

Rhode Island's FY 2021 Enacted Budget and the Fiscal Challenges Ahead

*The Fourth in a Series on the Fiscal
Impact of COVID-19*

January 2021



RIPEC

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I. Introduction

The COVID-19 pandemic and its resulting economic fallout has upended the normal state budgeting cycle. State general revenue projections plummeted, according to the Revenue Estimating Conference held in May of last year.¹ In June 2020, the General Assembly enacted a revised budget for fiscal year (FY) 2020 that was balanced largely on a \$120 million transfer from the state’s rainy day fund and the use of \$97.3 million in federal COVID relief funds to pay for state expenses.² Facing a massive shortfall in revenues and anticipating an additional federal relief package, the Assembly deferred action on a budget for FY 2021, which commenced on July 1 of 2020.³

While a federal relief package stalled, the budget picture brightened considerably since the beginning of the fiscal year. In September, the State Controller issued preliminary closing statements—essentially an accounting reconciliation—reporting a total positive swing of higher revenues and lower expenditures amounting to \$187.9 million.⁴ Then, in November, estimated revenues and caseload expenditures for the FY 2021 budget were revised at the Revenue Estimating and Caseload Estimating Conferences for a net increase of \$461.6 million over May estimates.⁵ With the December 30 deadline for spending COVID relief funds fast approaching, and the fiscal year nearly half over, on December 21, the General Assembly enacted a pared-down or “skinny,” budget for FY 2021, which included a large appropriation for federally-funded COVID response costs, but otherwise contains no significant policy or programmatic changes to current law.⁶

The FY 2021 budgeting process began with Governor Gina Raimondo’s proposed budget in January 2020, but the skinny budget enacted in December generally rejects any tax increases, cuts in services or programs, or new programs proposed by the governor.⁷ The enacted FY 2021 budget therefore maintains the status quo in large part, but importantly does not freeze taxes and expenditures at the levels appropriated in FY 2020. Rather, the enacted FY 2021 budget increases expenditures and reduces taxes consistent with current law. To pay for this expansion of financial

¹ RIPEC, “[Rhode Island’s May 2020 Revenue Estimating Conference in Historic and Regional Context](#),” July 2020.

² RIPEC, “[Rhode Island’s FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout](#),” July 2020.

³ By law, when the Assembly fails to approve a budget before the beginning of a fiscal year, the state operates under spending allotments to agencies in the same amounts as appropriated in the previous fiscal year. R.I. Gen. Laws [§ 35-3-19](#).

⁴ R.I. Dept. of Administration, Division of Accounts and Control, “[FY 2020—Preliminary Unaudited Closing Statements](#),” September 8, 2020.

⁵ House Fiscal Advisory Staff, “[November Consensus Revenue Estimate](#),” November 16, 2020; House Fiscal Advisory Staff, “[November Caseload Conference Estimate](#),” November 16, 2020.

⁶ R.I. General Assembly, [2020—House Bill 7171 Substitute A](#). The legislation was passed by the General Assembly on December 18 and signed by the governor on December 21.

⁷ With the fiscal year nearly half over, many of the governor’s proposals, even if adopted, would have resulted in fiscal impacts far different from those originally proposed.

commitments and produce a balanced budget for FY 2021, the General Assembly relied on over \$400 million of one-time federal COVID relief funding to cover state general revenue expenditures.

This RIPEC report, “Rhode Island’s FY 2021 Enacted Budget and the Fiscal Challenges Ahead,” is the fourth in a series on the fiscal impact of the economic crisis caused by the COVID-19 pandemic.⁸ It breaks down the positive changes to the revenue and expenditure situation between enactment of the FY 2020 supplemental budget in June and passage of the FY 2021 budget in December. The report next analyzes the enacted FY 2021 budget with a focus on how a shortfall in general revenues has been addressed, and particularly how federal COVID funding has been incorporated in the budget solution. It then discusses how the enacted FY 2021 budget impacts the more challenging task of developing a balanced budget plan for FY 2022 and beyond before, finally, offering policy recommendations for consideration.

⁸ The first three reports are: RIPEC, “[The COVID-19 Economic Crisis: Federal Assistance and Rhode Island’s Budget](#),” April 2020; RIPEC, “[The Impacts of the COVID-19 Crisis on Rhode Island’s Unemployment and Temporary Disability Insurance Programs](#),” June 2020; and RIPEC, “[Rhode Island’s FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout](#),” July 2020.

II. Fiscal Developments After FY 2020 Budget Enactment

The dire financial situation facing the State of Rhode Island when the FY 2020 supplemental budget was enacted at the end of June improved markedly over the succeeding months. First, the FY 2020 preliminary closing statement reported increased revenues and reduced expenditures amounting to a positive net change in general revenues of \$187.9 million. Secondly, and more significantly, the November Revenue and Caseload Estimating Conferences projected an increase in general revenues of \$461.6 million. Both developments are examined in greater detail below.

The FY 2020 Preliminary Closing Statement

On September 1 of each year, the State Controller is required by statute to prepare a preliminary closing statement, reporting the unaudited financial results for the most recent fiscal year ending on June 30.⁹ Final financial reports for the fiscal year, as audited by the Office of Auditor General, typically are reported by December 31. Historically, however, the differences between the preliminary closing statement and final financial reports are relatively small.¹⁰

The preliminary closing statement for FY 2020, issued on September 8, reported total revenues of \$4,063.9 million— \$141.8 million, or 3.6 percent, greater than assumed in the enacted FY 2020 budget. Gains in personal income taxes (\$46.6 million) and sales and use taxes (\$38.4 million) accounted for more than half of the positive variance, but other revenue categories also performed above enacted levels, including financial institutions taxes (\$20.2 million), business corporations taxes (\$15.7 million), and lottery (\$15.3 million).¹¹

The FY 2020 preliminary closing statement also reported total expenditures of \$3,912.6 million— \$46.1 million (1.1 percent) less than in the enacted FY 2020 budget. Most of this variance was attributable to savings of \$37.3 million in Medicaid expenditures, but there were other savings across state government, including reduced costs of \$10.9 million in various public safety categories.¹² However, savings were partially offset by cost overruns in three state departments: Behavioral Health, Developmental Disabilities and Hospitals (BHDDH) (\$7.7 million), Human Services (\$2.7 million), and Health (\$1.5 million).¹³

⁹ [R.I. Gen. Laws § 35-6-1\(a\)\(10\)](#).

¹⁰ [R.I. Gen. Laws § 35-7-10](#). For FY 2019, the difference between the preliminary closing statement and final closing statement was only \$1.3 million. R.I. Department of Administration, Division of Accounts and Controls, [FY 2019 Closing Statements](#), January 2, 2020.

¹¹ R.I. Dept. of Administration, Division of Accounts and Control, "[FY 2020—Preliminary Unaudited Closing Statements](#)," September 8, 2020.

¹² Savings for public safety included \$2.2 million in corrections, \$2.1 million in the judiciary, and \$4.7 million in other public safety, consisting primarily of expenditure savings in the State Police. *Ibid.*

¹³ *Ibid.*

The November Revenue and Caseload Estimating Conferences

In Rhode Island, the annual state budget is based on projections of general revenue determined through a Consensus Revenue Estimating Conference, which occurs in May and November of each year.¹⁴ Revenue estimates reflect the consensus reached by the three Conference principals: the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor.¹⁵ The Conference typically relies on testimony from executive branch officials as well as economic forecasting by an independent forecasting firm to produce estimates for both the current and subsequent fiscal year. Contemporaneously, the Conference principals convene a Caseload Estimating Conference for the purpose of estimating anticipated expenditures relating to medical and public assistance.¹⁶

The determination of accurate estimated revenues by the Revenue Estimating Conference is central to the integrity of the budget process and to meeting the state's constitutional requirement of a balanced budget. In January or February, the governor typically presents to the legislature a proposed budget for the upcoming fiscal year which relies on the estimates produced in the November Revenue Estimating Conference. As such, the November Conference presents the first projection of estimates for the next fiscal year. When the General Assembly enacts a budget—typically before the fiscal year begins on July 1—it relies on the Conference's May estimates.¹⁷

While the Revenue Estimating Conference is perennially important to the state's fiscal position, the two most recent Conferences have taken on outsized importance due to the economic crisis that has accompanied the COVID-19 pandemic. The May 2020 Conference, held less than two months after the first cases of COVID were detected in Rhode Island, determined that estimated revenues for FY 2020 and FY 2021 would be sharply lower than estimated at the November 2019 Conference: \$280.9 million (6.7 percent) lower for FY 2020 and \$515.8 million (12.2 percent) lower for FY 2021.¹⁸

¹⁴ [R.I. Gen. Laws § 35-16-3\(a\)](#). In addition to the conference meetings in November and May, any of the principals may convene an additional conference if they feel that the most recent revenue projections “are no longer valid.” Ibid. General revenues are one of four primary revenue types collected by the State of Rhode Island and, unlike the state's three other funding streams—federal grants, other funds, and restricted receipts—general revenues are typically used for any type of budgeted expenditure. General revenues are the state's largest single revenue source, accounting for 40.9 percent of all state spending in the fiscal year (FY) 2020 budget as first enacted. R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#), Appendix A.

¹⁵ R.I. Gen. Laws [§ 35-16-1](#), [35-16-2](#).

¹⁶ R.I. Gen. Laws [§ 35-17-1](#).

¹⁷ R.I. Gen. Laws, [§ 35-16-1\(a\)](#).

¹⁸ R.I. OMB, [May 2020 Revenue Estimating Conference Report](#).

The November Revenue Estimating Conference

Economic Forecasting Testimony

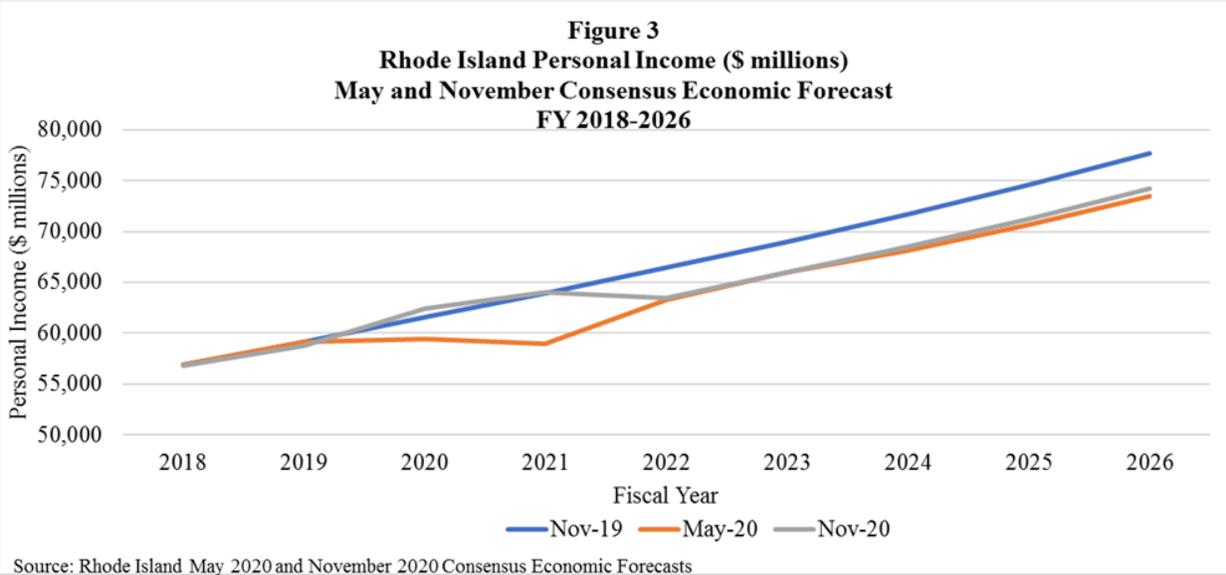
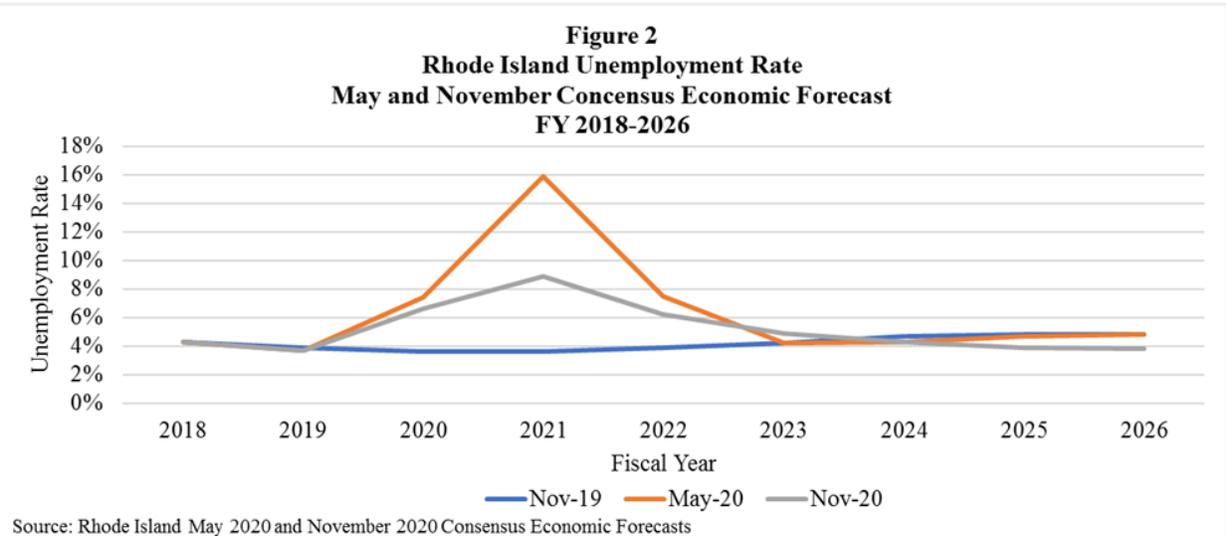
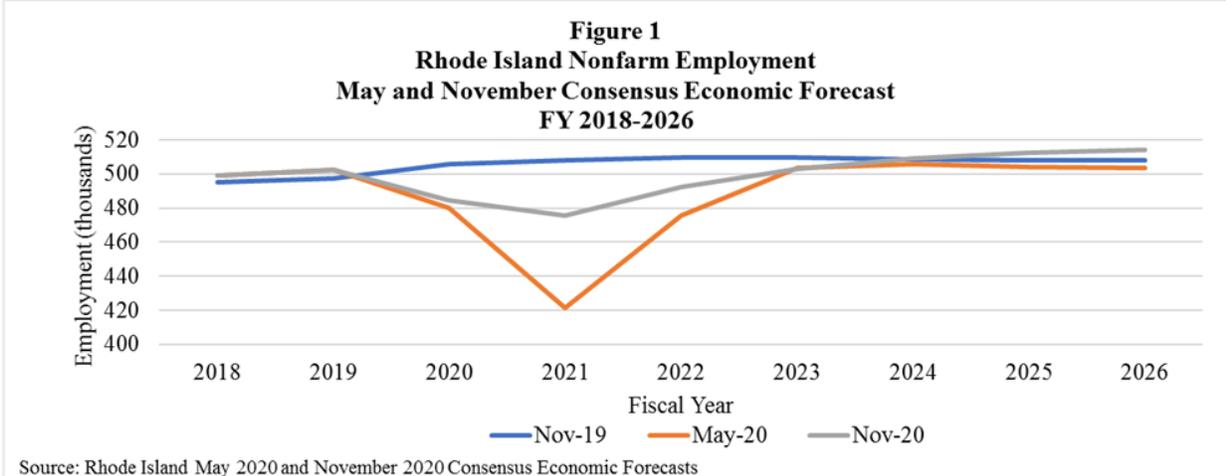
Given the economic uncertainty connected with the ongoing pandemic, the most critical input of the November 2020 Revenue Estimating Conference was arguably the economic forecasting testimony presented by IHS Markit, a state-contracted and nationally based firm which has provided forecasting for prior Estimating Conferences, including the May 2020 Conference. Consistent with its national forecast, the economic projections presented by IHS Markit for Rhode Island painted a greatly improved picture as compared to the forecast presented in May. According to IHS Markit, Rhode Island total nonfarm employment is projected to grow to an average of 475,600 jobs in FY 2021, a marked improvement over the 421,600 jobs projected at the May Conference. Reflecting higher jobs numbers, total personal income for FY 2021 is projected to increase by 2.6 percent over FY 2020, a large improvement from the 0.7 percent decline projected at the May Conference. Likewise, consumer spending in FY 2021 is projected to increase by 2.2 percent, as compared to the 2.4 percent decline projected in May.¹⁹

However, IHS Markit's FY 2022 projections depict the Rhode Island economy losing steam. Employment is projected to increase only to 492,100 jobs, still below the pre-pandemic peak of 508,400 in February 2020. Total personal income is projected to decline by 0.9 percent from FY 2021 to FY 2022, although consumer spending is forecasted to remain strong, growing by 5.3 percent. Importantly, economic growth is projected to be slow in Rhode Island thereafter, with employment increasing by only 2.2 percent in FY 2023 and 1.2 percent in FY 2024.²⁰

Figures 1-3 compare respectively nonfarm employment figures, the unemployment rate, and personal income figures forecasted at the November 2019, May 2020, and November 2020 Consensus Revenue Estimating Conferences. Collectively, they illustrate the significant improvement in the economic forecast from May to November, as well as the gap remaining between the most recent forecast in November 2020 and the forecast conveyed before the pandemic in November of 2019.

¹⁹ R.I. Senate Fiscal Office, "[November 2020 Revenue Estimating Conference Report](#)"; R.I. OMB, "[May 2020 Revenue Estimating Conference Report](#)."

²⁰ R.I. Senate Fiscal Office, "[November 2020 Revenue Estimating Conference Report](#)."



Revenue Estimates

The November 2020 Revenue Estimating Conference determined that the revenue outlook for FY 2021 was much brighter than had been forecast in May. At the November Conference, total general revenues for FY 2021 were estimated at \$4,056.4 million, an increase of \$330.6 million, or 8.9 percent, over general revenues estimated at the May 2020 Conference. Most of this gain consisted of substantial projected increases in the state's two largest tax revenue categories: personal income (\$154.6 million) and sales and use (\$103.7 million).²¹

However, the revenue estimate for FY 2022 reached at the November Conference reflects the sluggish rebound projected by the economic forecast. Total general revenues for FY 2022 were forecast to be \$4,045.0 million, \$11.5 million *less* than revenues estimated for FY 2021. The FY 2022 estimates include a large increase in lottery revenues and a modest increase in sales and use tax but a small decline in personal income tax. The largest factor in the projected decrease in general revenues is the decline in departmental receipts from \$390.0 million to \$249.0 million, primarily the result of excluding the Hospital License Fee, which is typically renewed each year but is not included in current law.²² Assuming revenues from a renewed Hospital License Fee at the same level as FY 2021, total projected revenues for FY 2022 would be \$4,206.5 million, an increase of \$150.1 million (3.7 percent) over estimated revenues for FY 2021. The FY 2022 revenue estimates importantly will serve as the basis for the governor's proposed budget to be submitted in March of this year.²³

The November Caseload Estimating Conference

The November Caseload Estimating Conference also contributed to an improved budget outlook for FY 2021, determining that anticipated general revenue expenditures relating to medical and cash assistance would be \$131.0 million less than estimated at the May Conference. Nearly all of this reduced expenditure estimate is attributable to medical assistance, estimated to be \$129.8 million less than forecast in May, of which \$92.1 million is the product of the temporary enhanced federal matching rate for Medicaid under the Families First Coronavirus Response Act. The remainder is connected with lower enrollment and program expenses than estimated at the May Conference. For FY 2022, the Caseload Conference estimated total general revenue caseload expenditures at \$1,038.0 million, \$71.6 million more than the \$966.4 million estimated for FY 2021. This increase is primarily attributable to the assumption that the enhanced federal Medicaid rate will not be extended.²⁴

²¹ Ibid.

²² R.I. Senate Fiscal Office, "[November 2020 Revenue Estimating Conference Report](#)." The Hospital License Fee generates \$161.5 million in revenues in FY 2021. Ibid.

²³ As part of the FY 2021 Appropriations Act, the General Assembly postponed the date of the governor's submission of the FY 2022 budget to March 11, 2021. R.I. General Assembly, [2020—House Bill 7171 Substitute A](#).

²⁴ R.I. Senate Fiscal Office, "[November 2020 Caseload Estimating Conference Report](#)."

III. The Enacted FY 2021 Budget

In January 2020, weeks before the COVID-19 pandemic manifested itself in Rhode Island, the governor proposed her budget plan for FY 2021. Consisting of total expenditures of \$10,195 million and total general revenue expenditures of \$4,248 million, the governor proposed increases of \$224 million (or 2.2 percent) in total expenditures and \$170 million (or 4.1 percent) in total general revenue expenditures over the respective totals enacted by the General Assembly for the FY 2020 budget in June of 2019.²⁵ The governor's proposed FY 2021 budget included over \$100 million in revenue changes. These included: the reimposition of the sales tax on wine and spirits, an expansion of the sales tax to certain services, restoring the Hospital Licensing Fee to 6.0 percent, new revenues from marijuana legalization, and transfers from several quasi-public agencies.²⁶ The governor's proposed FY 2021 budget also included increased spending for the Real Jobs RI program, Pre-K education, and the Rebuild RI economic development program, as well as an expansion of the RIte Share program, a cut in local aid to distressed communities, and an extension of the car tax phaseout.²⁷

The COVID-19 pandemic dramatically altered the budget situation, with massive additional expenditures for pandemic response costs paid for with federal funds, large revenue shortfalls resulting from the pandemic's negative impact on the local economy, and the ability to utilize federal COVID relief funds to pay for ordinary state expenditures. In June 2020, the General Assembly passed a revised supplemental budget for FY 2020 that departed greatly from both the FY 2020 budget enacted by the General Assembly in June 2019 and from the governor's proposed revised appropriations submitted in January 2020.

The FY 2020 supplemental budget authorized total expenditures from all sources of \$11.8 billion, which is \$1.8 billion (18.0 percent) more than the enacted budget of \$10.0 billion. This large increase in total spending is somewhat misleading, since nearly \$1.4 billion consisted of additional federally funded unemployment insurance benefits paid to Rhode Islanders in connection with the pandemic. Moreover, the FY 2020 supplemental budget contains general revenue expenditures totaling \$3.96 billion, \$127.6 million less than the governor recommended and \$118.9 million (2.9 percent) less than the enacted budget. For the most part, the reduction in general revenue expenditures does not reflect reduced spending, but rather a change in the source of funding, from state to federal funding under the Coronavirus Relief Fund. Of the \$118.9 million in general revenue expenditure reductions from the enacted budget, \$97.3 million are the result of swaps that replace general revenue funding with federal funding.²⁸

²⁵ R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#), Appendix A.

²⁶ Ibid.

²⁷ R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#).

²⁸ RIPEC, "[Rhode Island's FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout](#)," July 2020.

The FY 2021 enacted budget follows a similar formula as employed for the FY 2020 supplemental budget, but with even larger values for spending from federal sources for COVID response costs. The FY 2021 enacted budget authorizes total expenditures from all sources of \$12.7 billion, which is \$900 million (7.6 percent) more than the FY 2020 supplemental budget. As with FY 2020, this large increase in total spending is somewhat misleading, including over \$1 billion in expenditures funded by Rhode Island’s relatively large allocation of federal COVID relief funding.²⁹ The enacted FY 2021 budget authorizes general revenue expenditures of \$4.2 billion, which is \$190 million (4.8 percent) more than enacted in the FY 2020 supplemental budget.³⁰ Importantly, the FY 2021 enacted budget relies on over \$400 million in federal COVID relief funding to pay for state general revenue expenditures.³¹

In the FY 2021 enacted budget, the General Assembly generally deferred to the governor with respect to appropriations of federal COVID relief funds. In fact, most of these funds were spent or committed prior to the budget’s enactment. These federally funded expenditures include over \$900 million for enhanced unemployment benefits; over \$300 million for contact tracing, testing, vaccination efforts, and related costs; \$125 million to assist hospitals; and over \$100 million to assist businesses and non-profit organizations.³² An assessment of these expenditures is beyond the scope of this report and deserves separate analysis.

Bond Referenda Authorized in the FY 2021 Budget

In her original FY 2021 budget submission in January of last year, the governor proposed three ballot initiatives totaling \$268 million: \$117.3 million for higher education, \$87.5 million for housing and infrastructure, and \$64 million for beaches, clean water, and green initiatives.³³ In late July, the governor proposed a budget revision to nearly double the total amount of the ballot measures to \$496.8 million, adding borrowing of \$107.0 million for health laboratories, \$46.0 million for industrial facilities, \$40.0 million for housing, \$30.0 million for transportation, and \$5.0 million for beaches.³⁴ The General Assembly ultimately approved \$400.0 million in total borrowing, rejecting the health laboratories proposal, increasing the borrowing for transportation and industrial facilities, and making some other small adjustments. The Assembly also separated the bond initiatives into seven ballot questions and set the date of a special election for the ballot initiatives for March 2, 2021.³⁵ Figure 4 depicts the amount of funding for each item as proposed originally by the governor in January, revised by the governor in July, and finally enacted by the General Assembly in December.³⁶

²⁹ R.I. Senate Fiscal Office, [“FY 2021 Budget: Changes to the Governor,”](#) December 15, 2020.

³⁰ Ibid.

³¹ Ibid.

³² Ibid.

³³ R.I. OMB, [FY 2021 Budget Proposal—Executive Summary.](#)

³⁴ R.I. OMB, [Amendment to Article 5 – Relating to Capital Development Program \(20-H-7171\),](#) July 27, 2020.

³⁵ R.I. General Assembly, [2020—House Bill 7171 Substitute A.](#)

³⁶ R.I. Senate Fiscal Office, [“FY 2021 Budget: Changes to the Governor,”](#) December 15, 2020.

Figure 4
FY 2021 Bond Referenda (\$ millions)

	Governor's Budget Proposal	Governor's Budget Amendments	Enacted Budget
<i>Higher Education Facilities Bond</i>	\$ 117.3	\$ 117.3	\$ 107.3
University of Rhode Island Fine Arts Center	57.3	57.3	57.3
Rhode Island College Clarke Science Building Renovation	38.0	38.0	38.0
Community College of Rhode Island Renovation and Modernization	12.0	12.0	12.0
Center for Ocean Innovation	10.0	10.0	-
<i>Beach, Clean Water, and Green Bond</i>	\$ 64.0	\$ 69.0	\$ 74.0
State Beaches, Parks, and Campgrounds	35.0	40.0	33.0
I-195 Park*	-	-	4.0
Local Recreation Projects	4.0	4.0	4.0
Natural and Working Lands	3.0	3.0	3.0
Clean Water and Drinking Water	15.0	15.0	15.0
Municipal Resiliency	7.0	7.0	7.0
Providence River Dredging	-	-	6.0
Woonasquatucket River Watershed	-	-	2.0
<i>Housing Community Opportunity</i>	\$ 25.0	\$ 65.0	\$ 65.0
<i>Transportation Infrastructure State Match</i>	-	\$ 30.0	\$ 71.7
<i>Early Childhood Care and Education Capital Fund</i>	\$ 15.0	\$ 15.0	\$ 15.0
<i>Cultural Arts and the Economy Grant Program and State Preservation</i>	\$ 6.0	\$ 6.0	\$ 7.0
Cultural Arts and the Economy Grant Program	5.0	5.0	6.0
State Preservation Grants Program	1.0	1.0	1.0
<i>Industrial Facilities Infrastructure</i>	\$ 41.5	\$ 87.5	\$ 60.0
Industrial Site Development	21.5	56.5	40.0
Port of Davisville Infrastructure at Quonset	20.0	31.0	20.0
<i>Health Laboratories</i>	-	\$ 107.0	-
Total	\$ 268.8	\$ 496.8	\$ 400.0

* I-95 Park infrastructure development was included among investments included in governor's budget amendment for State Beaches, Parks, and Campgrounds

Source: R.I. Senate Fiscal Office, "FY 2021 Budget: Changes to the Governor," December 15, 2020

IV. The Budget Outlook for FY 2022

Rhode Island's budget picture is complicated by large, atypical changes in funding sources connected with the COVID-19 pandemic in the budgets enacted for the previous and current fiscal year. For those budgets, billions of dollars of federal funding were authorized to be spent on COVID response costs, such as those related to the construction of alternate hospitals, testing, protective equipment, and unemployment benefits. In addition, federal COVID relief funds were used to pay for ongoing state expenses originally budgeted to be funded with state general revenues. Both fiscal years also included transfers involving the state's rainy day fund.

These changes in fund sources and rainy day fund transfers make an analysis of the state's fiscal situation more challenging. To determine whether the state has sufficient general revenues to pay for the cost of running state operations in FY 2022, this report seeks to determine the approximate level of recurring state expenditures typically reliant on state general revenues in the current fiscal year (FY 2021) by adjusting for one-time funding changes and one-time general revenue expenditures. This adjusted level of recurring general revenue expenditures creates a baseline upon which state general revenue spending can be projected for FY 2022.

The FY 2021 enacted budget makes use of one-time federal COVID relief funds to pay for recurring state personnel expenses in the amount of \$154.8 million, inclusive of \$6.2 million in savings from Workshare.³⁷ Based on updated guidance from the federal government on the use of COVID relief funds, the FY 2021 budget also uses one-time federal relief funds to pay for approximately \$70 million in personnel costs that were funded from state general revenues in FY 2020.³⁸ In addition, the budget uses federal COVID relief funds to replace general revenue expenditures for municipal aid in the net amount of \$111.5 million and replaces general revenue expenditures for the University of Rhode Island with federal funding in the amount of \$7.0 million. The FY 2021 enacted budget also takes advantage of savings from the enhanced temporary federal match for Medicaid in the amount of \$108.3 million.³⁹ Lastly, the FY 2021 budget takes advantage of an opening surplus of \$175.1 million, and leaves an ending surplus of \$7.0 million, for a net reliance on one-time surplus funds of \$168.1 million.

Offsetting these items are general revenue appropriations for two large one-time expenditures. First, \$90.0 million was appropriated to the Rhode Island Capital Plan Fund in partial repayment connected with the \$120.0 million transfer from the rainy day fund in FY 2020. Secondly, \$110.0 million was appropriated for anticipated response costs connected with COVID but projected to

³⁷ The Department of Administration instituted a program to allow non-essential state employees to work 60 percent of their regular weekly hours and claim federal Workshare benefits for the remaining time. R.I. House Fiscal Office, "[FY 2021 Changes to Governor as Contained in 2020-H 7171, Substitute A](#)," December 9, 2020.

³⁸ Ibid.

³⁹ R.I. Senate Fiscal Office, "[FY 2021 Budget: Changes to the Governor](#)," December 15, 2020.

be incurred after December 30, 2020, and thus not eligible for federal reimbursement at the time the budget was passed.⁴⁰ Accounting for these puts and takes, an approximate level of recurring state expenditures for FY 2021 is \$4,572.9 million, as depicted in Figure 5.

Figure 5
FY 2021 Budget
Approximate Level of Recurring State Expenditures
(\$ millions)

Budget Line	Amount
General revenue expenditures per Article 1	\$ 4,153.2
Add back:	
Federal COVID funding replacement for state personnel	154.8
Federal COVID funding replacement for municipal aid	111.5
Federal COVID funding to replace funding at URI	7.0
CARES Act enhanced Medicaid match	108.3
Federal COVID funding replacement for state personnel (FY 2020)	70.0
Reliance on FY2020 surplus funds	168.1
Less:	
Post- 12/30/20 COVID response costs	(110.0)
Transfer to RICAP in repayment of rainy day fund transfer	(90.0)
Total	\$ 4,572.9

Source: R.I. Senate Fiscal Office, “FY 2021 Budget: Changes to the Governor,” December 15, 2020; R.I. House Fiscal Office, “FY 2021 Changes to Governor as Contained in 2020-H 7171, Substitute A,” December 9, 2020; RIPEC Calculations

Outlook for the FY 2022 Budget

Fiscal year 2022 begins in less than six months, with the governor’s budget plan to be submitted in March. For FY 2022, general revenues are projected to be \$4,045.0 million, according to the November 2020 Revenue Estimating Conference.⁴¹ Assuming that the Hospital License Fee is renewed at the same revenue level as FY 2021, general revenues would total \$4,206.5 million. After the constitutionally required contribution of 3 percent of general revenues to the rainy day fund is deducted, available general revenues for FY 2022 are estimated to be \$4,080.3 million.

⁴⁰ Ibid. The deadline for federal reimbursement for state and local expenditures was extended from December 30, 2020 to December 31, 2021 as part of the \$900 billion COVID relief package enacted by Congress on December 20, 2020. U.S. House Appropriations Committee, “[H.R. 133 Division-By-Division Summary of COVID-19 Relief Provisions](#).”

⁴¹ R.I. Senate Fiscal Office, “[November 2020 Caseload Estimating Conference Report](#).”

State expenditures increase year over year based on many factors. Current law provisions, such as the school funding formula and the car tax phaseout, drive expense increases, subject to changes in law. Other costs, such as health care expenditures, increase each year based on inflationary market forces. The governor’s proposed FY 2021 budget, submitted in January of 2020, projected that general revenue expenditures will increase by approximately 3 percent from FY 2021 to FY 2022.⁴² As another point of reference, general revenue expenditures increased from \$3,547.9 million in FY 2016 to \$3,924.0 million in FY 2019—an increase of 10.6 million over three years, or approximately 3.5 percent per year.⁴³

Employing an assumption that general revenues expenditures will grow by 3 percent in FY 2022 over the approximate level of recurring state expenditures in FY 2021 of \$4,572.9 million and adding \$30 million to complete repayment of the remainder owed to the rainy day fund, expenditures for FY 2022 are projected to total \$4,740.1 million, leaving an initial projected deficit of \$659.8 million. However, certain general revenue expenditures budgeted in FY 2021 appear to now be covered through federal COVID funding because of the \$900 billion COVID relief legislation enacted by Congress in late December. Specifically, \$110 million in general revenue expenditures appropriated for COVID-related costs after December 30, 2020 appear to be covered since the reimbursement deadline has been extended from December 30, 2020 to December 31, 2021 as part of the federal legislation. In addition, the November 2020 Caseload Estimating Conference projected general revenue savings in FY 2021 of \$108.3 million attributable to the enhanced federal Medicaid match, based on the assumption that the public health emergency will continue for three quarters (through March 31, 2021). It now appears very likely that the public health emergency will continue through at least the fourth quarter of FY 2021, yielding projected savings \$36.1 million.⁴⁴ Accounting for both positive adjustments would increase the opening surplus by \$146.1 million, thereby reducing the projected deficit to \$513.7 million. Figure 6 illustrates these calculations.

⁴² R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#), Appendix B. By law, the governor’s proposed budget includes a five-year projection of anticipated general revenue receipts and expenditures. [R.I. Gen. Laws § 35-3-1\(a\)\(6\)](#).

⁴³ R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#), Appendix A. R.I. OMB, [FY 2018 Budget Proposal—Executive Summary](#), Appendix A.

⁴⁴ On January 7, 2021, The U.S. Department of Health & Human Services extended the public health emergency for an additional 90 days, effective January 21, 2021. U.S. Department of Health & Human Services, “[Renewal of Determination That A Public Health Emergency Exists](#),” January 7, 2021.

Figure 6
FY 2022 Budget
Projected General Revenue Deficit
(\$ millions)

Budget Line	Amount
Approximate level of FY 2021 recurring state expenditures	\$ 4,572.9
3 percent expenditure growth	137.2
Repayment to RICAP of remainder owed to rainy day fund	30.0
<i>Projected recurring state expenditures for FY 2022</i>	<i>\$ 4,740.1</i>
Less:	
Federal funding for FY 2021 COVID-related costs after 12/30/20	\$ (110.0)
Enhanced federal Medicaid match for fourth quarter of FY 2021	(36.1)
<i>Projected decrease in general revenue expenditures for FY 2021</i>	<i>\$ (146.1)</i>
<i>Available FY 2022 general revenues</i>	<i>\$ (4,080.3)</i>
Projected Deficit	\$ 513.7

Source: R.I. Senate Fiscal Office, "FY 2021 Budget: Changes to the Governor," December 15, 2020; R.I. House Fiscal Office, "FY 2021 Changes to Governor as Contained in 2020-H 7171, Substitute A," December 9, 2020; RIPEC Calculations

A projected deficit of \$513.7 million, representing more than 10 percent of the budget, presents a very challenging situation for FY 2022. However, the availability of additional federal funding is likely to improve the deficit picture. The \$900 billion COVID relief package passed by Congress in late December does not include broad relief for state and local government, but does include funding to cover additional anticipated direct costs connected with the pandemic, as well as funding for a variety of state functions affected by the pandemic, including assistance for K-12, higher education, childcare, mental health, and transportation.⁴⁵ There appears to be an opportunity to utilize some of this new federal funding to replace general revenue funding for ongoing state expenses in the FY 2022 budget.⁴⁶ There also remains potential that the next Congress will pass legislation providing additional relief to state and local government.⁴⁷ Although not directly related to the budget shortfall, the new federal legislation passed in December importantly contains expanded jobless benefits, direct payments to individuals, and assistance to businesses that will help to provide needed relief to Rhode Islanders and buoy the local economy.⁴⁸

⁴⁵ U.S. House Appropriations Committee, "[H.R. 133 Division-By-Division Summary of COVID-19 Relief Provisions.](#)"

⁴⁶ It is also likely that federal funding under this new legislation would be available to pay for post-December 30, 2020 COVID response costs, thereby freeing \$110 million in state general revenue funds budgeted for this purpose.

⁴⁷ NBC News, "[The battle for more Covid aid is far from over. Biden, Democrats have plans.](#)" December 28, 2020.

⁴⁸ U.S. House Appropriations Committee, "[H.R. 133 Division-By-Division Summary of COVID-19 Relief Provisions.](#)"

V. RIPEC Comments

There remains a great deal of uncertainty connected with the state's budget situation for FY 2022. While COVID vaccinations have begun, the future course of the pandemic remains unclear. At minimum, state government will need to continue to respond directly to the public health demands caused by the pandemic for the next several months. Consequently, Rhode Island's economy will continue to struggle as state restrictions and individual choices limit economic activity. Even after restrictions are lifted, the pace and strength of economic recovery is uncertain.

Based on the best available information, the state will face a very challenging budget deficit of over \$500 million for FY 2022, with the potential that this deficit gap will narrow through the availability of additional federal funding to pay for ongoing state operations, as well as additional direct costs of responding to the public health emergency. While the FY 2022 budget may become more manageable in this regard, there likely will remain a stubborn gap between the state's revenues and expenditures that eventually will need to be reconciled.

In the first of its series of reports on the fiscal impact of COVID-19, RIPEC recommended that policymakers making state budgeting decisions:

- Maintain essential social services for those in need, particularly those most affected by the COVID-19 crisis;
- Protect and advance the state's progress in becoming more economically competitive and productive; and
- Pursue investments aligned to support and accelerate economic recovery.⁴⁹

These high-level recommendations remain sound guidance as the state responds to the fiscal challenges and opportunities presented by the pandemic. Based on the current situation, RIPEC recommends the following specific considerations for policymakers:

- **While essential social services should be maintained, the state should act with more urgency to assess spending priorities.** The FY 2021 budget made no changes to the state's spending plan, essentially carrying forward prior spending patterns. However, there needs to be a serious effort to bring the state's expenditures and revenues in line, and it would be wise to begin this effort now by identifying expenditures that can be reduced or eliminated without cutting essential services to those Rhode Islanders in need. Cost overruns in certain departments should be addressed, particularly at BHDDH, where general revenue funding

⁴⁹ RIPEC, "[The COVID-19 Economic Crisis: Federal Assistance and Rhode Island's Budget](#)," April 2020.

has grown by \$57.3 million—nearly 30 percent—since FY 2019, mostly due to the loss of federal reimbursement for expenditures incurred at Eleanor Slater Hospital.⁵⁰

- **Given the eventual need to reconcile expenditures with available revenues, the state should take the opportunity to consider structural changes in programs to make them more sustainable for the long term.** For instance, given the projected deficit, the continued phaseout of the car tax does not appear to be affordable, and it may be worth considering whether the state can afford to maintain the car tax cut in its present form. The state also should revisit the school funding formula to determine whether it is affordable and is best structured to deliver on equitable funding and improvements in student outcomes. Given the disruptive changes in long-term care resulting from the pandemic, the state should rethink spending policies in this area. More generally, one-time federal funds may be used for strategic investments, such as enhancements in information technology, that could deliver dividends in improved efficiency and customer outcomes for years to come.
- **With the availability of ballot initiatives and one-time federal funds, the state should expedite and target investments to support and accelerate economic recovery.** RIPEC has supported the significant increase in bond initiatives proposed by the governor and adopted by the General Assembly. The state should expedite investments connected with these ballot initiatives, once approved, that can most help accelerate the state’s economic recovery. Similarly, one-time federal COVID relief funds should be utilized strategically to respond to the needs of individuals and businesses most affected by the pandemic. To the extent that additional federal funding is forthcoming, the state should consider using such funds for investments to better position Rhode Island to meet the challenges, and exploit the opportunities, of the new economic realities resulting from the pandemic.
- **Despite fiscal challenges, the state should remain vigilant to protect and advance the progress made in improving Rhode Island’s business tax climate.** Given the economic fallout resulting from the pandemic, it is imperative that Rhode Island’s economic rebound be as strong as possible. While Rhode Island has made significant improvements in its business tax climate over the past several years, it is currently ranked 37th on the Tax Foundation’s annual *Business Tax Climate Index*.⁵¹ While mindful that there will be pressure to increase revenues and consider tax increases affecting business, now is the time to protect and improve Rhode Island’s competitive position so that the state’s economy can grow and prosper.

⁵⁰ R.I. Senate Fiscal Office, “[FY 2021 Budget: Changes to the Governor](#),” December 15, 2020; R.I. OMB, [FY 2021 Budget Proposal—Executive Summary](#), Appendix A.

⁵¹ RIPEC, “[RIPEC Analyzes Rhode Island’s Improved Business Tax Climate Index Ranking of 37th Among States](#),” December 2020.

Rhode Island is at a critical juncture, presenting both challenges and opportunities. On the one hand, the state needs to marshal federal and state resources to respond to the public health emergency and economic disruptions caused by the pandemic. At the same time, the state needs to begin the hard work of assessing spending priorities and making structural changes to make programs more sustainable. Finally, unprecedented levels of federal assistance have created opportunities to make strategic investments that the state previously has not had the resources or political will to undertake. Policymakers will need to keep these sometimes-conflicting objectives in balance in developing the state budget for FY 2022 and beyond.