RIPEC

Rhode Island's FY 2022 Budget Outlook: Budget Situation Stabilized with Federal Funding, Jump in Estimated State Revenues

Executive Summary
June 2021

"Rhode Island's FY 2022 Budget Outlook" analyzes the fiscal year (FY) 2022 budget of Governor Daniel J. McKee as the latest in a continuum of annual state spending plans reconciling revenue shortfalls resulting from the pandemic and incorporating expenditures of substantial federal resources. In particular, the report focuses on the extent to which the budget utilizes one-time federal funding to pay for ongoing state expenditures, analyzes the projected increases in available state resources since the budget was released in March, and summarizes the federal resources available to the state under the American Rescue Plan Act (ARPA). The report is the fifth in a series on the fiscal impact of COVID-19.

Released on March 11, 2021, Governor McKee's proposed FY 2022 budget represents a status quo spending plan. The budget makes very little use of federal funding to pay for state expenditures in FY 2022 but relies heavily on federal funds to pay for state expenditures in FY 2021. The budget also defers $70 million appropriated to repay the Rhode Island Capital Plan Fund in connection with the rainy day fund transfer in FY 2020, and relies on $67.7 million in revenues from taxation of Paycheck Protection Program (PPP) loans exceeding $150,000, a one-time event. In total, the FY 2022 budget depends on $418.9 million in one-time items. Not surprisingly, the governor's proposed budget projects future deficits ranging from $374.4 million in FY 2023 to $318.9 million in FY 2026.

The budget picture has brightened considerably since March, however. The May 2021 Revenue Estimating Conference projected that estimated revenues for the current FY 2021 budget would be $177.1 million higher than the enacted FY 2021 level and, for FY 2022, revenue projections were $146.8 million greater than those of the November 2020 Revenue Estimating Conference. Also positively affecting the state's budget outlook, the May 2021 Caseload Estimating Conference estimated total general revenue savings of $53.6 million for FY 2021 and FY 2022. Incorporating both the revised estimates of the May Estimating Conferences and savings because of increased federal funding, the FY 2021 Third Quarter Report from the Office of Management and Budget projected a general revenue surplus of $416.8 million. This projected surplus, in addition to a positive variance for FY 2022 of $155.4 million projected in May over November estimates, total a remarkable $572.2 million.

Importantly, the May 2021 estimates do not include revenues connected with the taxation of PPP loans, thereby reversing projected revenues of $133.3 million included in revenue estimates at the November 2020 Conference. Nor do these surplus revenues include any funding from ARPA.

Based on its analysis, RIPEC offers several recommendations to policymakers:

- **The state should avoid spending beyond available revenues and minimize the structural deficit going forward**. It is critical that the state's stable budget situation be preserved by avoiding spending commitments in the FY 2022 budget beyond available revenues.
- **The state should fully repay the Rhode Island Capital Plan Fund** in connection to the $120 million rainy day fund transfer used to balance the FY 2020 budget. Given the greater state revenues now available, and the state's considerable capital needs, this repayment should be completed in FY 2022.
- **Policymakers should avoid both raising the state personal income tax and applying state income taxes on PPP loans**. Doing so is unnecessary given the improved budget outlook and would negatively impact the state's economic recovery.
- **Policymakers should resolve the spending issues connected with Eleanor Slater Hospital**. Eleanor Slater Hospital represents arguably the most troubling spending issue in the state budget given the sizable loss and uncertainty relating to federal reimbursement, extremely high per patient costs, and the recent reversal of proposed budget savings.
- **The state should follow a deliberate process to plan expenditures of ARPA funds**. Discretionary ARPA funds over $1 billion—along with over $1 billion more in funding for K-12 education, higher education, rental and homeowner assistance, childcare, public health, and other programs—represent a once-in-a-generation opportunity to pursue transformative investments that could potentially change the trajectory of our state's economy and quality of life.