

State of Rhode Island and Providence Plantations

Executive Summary



Fiscal Year 2015

Lincoln D. Chafee, Governor

Dedication

*This year's budget documents are dedicated to the
Memory of William V. Golas, Jr.
Sr. Budget Analyst 1987 - 2013*

The image on the cover of this year's budget document is a Winter Scene of the State House from Artist John Pitocco of Providence and is reproduced by permission of the artist in collaboration with the Rhode Island State Council on the Arts.

Transportation

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Summary

The transportation function provides for the maintenance and construction of a quality infrastructure that reflects the transportation needs of the citizens of Rhode Island. The function is implemented by the Department of Transportation (DOT) through its core programs, transportation development and maintenance. Transportation development includes construction and design, traffic management, environmental and intermodal planning, capital programming, bridge rehabilitation/replacement, and highway safety. The Department of Transportation maintenance section engages in the routine maintenance of state highways, bridges, and associated roadsides and highway appurtenances.

Intermodal Surface Transportation Fund

In FY 1994, Rhode Island established the Intermodal Surface Transportation Fund (ISTF) to provide financing for transportation expenditures from dedicated user-related revenue sources. This dedicated highway fund establishes a direct relationship between transportation project financing and the end-users of the projects, with the goal of establishing a stable revenue stream capable of financing the projects on a pay-as-you-go basis.

For FY 2014 and FY 2015, the Intermodal Surface Transportation Fund is supported by 32.5 cents of Rhode Island's total 33.0-cent per gallon gasoline tax. Gasoline tax receipts finance operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Human Services (formerly the Department of Elderly Affairs). The revenue generated by the state's gasoline tax is allocated to these recipients on an individual cent basis. State law governs the distribution of the cents to the agencies. As of FY 2010, there is no longer any contribution to the general fund from the gasoline tax. The anticipated current and upcoming fiscal year revenue collection for the gasoline tax was established at each Revenue Estimating Conference; however, as there is no longer an impact on general revenue receipts, the Conference is no longer determining the gasoline tax estimate. The Office of Revenue Analysis within the Department of Revenue has provided the estimates for FY 2014 and FY 2015. The Office of Revenue Analysis estimates gasoline tax collections on a cent per gallon revenue yield. This yield is the basis for the development of budgets for the various gasoline tax supported operations.

Since the inception of this funding mechanism for transportation activities, there have been numerous revisions to the allocation plan. Each change has been initiated in order to direct more revenues to transportation operations rather than to the general fund. There was a change to the disbursement schedule in the enacted FY 2010 Budget, which increased the RIPTA allocation and the total gasoline tax by two cents, and an increase to the Department of Transportation of one cent, with an offsetting reduction and elimination of the allocation of gasoline tax directed to the general fund.

Starting in FY 2009, 0.5 of the State's 1.0-cent per gallon environmental protection regulatory fee collected by distributors of motor fuel when the product is sold to owners and/or operators of underground storage tanks has been recommended to support the Rhode Island Public Transit Authority (RIPTA).

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| Current Law Gasoline Tax Allocation (in cents) | | | | | | | |
|------------------------------------------------|-------------------|--------------------|-------------|-------------|-------------|-------------|-------------|
| <u>Recipient</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| DOT | 20.75 | 21.75 ³ | 21.75 | 21.75 | 21.75 | 21.75 | 21.75 |
| RIPTA | 7.75 ¹ | 9.75 ⁴ | 9.75 | 9.75 | 9.75 | 9.75 | 9.75 |
| General Fund | 1.0 ¹ | 0.0 ³ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DEA/DHS | 1.0 | 1.0 ⁵ | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Underground Storage Tank-DEM | 0.5 ² | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total: | 31.0 | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 | 33.0 |

¹ One additional cent was recommended for RIPTA with an offsetting reduction in the allocation of gasoline tax directed to the general fund starting in FY 2006 to finance a market survey of non-transit users and a management study of the agency

² Starting in FY 2009, 0.5 of the 1.0 cent Underground Storage Tank fee was recommended for allocation to RIPTA

³ Starting in FY 2010, 1.0 of the remaining cent distributed to the General Fund was recommended to finance Department of Transportation operations

⁴ Starting in FY 2010, 2.0 new cents of gasoline tax were added to the total for 33.0 cents now collected; the additional two centers were allocated to finance RIPTA

⁵ Starting in 2010, 1.0 cent formerly directed to DEA was now sent to DHS

Federal Funding

The Department of Transportation provides services through four programs: Central Management, Management and Budget, Infrastructure Engineering, and Infrastructure Maintenance. Primary funding for Rhode Island transportation and highway construction spending is provided through the Federal Highway Administration (FHWA). Federal highway funding is provided through the Highway Trust Fund and other sources, as appropriated and allocated by Congress through transportation authorization legislation. Typically, these authorization provisions extend five to six years, allowing for mid-range capital planning at the state level. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which was passed in August 2005, authorized funding for highway construction, highway safety programs, mass transit operations, and other surface transportation projects over a five-year period, from 2005 to 2009. The Act expired in 2009, but was extended by Congress for one year in 2010. In subsequent years, SAFETEA-LU was extended for short periods with minor adjustments to the substantive provisions.

In June 2012, Congress approved a new two-year transportation authorization, called Moving Ahead for Progress in the 21st Century (MAP-21). MAP-21 shifts the Federal planning and project model toward performance measurements. The limited time of the authorization is an improvement over short-term extensions, but a two-year authorization still requires the state to make assumptions when projecting the availability of future Federal resources. MAP-21 intends to create a streamlined and performance-based

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surface transportation program and builds on and refines many existing highway, transit, bike, and pedestrian programs and policies.

MAP-21 sets forth the following goals:

- Strengthen America's highways
- Establish performance-based programs
- Create jobs and support economic growth
- Support the Department of Transportation's aggressive safety agenda
- Streamline Federal highway transportation programs
- Accelerate project delivery and promotes innovation

The Highway Trust Fund (HTF) is the source of funding for most MAP-21 programs. The HTF includes the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. Federal motor fuel taxes are the primary source of income for the HTF. MAP-21 extends highway-user fees (Federal gas tax and other related taxes), generally at the rates that were in place when the legislation was enacted, through September 30, 2016. It also extends provisions for full or partial exemption from highway-user taxes and provisions for deposit of almost all of the highway-user taxes into the HTF through September 30, 2016.

In MAP-21, the metropolitan and statewide transportation planning processes are continued and enhanced to incorporate performance goals, measures, and targets into the process of identifying needed transportation improvements and project selection. Requirements for a long-range plan and a short-term Transportation Improvement Program (TIP) continue, with the development of the Long-Range Transportation Plan (LRTP) incorporating the performance plans required by the Act for certain programs. The TIP must also be developed to make progress toward established performance targets and must include a description of the anticipated achievements.

Overall, MAP-21 includes an array of provisions designed to increase innovation and improve efficiency, effectiveness, and accountability in the planning, design, engineering, construction and financing of transportation projects. Prior to MAP-21, Rhode Island received one-half of one percent of all funds allocated to states nationwide as a result of the Federal funding formula. In FY 2014 and FY 2015, Rhode Island will maintain its federal level of funding at the same level as FY 2010. MAP-21 is scheduled to expire on September 30, 2014.

The Rhode Island Department of Transportation Highway Improvement Program (HIP) includes highway and intermodal projects that use Federal funds administered by the FHWA that are typically funded with 80.0 percent Federal funding and 20.0 percent State matching funds. Prior to FY 2013, the State had traditionally matched Federal highway funds with general obligation bonds, which were approved by the voters as referenda questions at the November general election every two years. Debt service on the general obligation bonds issued was paid with gas tax revenue. As a result of continued borrowing, less gas tax revenue remained available each year for operations and maintenance costs.

Rhode Island relies heavily on federal funds to finance its Highway Improvement Program and other operations of the Department. It is important to note that at a national level, the Federal Highway Trust Fund is being depleted with funds being expended faster than they are being replenished from federal fuel and other fees. In calendar year 2013 and 2014, the United States Congress has taken no action to bolster the Highway Trust Fund. Because of the multi-year nature of the Highway Improvement Program, the Rhode Island Department of Transportation will be working on an action plan based on the assumption that Congress will act to restore Highway Funding by the end of December 2015.

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Highway Improvement Program – State Match Financing

As a solution to the structural deficit and increasing debt service impact, Governor Chafee proposed shifting existing license and registration fees to transportation purposes over five-years as part of his FY 2012 Budget proposal (Article 22). However, Article 22 included in the FY 2012 Budget as Enacted, passed by the General Assembly, did not shift any existing registration and license fees, but instead increased registration and license fees and dedicated those new revenues to transportation purposes. The Article created the Rhode Island Highway Maintenance Trust Fund and prescribed a three-year, phased increase in registration and license fees, beginning in FY 2014 (July 2013). Two-year registrations and drivers licenses would each be increased by \$30 (\$10 per year for three-years), while one-year registrations would be increased by \$15 (\$5 per year for three-years). Article 6 of the FY 2014 Budget as Enacted made some technical changes to language within the legislation and modified some of the surcharges. The Article had a minimal impact on the estimated revenues to be generated by the surcharges on annual and biennial registrations and operator's licenses. The revised estimate includes \$5.9 million in FY 2014, \$11.4 million in FY 2015 and \$16.8 million in FY 2016.

In addition to the fee increase, Rhode Island Capital Plan Fund (RICAP) financing will be used to supplement the revenue generated by the new fees so that bond borrowing to match Federal Highway funding would be eliminated by FY 2016. The Legislature appropriated \$20.0 million in FY 2013 and \$21.1 million in FY 2014 from the Rhode Island Capital Plan Fund to accelerate the elimination of general obligation bond financing for the Department of Transportation's federal highway match. The increase in FY 2014 was based on the estimated decrease in registration fees from the original estimate. Rhode Island Capital Plan Fund financing and registration fees will replace debt financing, which along with shifting remaining transportation debt service to general revenue over time, will eventually reduce the debt service of the Department of Transportation and alleviate the systemic deficits that have occurred in the past.

Transportation Improvement Program

The Highway Improvement Program implements the Department's capital program as identified in the State's Transportation Improvement Program (TIP). The TIP is a listing of transportation projects that the state plans to finance over a four-year period from Federal highway and transit funds. Federal law requires that all projects using Federal transportation funds shall appear in a TIP adopted by the State Planning Council and approved by the Governor.

In Rhode Island, the TIP is the product of extensive public outreach to all communities, public interest groups, and citizens throughout the state by the agencies involved in transportation planning and project implementation. Following extensive public solicitation for the current TIP, highway projects are selected by a twenty-seven member public body, known as the Transportation Advisory Committee (TAC), using criteria based on six major categories: mobility benefits; cost effectiveness; economic development; environmental impact; degree of support to local and state goals and plans; and safety/security/technology. Certain projects are reviewed by special public committees prior to selection for the TIP by the TAC. The transportation air quality subcommittee, assisted by DOT and DEM staff, conducts a solicitation and evaluation of Congestion Mitigation and Air Quality (CMAQ) proposals, a TAC subcommittee reviews new bicycle/pedestrian projects, and the RIDOT Advisory Committee solicits and evaluates applications for funds earmarked for Transportation Enhancements.

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GARVEE Program

FY 2004 marked the beginning of a major effort on the part of Rhode Island government to address the rebuilding and modernization of the State's transportation systems. In 2003, 2006 and 2009, the State completed the first, second and third parts of a three-part bond transaction that provided \$720.0 million in construction funds for five major infrastructure projects financed by two methods. The majority of the costs (\$544.4 million) have been financed through Grant Anticipation Revenue Vehicle bonds (GARVEE).

GARVEE is a program approved by Congress that allows states to borrow funds, which are then repaid by the annual allocation of Federal Highway Administration construction funds. The remaining costs were provided through Motor Vehicle Tax Revenue Bonds. These bonds are financed through a two-cent dedication of the Department's gasoline tax allocation. With the established funding sources in place to meet the financing requirements of this borrowing, this program will have no fiscal impact to the State and offer no financial exposure to taxpayers other than the pledging of the FHWA and gas tax funds to repay the bonds. The projects financed under this program were the I-195 Relocation, Washington Bridge Reconstruction, and a new Sakonnet River Bridge. Also financed was the completion of the Freight Rail Improvement Program and Quonset Rt. 403 construction.

| Project | Total Cost | GARVEE Funding | | |
|-----------------------------------------|-------------------|-----------------------|----------------------|----------------------------------|
| | | GARVEE Funding | Other Funding | Projected Through FY 2014 |
| Route 195 Relocation (the I-Way) | \$612.8 | \$378.1 | \$234.7 | \$365.2 |
| New Sakonnet River Bridge | 243.1 | 142.4 | 100.7 | 130.4 |
| New Washington Bridge | 79.1 | 79.1 | 0.0 | 53.3 |
| Phase II, Route 403 | 200.9 | 116.5 | 84.4 | 116.5 |
| Freight Rail Improvement Project (FRIP) | 118.1 | 31.8 | 86.2 | 31.8 |
| Total | \$1,254.0 | \$747.9 | \$506.0 | \$697.2 |

*\$ in millions. Totals may vary due to rounding.

The debt service on the GARVEE bonds to be paid through the FHWA allocation in FY 2014 and FY 2015 is \$48.4 million each year and is reflected in the Department's operating budget as a Federal fund source. The gas-tax funded debt service on the Motor Fuel Tax revenue bonds totals \$8.3 million in FY 2014 and FY 2015, which is paid using 2.0 cents of total gas tax revenues. An amendment to the original GARVEE approval (as granted by Article 36 of the FY 2004 budget as enacted), which allowed \$9.6 million of the GARVEE bond authorization approved for the Washington Bridge project to be applied to the Sakonnet River Bridge project was adopted as part of Article 7 of the FY 2013 Budget as Enacted. The total GARVEE borrowing would remain unchanged; the \$9.6 million in authorization would shift between projects.

Federal Stimulus Funds

On February 17, 2009, Congress passed an economic stimulus bill, the American Recovery and Reinvestment Act (ARRA), which provided Rhode Island with \$137.0 million in additional highway funding with no required state match for highway infrastructure investment, which has been spent over three years for sixty-six separate projects throughout Rhode Island including highway, road and bridge repair, pavement resurfacing, as well as enhancement projects, such as lighting and drainage improvements. Stimulus funds will be fully expended in FY 2014 and will no longer be available as a source of funding.

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Rhode Island Public Transit Authority

The continued emphasis towards a more balanced multimodal transportation system extends to statewide mass transit programs. Operating assistance of \$40.6 million in each of FY 2014 and FY 2015 to the Rhode Island Public Transit Authority will be financed from a 9.25 cent allocation of the gasoline tax, as well as an additional 0.5 of the 1.0 cent Underground Storage Tank fee. Another cent of the gasoline tax not included in the Department of Transportation budget supports the efforts of the Department of Human Services to streamline and enhance elderly and handicapped transportation services. Much of this allocation is transferred to RIPTA to underwrite rider programs for the elderly and to finance compliance costs statewide associated with Americans with Disabilities Act.

Governor's FY 2014 Revised Budget Recommendation

The Governor's FY 2014 Revised Budget for the Department of Transportation totals \$478.2 million, including \$349.1 million in federal funds, \$122.2 million in other funds, and \$6.9 million in restricted receipts. This represents a \$17.9 million increase in all funds from the FY 2014 Enacted Budget. Federal funds increase by a total of \$37.4 million, while restricted receipts decrease by \$1.1 from the enacted budget. Other funds for Transportation decrease by a total of \$18.3 million from the enacted budget. The other funds total includes gasoline tax expenditures for the Department of Transportation, RIPTA, and GARVEE/Motor Fuel Revenue Bonds, as well as Rhode Island Capital Plan Fund appropriations, land sale proceeds, nonland surplus property revenues and other miscellaneous receipts.

Governor's FY 2014 Revised Intermodal Surface Transportation Fund Recommendation

The revised FY 2014 estimated revenue available within the Intermodal Surface Transportation Fund is \$135.4 million, which represents the revised per penny gasoline tax yield estimate of \$4,168,974, as well as a negative carry forward from FY 2013 totaling \$51,080 and an additional \$2.1 million from 0.5 cent of the 1.0 cent Underground Storage Tank fee. Gasoline tax funds within the Department of Transportation total \$98.4 million, \$49.4 million is recommended for the operations of the Department, \$40.6 million is the operating transfer to finance RIPTA, and \$8.3 million is associated with the GARVEE/Motor Fuel Revenue Bonds program. Gasoline tax funds within the Department decrease by \$87,926 from the enacted budget. The decrease is a result of a carry forward deficit of \$51,080 and a decrease in the gasoline tax estimate. The original estimate used in the FY 2014 Enacted Budget was \$4,170,507 per penny. The estimate provided by the Office of Revenue Analysis has revised the per penny gasoline tax down to \$4,168,974, a decrease of \$1,533 per penny.

Other adjustments to the total gasoline tax appropriation for the Department include projected transfers to the Department of Administration to finance transportation related general obligation bond debt service costs of \$30.5 million for DOT. Due to the projected deficit caused by the continued pressure on the Department of Transportation's budget with increasing debt service and declining gasoline tax, general revenue will be used to fund \$9.3 million of the Department's debt service for FY 2014. In the FY 2013 enacted budget, the General Assembly included \$8.0 million to begin this shift in funding source for DOT debt service. In addition, RIDOT received \$1.9 million through the Build America Bond rebates that will be used to reduce the amount of gasoline tax used for debt service, which is borrowing used by the state at the outset of the American Recovery and Reinvestment Act of 2009, reducing the amount of gasoline tax used on debt service. This is a reduction of \$145,150 as compared to the enacted budget based on cuts that occurred at the federal level based on sequestration. Lastly, in April 2012, a major refunding and restructuring of transportation debt was completed that will greatly help level payments over time, eliminating the "spikes" that have caused additional pressure on the shrinking gas tax revenues for the

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Department. The debt service adjustment represents a decrease of \$28,282 from the enacted budget, reflected within the Department of Administration's budget.

Additionally, due to projected deficits at the Rhode Island Public Transit Authority, the Governor recommends that debt service on outstanding RIPTA general obligation bonds be funded with \$1.7 million of general revenue in FY 2014 to supplement gas tax revenue previously used for debt service. A total of \$2.4 million represents the financing of Human Resources, Purchasing, and Information Technology positions that have been consolidated within the Department of Administration for employees who work at the Department of Transportation but whose costs are budgeted within the Department of Administration. The total transfer amount of these positions represents an increase of \$314,932 from the FY 2014 enacted budget. The increase addresses the anticipated need for increased financing for Human Resources and Information Technology consolidations and an additional transfer to DOA related to services provided by the Division of Purchasing. The Governor recommends a zero sum balance for the end of FY 2014 in the Intermodal Surface Transportation Fund.

Governor's FY 2014 Revised Rhode Island Capital Plan Fund Recommendation

A total recommendation of \$14.4 million in FY 2014 from the Rhode Island Capital Plan Fund finances \$4.1 million for Train Station Maintenance and Repairs, Salt Storage Facilities and Maintenance Facility improvements and fire alarms, and construction on the Portsmouth, East Providence, and Cherry Hill Facilities. Included in the Rhode Island Capital Plan Fund is a Rhode Island Public Transit Authority project for \$219,261 towards Land and Building Enhancements. Additionally, the Governor recommends \$300,000 for a Cooperative Maintenance Facility between the Rhode Island Department of Transportation and the Rhode Island Public Transit Authority to convert the former RIPTA maintenance facility on Melrose Street in Providence to a cooperative maintenance facility for Department of Transportation heavy fleet and RIPTA buses.

In FY 2014, the Governor recommends \$2.0 million for the Replacement of Heavy Duty Vehicle Equipment. The FY 2014 – FY 2018 Capital Improvement Plan, as enacted by the General Assembly, included \$1.0 million annually to provide for the replacement of the Department of Transportation's heavy duty vehicle equipment. The Governor recommends combining the FY 2013 and FY 2014 allocations into a single purchase, which has allowed the Department to procure seven ten-wheel dump trucks and two drainage cleaning vacuum trucks. Along with normal highway repair operations, the seven ten-wheel trucks will be used for snow plowing operations and will be replacements for seven designated older vehicles. The two drainage clearing vacuum trucks will augment the one vacuum truck currently in the fleet.

The Governor also recommends \$7.7 million in Rhode Island Capital Plan Fund financing for the Highway Improvement Program, which is a decrease of \$13.4 million from the enacted FY 2014 Budget. In FY 2013, the General Assembly appropriated \$20.0 million from the Rhode Island Capital Plan Fund to accelerate the elimination of general obligation bond financing for the Department of Transportation's federal highway match. The FY 2013 closing report for the Rhode Island Department of Transportation reflected expenditures of \$33.4 million within the newly created Rhode Island Capital Plan Fund Highway Improvement Program account. The expenditures of \$33.4 million caused the account to reflect a \$13.4 million deficit at the close of FY 2013. Under procedures followed in prior years by the State Budget Office, any overspending in a Rhode Island Capital Plan Fund account is offset against the following year's appropriation. As a result, the Department of Transportation will have \$13.4 million less funding available in the FY 2014 appropriation, reflected in the Governor's FY 2014 revised recommendation. The total Rhode Island Capital Plan Fund decrease amongst all Department of Transportation projects is \$12.7 million compared to the FY 2014 enacted level, primarily as a result of the reduction of Rhode Island Capital Plan Fund resources in the Highway Improvement Program. As this is primarily an accounting and

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timing issue, the reduction in RICAP funding in FY 2014 will have no impact on the Department's ability to meet its obligation for state match.

Governor's FY 2014 Revised Other Funds Recommendation

Other funds changes include a \$5.7 million decrease from the sale of land associated with the I-195 relocation project in order to reflect current project schedules. A total of \$6.6 million in expenditures from the sale of land from the reconstruction of I-195 is expected to take place in FY 2014. A total of \$2.5 million in other land sale expenditures is expected in FY 2014. The Department estimates collecting \$325,000 in FY 2014 from a maintenance fee for outside advertising, an increase by \$15,000 from the enacted budget. Revenue raised in FY 2014 is recommended to be used for operating expenses within Transportation's Division of Engineering that do not qualify for federal reimbursement.

Governor's FY 2014 Revised Federal Funds Recommendation

Federal funds increase by a total of \$37.4 million from the enacted budget of which \$32.4 million is attributable to MAP-21 for projects under the Federal Highway Program. Transportation has been conservative in their construction scheduling as the construction budget is driven by the availability of funding. This financing reflects projects that have federal funds that have already been obligated.

The overall increase in Federal funds is offset by several decreasing Federal grants, such as a \$575,475 decrease in National Highway Safety Administration grants to correct actual federal grants anticipated in FY 2014 and a decrease of \$3.5 million in Federal Transit funds associated with the fixed guideway (commuter rail) project. National Highway Safety Administration grants total \$5.2 million, while Federal Transit grants total \$9.0 million. GARVEE debt service is deducted from the total estimated obligation authority for the Federal Highway Fund, and totals \$48.4 million in the revised FY 2014 Budget. The revised FY 2014 Budget includes a total of \$14.7 million related to personnel costs associated with the GARVEE program and general obligation bonds within the federal funds category.

Governor's FY 2014 Revised FTE Recommendation

The Governor recommends 752.6 FTE positions in his revised FY 2014 Budget, which is a decrease of 20.0 FTE positions from the enacted level of 772.6 FTE positions. The Governor recommends the reduction to correspond to actual filled positions. Over the last five-years, the Department has averaged 697.0 filled FTE positions in a given fiscal year. Based on long-term vacancies, the Governor recommends eliminating the following FTE positions: six (6.0) Engineering Technician I positions, four (4.0) Engineering Technician II (Construction & Maintenance) positions, one (1.0) Engineering Technician II (Materials) position, one (1.0) Engineering Technician III (Construction & Maintenance) position, one (1.0) Engineering Tech III (Materials) position, one (1.0) Senior Real Estate Specialist position, one (1.0) Senior Auditor position, one (1.0) Civil Engineer position, three (3.0) Highway Maintenance Operator I positions, and one (1.0) Landscape Maintenance Technician position from the Department's enacted FTE position cap.

Governor's FY 2015 Budget Recommendation

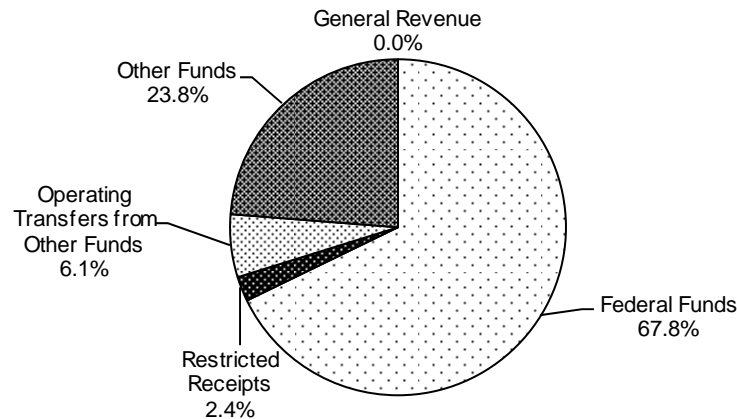
In FY 2015, recommended expenditures from all sources for transportation activities total \$519.2 million, an increase of \$59.0 million from the enacted FY 2014 Budget.

The following chart illustrates departmental expenditures by source of financing for FY 2015.

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This chart does not include general obligation bond expenditures, GARVEE expenditures, and GARVEE debt service payments, with the exception of personnel costs financed by the GARVEE program and general obligation bonds.

How it is Financed



The other funds source represents 23.8 percent of the FY 2015 Budget for the Department, or \$123.3 million, an increase of \$9.9 million from the enacted FY 2014 Budget. Other funds include total gasoline tax expenditures of \$101.9 million, of which \$53.0 million represents the Department of Transportation budget, \$38.5 million is budgeted for RIPTA's allocation of the gasoline tax, with an additional \$2.1 million for the 0.5 cents of the Underground Storage Fee allocated to RIPTA, and \$8.3 million for the Motor Fuel Bond allocation of the gasoline tax.

Governor's FY 2015 Intermodal Surface Transportation Fund Recommendation

The total estimated receipts for the Intermodal Surface Transportation Fund in FY 2015 are \$135.3 million, which represents a gasoline tax yield estimate of \$4,162,981 per penny of the gasoline tax. The total gasoline tax budget within the Department of Transportation represents a decrease of \$231,619 from the enacted FY 2014 Budget. Included in the FY 2015 gasoline tax budget for the Department is a general obligation bond debt service payment of \$26.8 million, a decrease of \$3.5 million from the enacted FY 2014 Budget.

Due to continued pressure on the Department's budget with increasing debt service, and declining gasoline tax revenue as compared to previous years, general revenue will be used to fund \$19.3 million of the Department's debt service for FY 2015. This represents an increase of \$10.0 million in general revenue towards debt service as compared to the enacted budget. In addition, RIDOT received \$1.9 million through the Build America Bond rebates that will be used to reduce the amount of gasoline tax used for debt service. Similar to FY 2014, this is a reduction of \$145,150 as compared to the enacted budget based on federal sequestration cuts. Based on the refunding and restructuring of debt in April 2012, the debt service adjustment to the Department represents an increase of \$6.3 million from the enacted budget. The restructuring of debt service is expected to achieve long term savings.

General obligation bonds have been used up until very recently as the state match piece for the state's Federal Highway Program as a means towards providing the twenty percent state match for eighty percent

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federal funded projects. The Governor has moved away from using general obligation bonds as a match while the ballot of 2012 marked the first time in years that general obligation bonds for transportation funding was not on the ballot. By removing this type of debt service, the Department will benefit greatly by freeing up Motor Fuel Tax revenues that has and currently goes directly to pay debt service. Additionally, as previously mentioned, the Governor and the State have made it a priority over the next few years to use general revenue as a means of paying back transportation bond debt. As the following chart indicates, the estimated amount of freed up Motor Fuel Tax revenues the Department of Transportation can expect to receive over the next few years is shown below:

| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|-----------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Estimated Debt Service | \$41,607,518 | \$47,949,497 | \$50,631,014 | \$50,188,143 | \$41,619,843 |
| General Revenue | \$9,250,000 | \$19,250,000 | \$29,250,000 | \$39,250,000 | \$39,749,013 |
| Federal Build America Grant | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 |
| Motor Fuel Tax - Debt Service | \$30,486,688 | \$26,828,667 | \$19,510,184 | \$9,067,313 | \$0 |
| Increase(Decrease) - Debt Service | \$0 | \$6,341,979 | \$2,681,517 | (\$442,871) | (\$8,568,300) |
| Additional Available Motor Fuel Tax Revenues | \$11,120,830 | \$14,778,851 | \$28,439,313 | \$41,563,701 | \$50,188,143 |

It is important to note that the freed up funds is strictly the difference of debt service paid through general revenue and Federal Build America Grant funds as compared to what remains to be paid through the Motor Fuel Tax. Increased operational costs of the Department of Transportation, a consistent reduction of the gas tax yield over the years, and annual debt service requirements can all affect how much of these freed up funds will be available for new initiatives and programs, some of which will be touched on further below.

Similar to FY 2014 and due to projected deficits at RIPTA, the Governor recommends that debt service on outstanding RIPTA general obligation bonds be funded with \$1.8 million of general revenue for one additional year in FY 2015 to supplement gas tax revenue generally used for debt service. The Governor has informed RIPTA that this shift will not continue after FY 2015 and it is expected that the Authority will balance its budget without this support in FY 2016 and thereafter.

A total of \$2.4 million represents reductions to the Department's allocation of the gasoline tax in order to finance Human Resources, Purchasing, and Information Technology positions consolidated within the Department of Administration. The transfer represents an increase of \$316,256 from the enacted FY 2014 Budget. Similar to FY 2014, the increase addresses the anticipated need for increased financing for Human Resources and Information Technology consolidations and an additional transfer to DOA related to services provided by the Division of Purchasing. Similar to the revised FY 2014 recommendation, the Governor recommends a zero sum balance for the end of FY 2015 in the Intermodal Surface Transportation Fund.

Governor's FY 2015 Rhode Island Capital Plan Fund

The FY 2015 recommendation includes Rhode Island Capital Plan Fund expenditures totaling \$31.4 million, of which \$1.5 million is for Salt Storage facilities, \$223,529 for the RIPTA Land and Buildings project, \$400,000 for Maintenance Facilities, \$1.2 million for the Portsmouth Facility, \$200,000 for Maintenance and Repairs at three train stations, and \$3.5 million is recommended for the conversion of the former RIPTA maintenance facility on Elmwood Avenue to a cooperative maintenance facility for DOT heavy equipment and RIPTA buses. The Governor recommends \$21.7 million from the Rhode Island Capital Plan Fund be included for the Highway Improvement Program. This continues the plan to use Rhode Island Capital Plan Fund resources as part of the state match towards the Department's federal highway program.

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Similar to the FY 2014 recommendation, the Governor continues to recommend Rhode Island Capital Plan Fund financing be included in FY 2015, in the amount of \$2.5 million or \$1.5 million more than the enacted level, to provide for a consistent heavy duty vehicle replacement plan in which the Department of Transportation can rely to steadily replace older vehicles with newer ones. Additionally, the Governor recommends an additional \$2.4 million from the Motor Fuel Tax Budget be match by the Department of Transportation to assist in heavy duty vehicle equipment purchases. The Governor believes that by providing the Department a consistent source of funding each year, it will have a reliable replacement plan by cycling in new vehicles while replacing older ones. Moving forward, the recommendation in the Capital Improvement Plan includes a total of \$5.0 million each year between Rhode Island Capital Plan funds and Motor Fuel Tax revenues towards the replacement of heavy duty maintenance equipment vehicles.

New FY 2015 Transportation Initiatives

In FY 2015, the Governor recommends a new project relating to Mass Transit Hub Infrastructure in Transportation's Budget. The Rhode Island Public Transit Authority, the Department of Transportation and the Division of Statewide Planning are working cooperatively on a comprehensive operational analysis of the State's mass transit hub system to determine if the current system is the most effective and efficient structure that best serves the citizens of the State of Rhode Island. The goal is to enhance access to multiple intermodal sites throughout the state and to expand access to key transportation, healthcare and other locations. The Governor recommends a \$40.0 million general obligation bond authorization be placed on the November 2014 ballot, funding from which will be used to undertake major enhancements and renovations to mass transit hub infrastructure throughout the State. To facilitate this work, the Governor recommends \$250,000 from the Rhode Island Capital Plan Fund in FY 2015 for preliminary conceptual design of a new mass transit hub system in Rhode Island.

As part of using freed up Motor Fuel Revenues through the allocation of general revenue towards debt service, the Governor recommends including \$500,000 in FY 2015 from gas tax revenues to establish a Highway Drainage Preservation program. The goal is to increase this program by \$500,000 each year based on additional gas tax revenues freed up from general revenue going towards the Department of Transportation's debt service. The Department is responsible for the inspection and cleaning of 25,000 catch basins around the state. The State is required to inspect each catch basin annually and cleaned as needed. This project would provide for the establishment of an asset protection program for catch basins along with the cleaning required of each basin. As salt and sand are applied to the states roadways, and as runoff occurs due to natural rainfall and flooding, catch basins gradually fill with sand and other sediment, becoming ineffective and causing pooling at low points on roadway surfaces. The sedimentation of the catch basins is a concern to the Department of Environmental Management and the United States Environmental Protection Agency because, when storm water is not appropriately handled by the catch basins, runoff can cause additional pollution to reach bodies of water, including groundwater, wetlands, and rivers.

The Governor recognizes the need for a statewide bridge program, and through the freed up Motor Fuel Revenues as discussed throughout the State, will be able to begin implementing this program in FY 2015. Beginning in FY 2015, the Governor recommends a Statewide Bridge Rehabilitation program, to be administered by the Rhode Island Department of Transportation for any bridges under its authority, in the amount of \$10.0 million in FY 2015. Upfront financing of the program in FY 2015 will be made up of other funds available to the Department of Transportation along with phasing in freed up gas tax revenues in future years, the majority of which will become available based on the use of general revenue towards debt service.

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The Statewide Bridge Rehabilitation effort will be a statewide program that will help eliminate the current backlog of structurally deficient bridges. As part of the new, performance-oriented, Moving Ahead for Progress in the 21st Century (MAP-21) Federal transportation reauthorization bill, states will be required to meet a standard of 10.0 percent or less of National Highway System bridges categorized as structurally deficient. If greater than 10.0 percent of bridges are considered “structurally deficient” for three consecutive years, penalties can be imposed on the state that compel an increased share of federal funds be dedicated to bridge projects. In conjunction, DOT has set the same goal for the entire State bridge system. There are a number of factors which contribute to the condition of the bridges, including age of the structures, climate, and changes in traffic volumes and routes. By eliminating structurally deficient bridges, this will ensure we protect these assets and it will ensure continued federal funding flexibility under MAP-21.

The following chart demonstrates initial estimates, factoring in changes to the gas tax yield based on past trends, departmental expenditure patterns, and updated debt service numbers to reflect specifically the Governor’s vision to use the freed up Motor Fuel Tax Revenues achieved by using general revenue to pay down the Department of Transportation’s debt service. The Governor’s plan still ensures that the Department will be able to meet all of its operating costs, in addition to the new programs.

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| | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Total Estimated Debt Service | \$41,607,518 | \$47,949,497 | \$50,631,014 | \$50,188,143 | \$41,619,843 | \$40,579,751 | \$36,432,478 |
| General Revenue | \$9,250,000 | \$19,250,000 | \$29,250,000 | \$39,250,000 | \$39,749,013 | \$38,708,921 | \$34,561,648 |
| Federal Build America Grant | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 | \$1,870,830 |
| Motor Fuel Tax - Debt Service | \$30,486,688 | \$26,828,667 | \$19,510,184 | \$9,067,313 | \$0 | \$0 | \$0 |
| Increase(Decrease) - Debt Service | \$0 | \$6,341,979 | \$2,681,517 | (\$442,871) | (\$8,568,300) | (\$1,040,092) | (\$4,147,273) |

| Department of Transportation | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Estimated Per Penny Gas Tax Yield | \$4,168,974 | \$4,162,981 | \$4,156,556 | \$4,162,837 | \$4,160,791 | \$4,160,061 | \$4,161,230 |
| Motor Fuel Revenues | | | | | | | |
| DOT Portion of Gas Tax | \$82,337,237 | \$82,218,875 | \$82,091,974 | \$82,216,029 | \$82,175,626 | \$82,161,210 | \$82,184,288 |
| Carry Forward Balance | (\$51,080) | \$0 | \$0 | \$1,276,167 | \$1,528,823 | \$3,913,164 | \$5,197,985 |
| GARVEE Portion of Gas Tax | \$8,337,948 | \$8,325,962 | \$8,313,111 | \$8,325,674 | \$8,321,582 | \$8,320,122 | \$8,322,460 |
| RIPTA Portion of Gas Tax | \$40,647,497 | \$40,589,065 | \$40,526,418 | \$40,587,660 | \$40,567,714 | \$40,560,597 | \$40,571,990 |
| Total Estimated Revenues | \$131,271,602 | \$131,133,902 | \$130,931,504 | \$132,405,529 | \$132,593,746 | \$134,955,094 | \$136,276,723 |
| Motor Fuel Expenditures | | | | | | | |
| Debt Service | \$30,486,688 | \$26,828,667 | \$19,510,184 | \$9,067,313 | \$0 | \$0 | \$0 |
| GARVEE Transfer | \$8,337,948 | \$8,325,962 | \$8,313,111 | \$8,325,674 | \$8,321,582 | \$8,320,122 | \$8,322,460 |
| RIPTA Transfer | \$40,647,497 | \$40,589,065 | \$40,526,418 | \$40,587,660 | \$40,567,714 | \$40,560,597 | \$40,571,990 |
| Consolidations Transfer (DOA) | \$2,427,576 | \$2,428,900 | \$2,489,623 | \$2,551,863 | \$2,615,660 | \$2,681,051 | \$2,748,077 |
| Personnel Costs | \$25,225,344 | \$25,777,784 | \$26,422,228 | \$27,082,785 | \$27,759,854 | \$28,453,850 | \$29,165,196 |
| Contract Services | \$262,300 | \$270,300 | \$277,058 | \$283,984 | \$291,084 | \$298,361 | \$305,820 |
| Winter Maintenance (Excluding OT) | \$12,065,408 | \$12,592,565 | \$12,281,101 | \$12,588,128 | \$12,902,832 | \$13,225,403 | \$13,556,038 |
| Other Operating Costs | \$10,043,617 | \$10,541,822 | \$10,427,584 | \$10,605,698 | \$10,787,652 | \$10,911,861 | \$11,115,759 |
| Assistance & Grants | \$476,924 | \$496,403 | \$491,025 | \$498,882 | \$500,351 | \$506,730 | \$507,001 |
| Other Capital Costs | \$298,300 | \$421,000 | \$417,005 | \$284,719 | \$433,852 | \$299,133 | \$451,467 |
| Vehicle Equipment Replacement Plan | \$1,000,000 | \$2,361,434 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 | \$2,500,000 |
| Drainage Preservation Program | \$0 | \$500,000 | \$1,000,000 | \$1,500,000 | \$2,000,000 | \$2,000,000 | \$2,000,000 |
| Statewide Bridge Rehab Program | \$0 | \$0 | \$5,000,000 | \$15,000,000 | \$20,000,000 | \$20,000,000 | \$20,000,000 |
| Total Estimated Expenditures | \$131,271,602 | \$131,133,902 | \$129,655,336 | \$130,876,706 | \$128,680,581 | \$129,757,109 | \$131,243,807 |
| Surplus (Deficit) | \$0 | \$0 | \$1,276,167 | \$1,528,823 | \$3,913,164 | \$5,197,985 | \$5,032,916 |

* Estimates reflect best available information provided to the State Budget Office and are subject to change.

| Statewide Bridge Rehabilitation Program | | | | | | | |
|-----------------------------------------|------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Motor Fuel Tax Revenues | \$0 | \$0 | \$5,000,000 | \$15,000,000 | \$20,000,000 | \$20,000,000 | \$20,000,000 |
| Other Funds - ISTF | \$0 | \$10,000,000 | \$10,000,000 | \$0 | \$0 | \$0 | \$0 |
| Total | \$0 | \$10,000,000 | \$15,000,000 | \$15,000,000 | \$20,000,000 | \$20,000,000 | \$20,000,000 |

Governor's FY 2015 Other Funds Recommendation

A total of \$1.5 million in other funds is from estimated land sale revenues. Additionally, the Department of Transportation has received \$43.0 million through the land sale associated with the relocation of the I-195 project, which will be used over a number of years. In FY 2015, the Department estimates using \$19.8 million from the I-195 land sale revenue. The remaining other funds for the Department is comprised of \$160,000 for outdoor advertising and non-land surplus property collections for the budget year.

The total budget for federal grants for the Department represents 67.8 percent of the Budget, or \$352.1 million, including \$256.8 million in federal highway funds, a total of \$48.4 million is GARVEE debt service payments from Federal highway funds, and \$636,396 budgeted to account for personnel costs transferred to

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the GARVEE construction program. Federal grants for the Department are comprised of a total of \$8.8 million in Federal Transit funds and \$5.7 million in National Highway Safety funds. Federal Transit funds decrease by \$3.7 million in FY 2015 from the enacted level. National Highway Safety funds decrease by \$75,475 below the enacted FY 2014 Budget to reflect actual federal grants anticipated in FY 2015.

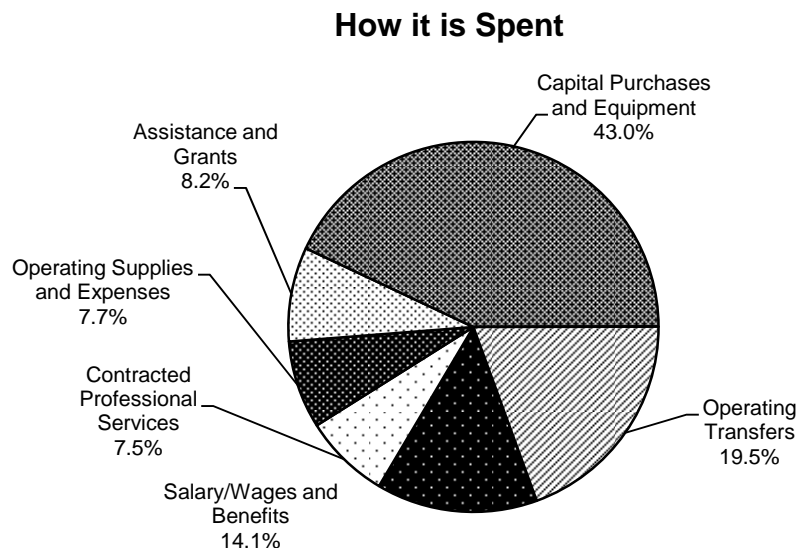
Governor's FY 2015 Restricted Receipts Recommendation

Restricted receipts represent 2.4 percent of the total budget or \$12.4 million. The majority of the funds will come from the Highway Maintenance Trust Fund, which is budgeted as a restricted receipt account similar to FY 2014 and primarily used as state matching funds towards the Department's Federal Highway Program.

Governor's FY 2015 FTE Recommendation

Similar to the FY 2014 revised recommendation, the Governor recommends 752.6 FTE positions for FY 2015, which is a decrease of 20.0 FTE positions from enacted level of 772.6 FTE positions. The Governor recommends decreasing the Rhode Island Department of Transportation's enacted FTE number to correspond to the five year average of 697.0 filled FTE positions.

The following chart illustrates departmental expenditures on an all funds basis by category of expenditure for FY 2015.



The capital category of expenditure represents 43.0 percent of the total Department budget. Capital consists primarily of Federal highway dollars located within the Engineering program for infrastructure construction costs. Available funding drives the projections for the Department of Transportation.

A total of 21.6 percent represents personnel costs of the Department, which includes contract services. Initiated in FY 2008, the Department's Federal indirect cost recovery plan allows a portion of personnel, as well as contract services and operating costs to be eligible for federal reimbursement. A total of \$19.0 million of personnel and contract services costs are located within the Maintenance program where the source of funding is the gasoline tax.

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The category of operating transfers represents 19.5 percent of all funds total spending for DOT, which includes the pass-through gasoline tax and underground storage tank fund revenue for RIPTA of \$40.6 million, and \$48.4 million which is paid for the GARVEE bonds through an operating transfer of federal highway funds.

The operating category represents 7.7 percent of all funds total spending for the Department with 55.9 percent of the category representing maintenance activities, which include pavement repair, crack sealing, pothole repair, litter collection, vehicle fleet maintenance, street and sidewalk sweeping, signage, highway light maintenance, and bridge washing. Snow and ice removal operations also fall under the management of this program.

Assistance, grants, and benefits represent 8.2 percent of the FY 2015 Budget and consist primarily of Federal Highway Administration and Federal Transit Administration grant funds.