points effective for the period July 1, 2016 through June 30, 2016 will increase the lottery transfer to the general fund, all else equal, by $767,700 in FY 2017 based on the November 2015 Revenue Estimating Conference's adopted estimate of Newport Grand net terminal income of $40,400,000. There is no general revenue impact in FY 2018 as the additional 1.9 percentage points of net terminal income being allocated to Newport Grand expires on June 30, 2017. It should be noted that the additional 1.9 percentage points of net terminal income received by Newport Grand is dedicated to marketing the facility to the public and the elimination of this additional marketing money could reduce the number of patrons who frequent the facility.

The reallocation of monies for public works of art from appropriations designated for the construction, reconstruction or renovation of state facilities by a state agency will have no impact on any state revenues or expenditures as the proposal simply reduces from 1.0 percent to 0.5 percent the amount of this spending that is set aside for works of public art and redistributes the remaining 0.5 percent to the Bridge Works restricted receipt account. This provision remains in place until such a time as no bridges in the state remain structurally deficient. For FY 2017 the Governor's budget recommends $303,200 in allocation for art for public facilities with one half of this amount transferred to the Bridge Works restricted receipt account. Therefore, the amount to be transferred to the Bridge Works restricted receipt account would be $151,600 in FY 2017 ($303,200/2=$151,600). For FY 2018, ORA assumed that the average of the amount of expenditures recommended by the Governor for works of art for public facilities in FY 2016 of $905,000 and the amount of expenditures recommended by the Governor for works of art for public facilities in FY 2017 of $303,200 would be set aside, or a total of $604,100 (i.e., ($905,000 + $303,200) / 2). Thus, the estimated amount of recommended expenditures for works of art for public facilities that would be transferred to the Bridge Works restricted receipt account in FY 2018 would be $302,050(i.e., $604,100/2=$302,050).

The reduction in the amount of the Motion Picture Production Tax Credit to a maximum of $2,000,000 per production and an aggregate maximum of $5,000,000 will increase general revenues. The full impact of the cut in these maximums will not be felt immediately because the credits approved in any given calendar year take several years to be redeemed. This can be the result of the fact that credits may be granted for productions that do not begin until the following year or years and also that the tax credit may be carried forward for up to three years. The Office of Revenue Analysis calculated the redemption pattern based on historical average redemptions between 2005 and 2015. The pattern of redemption is as follows: 0.0 percent of credits assigned during a given calendar year were redeemed during the equivalent fiscal year (i.e., calendar year 2012 and fiscal year 2012) ; 24.2 percent of credits assigned during a given calendar year were redeemed during the fiscal year immediately following the calendar year (i.e., calendar year 2012 and fiscal year 2013); 56.7 percent of credits assigned during a given calendar year were redeemed in second fiscal year following the calendar year (i.e., calendar year 2012 and fiscal year 2014); 9.7 percent of credits assigned during a given calendar year were redeemed in the third fiscal year following the calendar year (i.e., calendar year 2012 and fiscal year 2015); and 9.5 percent of credits assigned during a given calendar year were redeemed in the fourth fiscal year following the calendar year (i.e., calendar year 2012 and fiscal year 2016) in year 4.

The estimate used by ORA for this provision of the bill assumes that the dominant impact of this policy change on revenues will be reducing the aggregate maximum of Motion Picture Production Tax Credits that can be issued from $15,000,000 to $5,000,000. The methodology assumes that credits granted prior to January 1, 2017 will work through the system according to historical redemption patterns while the $5,000,000 of available credits each year will be fully utilized in FY 2017 and thereafter. This assumption means that $15,000,000 of Motion Picture Production Tax Credits will be awarded in calendar year 2016. Estimates produced by ORA based on information provided by the Department of Revenue's Division of Taxation at the November 2015 Revenue Estimating Conference show that expected utilization of tax credits for projects certified prior to the assumed implementation date of this policy change are as follows: $4.559 million in FY 2016; $7.731 million in FY 2017; and, $10.670 million in FY 2018. These are the amounts of credit expected to be redeemed during the forecast window from credits assigned prior to January 1, 2017. If $15,000,000 in credits were to be awarded each calendar year during the 2017 and 2018 period, as would be the case under current law, the revenue impact would be no revenue impact in FY 2016 or FY 2017 as all credits redeemed in FY 2016 would be for credits assigned prior to January 1, 2017. For FY 2018, the general revenue savings from reducing the aggregate maximum amount of Motion Picture Production Tax Credits that could be assigned to $5,000,000 would be $2,421,981. The general revenues savings would increase in FY 2019 through FY 2023.

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

The reallocation of $25 million Rhode Island Capital Plan monies from other funds to the Bridge Works restricted receipt account in FY 2021 and in each fiscal year thereafter will have no effect on the budget as a whole but will reduce the other funds component of the budget by the same amount that it increases the restricted receipts component of the budget. Even though RICAP funds are not considered to be general revenues, the bill's proposal may have indirect budget impacts on general revenues if general revenues have to be appropriated to offset the transfer of $25 million from RICAP to the Bridge Works account.

Summary of Fiscal Impact:

FY 2016: There is no fiscal impact due to the specified and assumed implementation dates of the bill.

FY 2017: The bill is estimated to result in a general revenue decrease of $232,400 and a Bridge Works restricted receipt funding level of $18,270,805 in FY 2017.

FY 2018: The bill is estimated to result in a general revenue increase of $1,421,981 and a Bridge Works restricted receipt funding level of $21,523,911.

Budget Office Signature: Thomas A. Mullaney

Fiscal Advisor Signature: