

Governor's FY 2025 Budget: Requested Budget Amendments

Staff Presentation to the House Finance Committee
May 16, 2024

Introduction

- Governor has requested 19 amendments
 - All posted on Assembly and OMB websites
 - Some technical in nature
- Several are related to certain programs already covered in prior article and department hearings
 - Material revisions to those proposals
- April 24 hearing covered 5, 8, 9, & 10
- May 8 hearing covered 7, 11, 12, 13, & 14

Introduction

Topic	2024-H 7225 Article	GBA #	Date
Debt – Property Purchase	4	15	5/8
Financial Institutions	6	19	5/10
Education	8	18	5/10

Capital Development Program

- Assembly Role
 - Appropriate Pay-Go
 - (Articles 1 of 7224 & 7225)
 - Approve General Obligation Bond Referenda (Article 5)
 - Voters approve or reject
 - Debt service automatic
 - Other Financing (Kushner) (Article 4)
 - Approve or reject resolution
 - Generally appropriate debt service

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

Article 4 – Debt Management Act Joint Resolution

- Public Debt Management Act
 - Ensures that debt with a state tie was not issued without legislative review
 - Enacted in 1994
 - Subsequently amended to increase Assembly's approval role
 - Certain quasi-public agencies are exempt
 - Infrastructure Bank
 - RI Housing & Mortgage Finance Corporation
 - RI Health & Educational Building Corporation

Article 4 – Debt Management Act Joint Resolution

- Property Acquisition (GBA #15)
 - Authorizes borrowing of \$33.7M through Certificates of Participation
 - Purchase 115 Tripps Lane in East Providence
- Property features
 - 25 acres of land
 - 210,000 square ft. single story
 - 129,000 square ft. of office space
 - 60,000 square ft. data center
 - 800+ parking spaces

Article 4 – Debt Management Act Joint Resolution

- Total cost not to exceed \$44.5 million
 - \$4.5 million annual debt service
 - Assumes 5.5% interest rate and 10-yr. term
- State leases to be terminated over time
 - State-owned Property and Leases Annual Report issued on March 15, 2024
 - 12 state agencies in 27 leased facilities
 - 643,515 square feet of space
 - \$11.4 million statewide annual expenses

State-owned Property and Leases Annual Report

Agency	Location	Sq. Ft.	Start Date	End Date*	Annual Lease
DEM	235 Promenade St.	126,184	7/7/16	7/6/26	\$2.6
DCYF	101 Friendship St.	99,500	12/1/15	11/30/25	2.1
DHS/ORS	40 Fountain St.	27,680	12/1/11	10/30/31	0.7
DOA/DOH*	2700 Plainfield Pike	73,770	1/1/21	1/31/25	0.7
DHS**	1 Reservoir Ave.	25,000	7/1/13		0.6
Board of Elections	2000 Plainfield Pike	76,800	2/1/20	1/31/30	0.5
Public Defender	160 Pine St.	19,777	4/1/16	3/31/26	0.5
DHS	125 Holden St.	17,000	10/26/23	10/25/24	0.5

* Warehouse space; ** Month-to-month

Current Data Center -History

- FY 2008 Governor's budget proposed borrowing \$9M through COPS to purchase Enterprise Operations Center
 - Legislation did not specify location
 - Replace Data Center in Johnston
 - ~20,000 square feet
 - 2007 Assembly pay-go RICAP funding instead
- FY 2009 budget proposed building on Pastore instead
 - Other options were pursued

Data Center

- Purchase, renovations and recommended RICAP through FY 2029 total \$20 million

	Pre-FY 2024	FY 2024	FY 2025	FY 2026	FY 2027 – FY 2029	Total
Acquisition	\$4.5	\$-	\$-	\$-	\$-	\$4.5
Renovations	4.6	-	-	-	-	4.6
Server Area Upgrades	-	3.0	-	-	-	3.0
HVAC & Roof	-	1.6	2.5	2.0	-	6.1
Asset Protection	1.3	0.0	0.1	0.1	0.6	2.1
Total	\$10.5	\$4.6	\$2.6	\$2.1	\$0.6	\$20.3

\$ in million

Data Center

- State purchased 50 Service Avenue in Warwick for \$4.5 million in fall 2009
 - 80,000 square ft. building
 - 38,960 square ft. data center
- Remaining \$4.5 million for renovations
 - Security upgrades, elevators and bathrooms
 - Office spaces made available for State Police and Treasurer's Office
- Information Technology staff moved in November 2011

Data Center

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Asset Protection	1.3	0.0	0.1	0.1	0.6	2.1
Total	\$10.5	\$4.6	\$2.6	\$2.1	\$0.6	\$20.3

\$ in million

50 Service Ave

Occupants	50 Service Avenue
DPS, Treasury & Mailroom	39,272
Computer Center	38,960
Telecommunications	1,768
Total Sq. Ft.	80,000

Medical Examiners' – New Building

- Nov. 2020 - 20,280 square foot building in Cumberland for State Medical Examiners operations
 - \$2.5 million from federal funds
 - Phase I – Additional decedent capacity to address COVID-19 surge
 - Some staff moved in Dec. 2020
 - Phase II – Renovations - ongoing
- \$8.5M total recommended project costs
 - \$5.3 million from RICAP for renovations

Operating Costs

- Consideration of both asset protection and operating costs for state owned property

State Building	Square Ft.	FY 2023 Operating Expenses - DCAMM
Washington County Government Center	47,000	\$881,904
50 Service Avenue	80,000	\$747,075
Veterans Home	256,000	2,400,000
Shepard Building*	300,000	\$2,100,000

**Estimated cost (not DCAMM billing)*

COPS – Outstanding Debt Payments

Use	FY 2025	FY 2026 – FY 2029	FY 2030 – FY 2034	Total
DCYF Training School	\$4.2	\$-	\$-	\$4.2
Energy Conservation	1.5	-	-	1.5
Innovative Technology	3.9	-	-	3.9
Traffic Tribunal	1.7	-	-	1.7
School for the Deaf	2.5	9.9	-	12.4
Hospital Consolidation	1.9	7.5	9.4	18.7
Total	\$15.5	\$17.4	\$9.4	\$42.3

\$ in millions

Business Taxes

May 2024 REC	Taxes Paid On	FY 24	FY 25
Business Corporations	Net income	\$372.5	\$345.0
Public Utilities	Gross earnings	73.6	105.8
Financial Institutions (Banks)	Net income	42.2	36.7
Insurance Companies	Gross premiums on policies	168.7	168.6
Bank Deposits (Credit Unions)	Average daily deposits	5.0	5.1
Health Care Provider (Nursing Homes)	Gross patient revenue	39.6	41.9
Total Business Taxes		\$701.6	\$703.1
% of General Revenue		13.1%	12.9%

\$ in millions

Business Taxes

- Corporation Income Tax: Who Pays?
 - Corporations and businesses, wherever incorporated, deriving any income from sources within Rhode Island or engaging in any activities or transactions within the state for purpose of profit or gain
 - Types of business entities
 - C-Corporation
 - S-Corporation
 - LLC – Limited Liability Corporations

Jobs Development Tax Credit

- 1996 Assembly
 - Rate reductions of 0.25 % for each 50 new qualifying jobs created by eligible companies for 3 years past %
 - 6% maximum reduction
- Allowable for Corporations and Financial Institutions
 - Closed to new entrants by 2016 Assembly
 - Corp max reduced to 4% when rate lowered to 7% and combined reporting

Apportionment

- Apportionment is how business activity income is assigned to states for the purposes of determining tax liability
 - How much of your earnings go with each state?
 - Some business are 100% in one state
 - Many do business in multiple states
 - Wide variation on factors and sourcing
 - Payroll, Property and Income

Apportionment

Single Sales Factor



Receipts attributable to activities within RI

3-Factor Apportionment



Income apportioned to states based on 3 factors:
Receipts, Payroll, Property



Divide value of RI sales, payroll, & average value property into those values for everywhere



Averages those 3 factors to calculate overall apportionment ratio

Financial Institutions

- GBA 19 Summary
 - Allows financial institutions to use a different method to calculate income under state's financial institutions (bank excise) tax
 - Beginning tax year 2025
 - Clarifies allowable business expense deductions for financial institutions that are part of combined groups
 - Requires a combined reporting study
 - Tax administrator to report of results of study by March 15, 2027

Financial Institutions

- Business taxes changes 2014 Session for tax year 2015
 - Reduced corporate tax rate from 9% to 7%
 - JDA rate reduction scaled to match
 - Instituted combined reporting for state corporate income tax filers
 - Instituted apportionment calculation known as “single sales factor”
 - Utilize only sales to determine net income

Financial Institutions

- Who pays financial institutions tax?
 - Every state bank
 - Federal savings bank
 - Trust company
 - National banking association
 - Mutual savings bank
 - Building and loan association
 - Loan and investment company
- Excludes credit unions
 - They pay bank deposits tax

Financial Institutions

Business
Corporations



Tax = 7% of net income
of unitary business



Uses single sales factor
apportionment

Financial Institutions



Tax = 9% of net income



Uses 3-factor
apportionment

Financial Institutions

- GBA 19 would allow banks whose business activity is taxable within & outside RI to use single sales factor
 - For tax years beginning on or after 1/1/25
 - Election cannot be changed for 5 subsequent tax years
 - After 5 years with tax administrator's approval
 - If law change or material taxpayer change
- Revenue loss of \$7.7 million for FY 2025
 - Annualizes to \$15.6 million for FY 2026

Financial Institutions

- Current Law
 - If allocation & apportionment ratio is not suitable for determining institution's income from business within RI
 - Institution can request to use alternative method or
 - Tax administrator may require exclusion of one or more factors
- This would continue under GBA

Financial Institutions

- Business expenses deduction
 - Certain expenses are allowed to be deducted in computing net income
 - Payroll, losses, depreciation, rent, bad debts, etc.
 - GBA 19 ensures that if single sales is elected, transactions between members of a combined group subject to business corporation taxes are not deductible

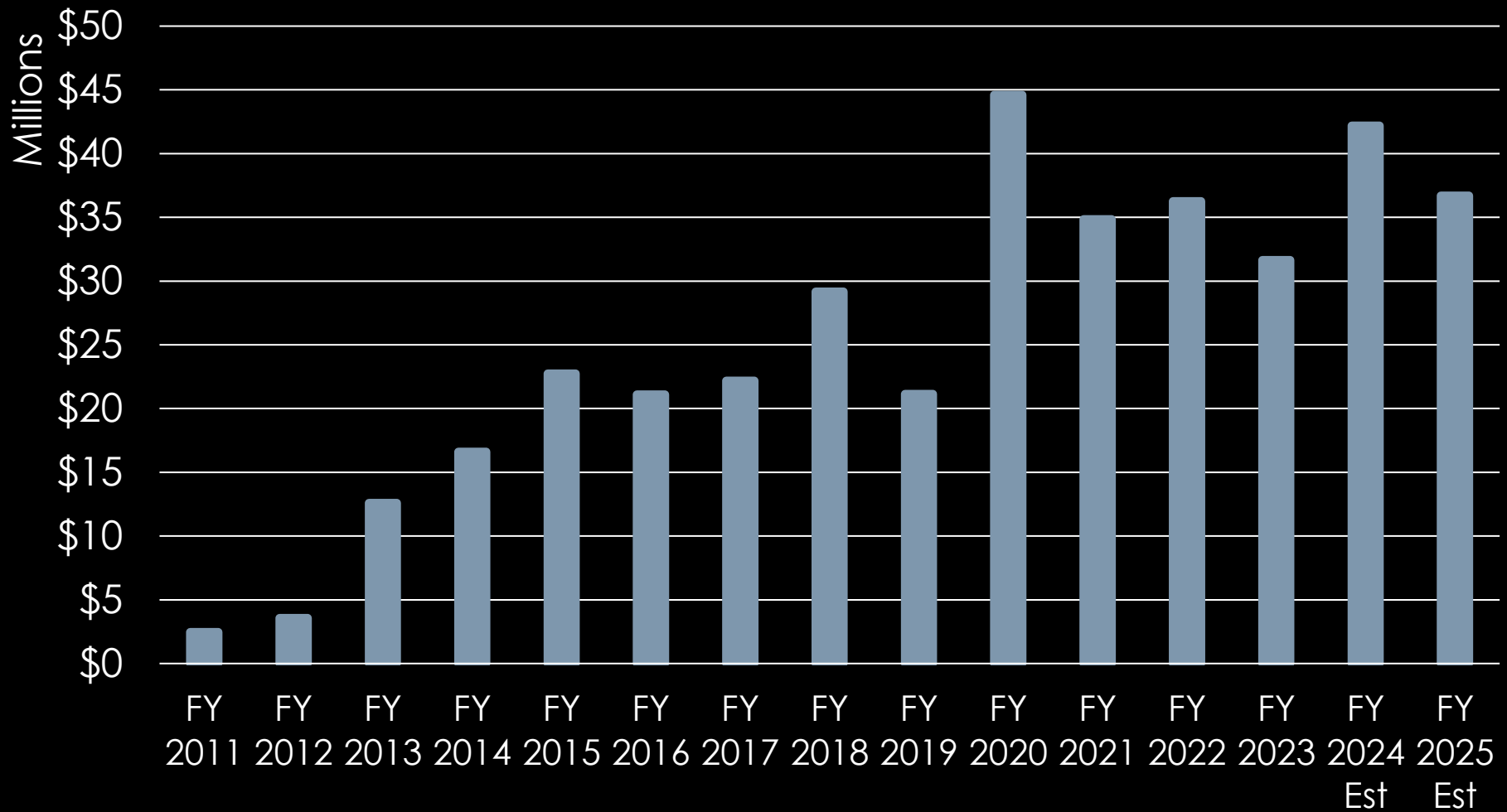
Financial Institutions

- Combined reporting study
 - Financial institutions would submit reports with 2024 and 2025 tax returns
 - Assess impact of tax liability and collections
 - Similar study done for business corporation tax in 2011 & 2022
 - Penalty of up to \$10,000 for failure to file timely or false report
 - Tax administrator must report on the results of the study by March 15, 2027

Financial Institutions

- Massachusetts currently requires financial institutions and corporations to file combined returns
 - Beginning January 1, 2025, financial institutions will default to single sales
 - Option to petition state for alternative apportionment method

Financial Institutions Tax



Article 8 Education – Background

- Charter schools are public schools
 - 25 charter schools in 9 communities
 - Include mayoral
- State schools – Davies, Met
- Mayoral academies
 - In 2008 new type of charter school allowed
 - Same approval process but exempt from teacher retirement & prevailing wage laws
 - Achievement First
 - Excel
 - Blackstone Valley Prep
 - RISE
 - Hope Academy

Article 8 – Background

- Charter Schools have been funded through a formula since 1999
- FY 2000 - FY 2012
 - State funding per student = sending district's per pupil cost X community's share ratio %
 - Minimum share ratio of 30% established 2005
 - 5% indirect aid returned to sending districts
 - Partially to account for overhead costs

Article 8 Education Aid – Background

- All schools changed with 2011 formula
 - Applied to state schools and charters
 - State share ratio = that of sending district
 - Local share = local per pupil funding
 - FY 2017 allowed for withhold of greater of 7% or district's unique costs
 - Impacts to districts are different

Background – Funding Formula Review

2010

- Assembly enacts current education funding formula

2014

- House establishes Special Legislative Commission to assess formula

2015

- Governor creates working group to review formula

2016

- Assembly enacts School of Choice Density Aid & local tuition holdback

Article 8 Local Charter Payment – Background

- Debate persisted around cost variances
 - Traditional LEAs and Charter schools
 - Mayoral academies had special exceptions
- Subject of extensive study
 - FY 2017 Governor budget proposed
 - Reducing local payments to charter & state schools by \$355 per student
 - All schools treated the same in this calculation
 - Special education
 - Legacy benefits liabilities
 - Debt service

Article 8 Local Charter Payment – Background

- 2016 Assembly enacted alternative
 - More precise calculation
 - Local holdback at least 7% of local per-pupil
 - Greater if per-pupil “unique” costs exceed that 7%
 - Payments to schools that do not participate in state’s retirement system have additional reduction if “unique” costs are greater than 7%
 - Reduction equal to per-pupil value of teacher retirement costs attributable to unfunded liability
 - Only Mayoral Academies are exempt from ERSRI participation

Article 8 Local Charter Payment– Background

- “Unique” costs are local district’s costs vs same costs averaged for all charters
 - Per-pupil basis
 - RIGL § 16-7.2-5(c) lists them
 - Non-public textbooks and transportation
 - Preschool services and screening
 - Services to students ages 18 to 21
 - Career and technical education
 - Out-of-district special education placements
 - Retiree health benefits
 - Debt service & rental costs

Article 8 Charter Tuition Reduction – Background

- Common for districts exceeding 7%
 - High out-of-district special education costs
 - Regional school districts debt service
 - Most local debt service is on municipality's books, not school district
- Consistent with intent of legislation enacted by 2016 Assembly
 - Withholding those local costs that appear to be uniquely high

Teacher Retirement – Background

- State and locals share in employer cost of teacher retirement
 - State pays 40%
 - Locals pay 60%
 - Mayoral academies are exempt but other charter schools must participate
- FY 2025 employer rate is 25.1% of salary
 - 21.6% is for unfunded liability
 - Local cost equates to 13% of teacher salaries

Article 8 Charter Tuition Reduction – Background

- FY 2023 data used for FY 2025 tuition “unique” cost average
 - Charter occupancy costs fluctuate based on population growth
- Lack of growth in local share also affects outcome

FY	Avg PP Charter “Unique” Cost	Pupils	# District w/Cost > 7%
2021	\$1,220	8,428	9
2022	\$1,779	8,993	3
2023	\$1,758	9,681	3
2024	\$1,475	10,519	8
2025	\$1,488	11,364	7

Article 8 – GBA #18

- Removes the annual calculation to determine cost differentials
 - Sets the local holdback at fixed amounts
 - 7% of per-pupil local share for charters and state schools
 - 9% for mayoral academies which do not participate in the teacher retirement system
 - Effective July 1, 2025
 - No impact on distribution until FY 2026

FY 2019 Local Holdback Scenario

FY 2019	CF	Lincoln	Pawtucket	Woonsocket
State Aid – Per Pupil*	\$15,845**	\$3,950	\$10,068	\$10,555
Local Share -100%	\$3,567	\$12,927	\$2,906	\$2,629
Local as % of total	18.4%**	76.6%	22.4%	19.9%
Local w/ 7 % holdback	\$3,317	\$12,022	\$2,703	\$2,445
Alternate holdback	\$3,279	Not > 7%		\$2,423
Mayoral reduction	\$2,397	N/A		\$1,811
Mayoral students	542	226	736	160
Mayoral reduction & 7% pp difference	\$(920)	N/A		(\$634)
Total difference to mayoral	\$(498,808)	N/A		\$(101,435)

*State aid per pupil = formula aid/enrollment used for aid, excludes categoricals

**Corrected from May 16th Hearing

FY 2023 Local Holdback Scenario

FY 2023	CF	Lincoln	Pawtucket	Woonsocket
State Aid – Per Pupil*	\$18,469	\$5,203**	\$11,504	\$12,343
Local Share -100%	\$3,382	\$12,291	\$3,114	\$2,629
Local as % of total Tuition	15.5%	70.3%**	21.3%	17.6%
Local w/ 7 % hold back	\$3,145	\$11,431	\$2,896	\$2,445
Alternate holdback	Not > 7%			
Mayoral reduction	N/A			
Mayoral students	664	177	919	320
Mayoral reduction & 7% pp difference	N/A			

*State aid per pupil = formula aid/enrollment used for aid, excludes categoricals

**Corrected from May 16th Hearing

FY 2024 Local Holdback Scenario

FY 2024	CF	Lincoln	Pawtucket	Woonsocket
State Aid –Per Pupil*	\$19,190**	\$5,118**	\$12,794	\$14,817
Local Share -100%	\$3,302	\$12,221	\$3,184	\$2,648
Local as % of total	14.7%**	70.5%**	19.9%	15.2%
Local w/ 7 % holdback	\$3,071	\$11,366	\$2,961	\$2,463
Alternate holdback	\$2,996	Not > 7%		\$2,194
Mayoral reduction	\$1,814	N/A		\$1,255
Mayoral students	684	167	977	363
Mayoral reduction & 7% pp difference	\$(1,257)	N/A		\$(1,208)
Total difference to mayoral	\$(859,692)	N/A		\$(438,373)

*State aid per pupil = formula aid/enrollment used for aid, excludes categoricals

**Corrected from May 16th Hearing

Providence Local Holdback

Providence	FY 2021	FY 2022	FY 2023	FY 2024
State Aid – Per Pupil	\$11,808	\$12,404	\$12,936	\$13,364
Local Share -100%	\$4,570	\$4,589	\$4,899	\$4,957
Local as % of total	27.9%	27.0%	27.5%	27.1%
Local w/ 7 % holdback	\$4,250	\$4,268	\$4,556	\$4,610
Alternate holdback	Not > 7%			
Mayoral reduction	N/A			
Mayoral students	1,727	2,188	2,600	2,925
Mayoral reduction & 7% pp difference	N/A			
Total difference to mayoral	N/A			

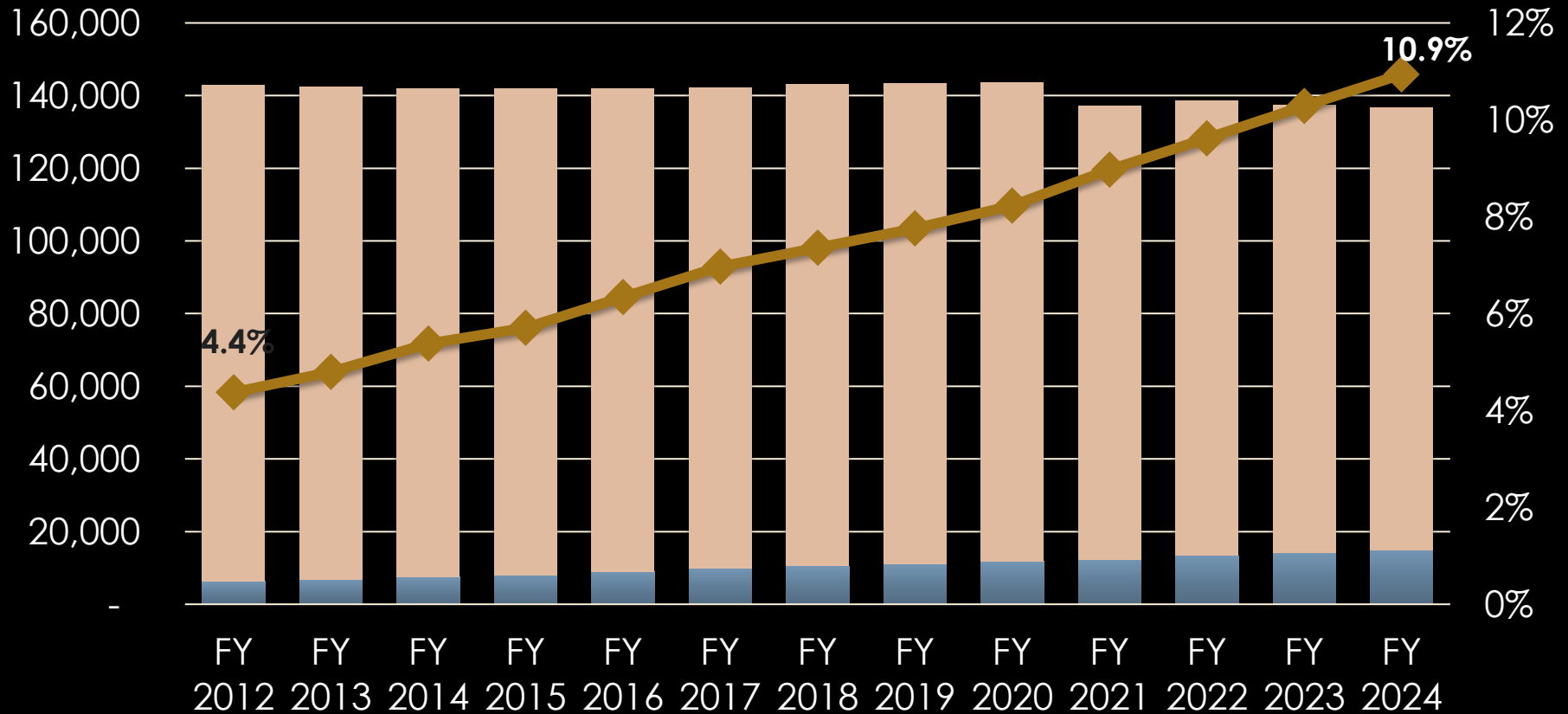
Article 8 – GBA #18

Hypothetical Impact

Local Tuition Payments	FY 2025 Current Law	FY 2025 GBA #18	GBA Chg. To Current Law
Central Falls	\$4,248,650	\$5,458,008	\$1,209,358
Cumberland	3,669,290	3,601,596	(67,694)
Pawtucket	7,227,930	7,160,898	(67,032)
Providence	35,981,910	35,666,985	(314,925)
Woonsocket	1,171,930	2,059,296	887,366
All Others	26,302,822	26,277,327	(25,495)
Total	\$78,602,532	\$80,224,110	\$1,621,578

- GBA has FY 2026 effective date
 - To allow districts & charters time to plan for change

Charter Enrollment Growth by Fiscal Year



■ Charter & SS Enrollment
 ■ District Enrollment
 ◆ Charters/SS as % of total public

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