

The Governor's FY 2023 Budget and the State's Fiscal Outlook

**Federal and Surplus Funds
Fuel One-Time Spending,
but Future Deficits Still
Projected**

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

March 2022



RIPEC

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I. Introduction

Rhode Island’s state budget situation has been dramatically affected by the COVID-19 pandemic over three fiscal years—first by the economic fallout resulting from the public health emergency, and more recently by the massive influx of federal relief dollars. The budgets have been complicated along the way by wide swings in projected revenues, large expenditures to respond to the public health emergency, and the uncertain timing of federal relief legislation. In the current year, the use of federal funding to pay for state expenditures and growing state revenues have resulted in a large budget surplus.

In June 2020, about three months after the emergency closure of parts of Rhode Island’s economy, the General Assembly, facing a dramatic shortfall in revenues, enacted a revised budget for fiscal year (FY) 2020 that was balanced largely on the transfer of \$120 million from the state’s rainy day fund and the use of \$97.3 million in federal COVID relief funds. Anticipating an additional federal relief package, the Assembly deferred action on the budget for FY 2021, which commenced on July 1, 2020.¹ While the federal relief legislation stalled, the budget picture brightened considerably in the second half of 2020, with a jump in projected state revenues and lower than anticipated expenditures. With the fiscal year nearly half over, on December 21, 2020, 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 contained no significant policy or programmatic changes to current law.²

On March 11, 2021, Governor Daniel J. McKee submitted his first budget, for FY 2022, only nine days after being sworn in as governor, following Governor Gina M. Raimondo’s confirmation as U.S. Secretary of Commerce. Governor McKee’s budget did not take account of federal assistance to state and local governments provided by the American Rescue Plan Act (ARPA), signed into law by President Joe Biden on the same day that Governor McKee’s budget was introduced. In his first budget, Governor McKee proposed a status quo spending plan, largely a continuation of the taxing policies and programs of the Raimondo Administration.³

In July 2021, the General Assembly enacted the state budget for FY 2022, covering the period from July 1, 2021, through June 30, 2022. Representing a considerable departure from the governor’s proposed budget, the enacted budget incorporated \$377.5 million in increased general revenue resources following the May 2021 Revenue and Caseload Estimating Conferences, as well as additional federal funding, primarily from ARPA. The FY 2022 budget enacted by the Assembly appropriated total expenditures of \$13.12 billion, \$1.95 billion more than proposed in the governor’s budget, primarily from the addition of federal relief funds. The enacted budget

¹ By law, when the Assembly fails to approve a budget before the beginning of a fiscal year (July 1, annually), 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](#).

² Rhode Island Public Expenditure Council, “[Rhode Island’s Budget Stabilized with Federal Funding, Jump in Estimated State Revenues](#),” June 2021.

³ Ibid.

contained \$4.55 billion in general revenues, an increase of \$179.5 million over the governor’s recommended budget.⁴

On January 20, 2022, Governor McKee introduced his proposed budget for FY 2023 as well as proposed revisions to the current FY 2022 budget. The governor’s spending plan most notably fully commits \$1.24 billion in State Fiscal Recovery Fund (SFRF) and Capital Project Fund allocations under ARPA, as well as \$618.4 million in surplus funds.⁵ As shown in Figure 1, the governor recommends total expenditures of \$12.83 billion for FY 2023, a reduction of \$295.8 million from the enacted FY 2022 budget. The governor’s FY 2023 budget proposes \$4.73 billion in general revenues, an increase of \$180.5 million over the enacted FY 2022 budget. The governor’s FY 2023 budget additionally recommends general obligation bond referenda in the total amount of \$350.0 million for consideration by voters at the general election in November 2022.⁶

Governor McKee also proposed significant changes to the spending plan for the current fiscal year. Depicted in Figure 1, the governor’s proposed FY 2022 revised budget recommends total expenditures of \$13.76 billion, an increase of \$641.8 million over the enacted budget. For general revenues, the governor’s proposed FY 2022 revised budget recommends \$5.00 billion, an increase of \$448.1 million over the enacted level. The large increases in total and general revenue expenditures reflect proposed spending of ARPA and surplus funds in the current year.⁷

Figure 1
Expenditure Change From FY 2022 Budget as Enacted
(\$ Millions)

	Total Expenditures	General Revenue Expenditures
FY 2022 Budget as Enacted	\$ 13,120.8	\$ 4,550.8
FY 2023 Proposed Budget	\$ 12,825.0	\$ 4,731.3
<i>Difference from FY 2022 Enacted</i>	\$ (295.8)	\$ 180.5
FY 2022 Proposed Revised Budget	\$ 13,762.6	\$ 4,998.9
<i>Difference from FY 2022 Enacted</i>	\$ 641.8	\$ 448.1

Source: R.I. House Fiscal Advisory Staff, Governor’s FY 2023 Budget, Section VI: Summary Tables.

⁴ Ibid.

⁵ According to U.S. Treasury guidance, Capital Project Fund allocations must “invest in capital assets designed to directly enable work, education, and health monitoring,” be “designed to address a critical need that resulted from or was made apparent or exacerbated by the COVID-19 public health emergency,” and be “designed to address a critical need of the community to be served by it.” U.S. Dept. of Treasury, [Guidance for the Coronavirus Capital Projects Fund for States, Territories & Freely Associated States](#), September 2021. State Fiscal Recovery Fund allocations may be put to a far broader variety of uses. They may be used to “provide government services up to the amount of revenue lost due to the pandemic,” “respond to the far-reaching public health and negative economic consequences of the pandemic,” “provide premium pay for essential workers,” or make investments in “water, sewer, and broadband infrastructure.” U.S. Dept. of Treasury, [Final Rule for Coronavirus State and Local Fiscal Recovery Funds](#), January 27, 2022.

⁶ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

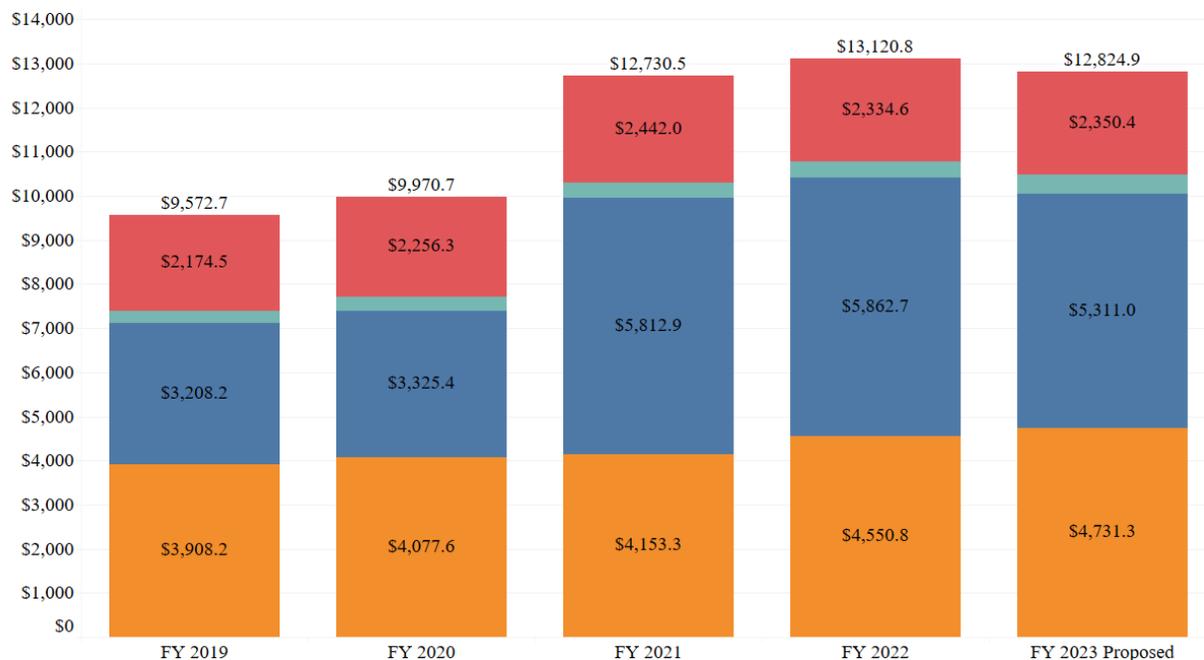
⁷ Ibid.

The sixth report in a series on the fiscal impact of COVID-19, this report analyzes the governor's FY 2023 proposed budget, the latest in a continuum of annual state spending plans affected by the pandemic and the influx of substantial federal resources. The report first analyzes the revenue changes underlying the large surplus funds available. It next examines the proposed spending plan, with a special focus on the recommended expenditures of one-time federal and surplus funds. The report then analyzes the state's fiscal outlook, incorporating developments since the governor's proposed FY 2023 budget was introduced, as well as the outlook for additional federal funding. In this regard, this report is particularly focused on the extent to which the budget utilizes one-time federal funding to pay for ongoing state expenditures, thereby implicating potential structural deficits for future budget years. Finally, the report includes RIPEC comments and recommended policy considerations.

II. Governor McKee’s Proposed FY 2023 Budget

As depicted in Figure 2, the FY 2023 budget proposed by Governor McKee represents the continuation of a level of total spending that is dramatically higher than just a few years ago. At \$12.82 billion, total expenditures proposed for FY 2023 are slightly lower than the enacted FY 2022 budget, but \$3.25 billion more than the state’s total spending in FY 2019, the last budget unaffected by the pandemic—an increase of 34.0 percent over that period. This increase is in large part attributable to federal pandemic relief funds; expenditures from federal sources have jumped considerably, from \$3.21 billion in FY 2019 to \$5.31 billion proposed for FY 2023.

Figure 2
Sources of Funds in Rhode Island Budget, FY 2019-FY 2023
 (\$ Millions)



Source: R.I. House Fiscal Advisory Staff, FY 2019 - FY 2022 Budget as Enacted, Governor’s FY 2023 Budget, Section VI: Summary Tables.

- Other
- Restricted Receipts
- Federal Funds
- General Revenue

State general revenue spending, as recommended in the governor’s proposed FY 2023 budget, also reflects substantial growth over this period, although not nearly at the growth rate of federally funded expenditures or total expenditures. At \$4.73 billion, general revenue spending proposed for FY 2023 is \$180.5 million greater than in the enacted FY 2022 budget—an annual increase of 4.0 percent. Compared to FY 2019, general revenue spending proposed for FY 2023 is up \$823.1 million—an increase of 21.1 percent overall and an average annual increase of 5.3 percent.⁸ The

⁸ Ibid.

rate of growth in general revenue spending is markedly higher than the state's historical average annual general revenue growth rate of 3.5 percent from FY 2014 to FY 2019.⁹

Revenues

The governor's FY 2023 budget proposal incorporates an extraordinary level of one-time revenues, including \$618.4 million in projected surplus funds that would carry forward into FY 2023, \$1.13 billion in ARPA SFRF allocation, and \$112.3 million in ARPA Capital Projects Funds. The large projected surplus is primarily the result of an increase in revenues for FY 2021, as determined by the state controller's preliminary closing statement issued in September 2021, and higher than expected revenues for FY 2022, as estimated at the Revenue Estimating Conference in November 2021. Both the preliminary closing statement and the Revenue Estimating Conference are discussed in more detail below.

FY 2021 Preliminary Closing Statement

By statute, the state controller is required to prepare a preliminary closing statement on September 1 of each year, reporting the unaudited financial results for the most recent fiscal year ending on June 30.¹⁰ Final financial reports for the fiscal year, as audited by the Office of Auditor General, typically are reported by December 31, but were delayed this year until January 31, 2022, after the governor's budget was submitted.¹¹ The preliminary closing statement for FY 2021 reported total revenues of \$4.43 billion—\$213.6 million, or 5.1 percent, greater than assumed in the enacted FY 2021 budget. Gains in personal income taxes (\$75.0 million) and business corporation taxes (\$87.0 million) accounted for more than three quarters of the positive variance, but other revenue sources also performed above enacted levels, including sales and use taxes (\$49.6 million) and lottery (\$9.5 million).¹²

The FY 2021 preliminary closing statement also reported total expenditures of \$4.13 billion—\$150.5 million, or 3.8 percent, more than in the enacted FY 2021 budget. However, this deficit is wholly attributable to a financial statement presentation requirement that \$216.5 million of expenditures eligible for FEMA reimbursement in FY 2021 be classified as general revenue expenditures, to be reimbursed in FY 2022. Accounting for this adjustment, expenditures reflect a general revenue surplus of \$66.0 million.¹³

⁹ General revenue spending increased by \$587.6 million in this period, from \$3.34 billion in FY 2014 to \$3.92 billion in FY 2019. R.I. OMB, [FY 2016 Budget Proposal, Executive Summary](#); R.I. OMB, [FY 2022 Budget Proposal, Executive Summary](#).

¹⁰ R.I. Gen. Laws § 35-6-1(a)(10).

¹¹ The final closing statements for FY 2021 are discussed in Section III of this report.

¹² R.I. Dept. of Administration, Division of Accounts and Control, [FY 2021 - Preliminary Unaudited Closing Statements](#), September 1, 2021.

¹³ Ibid.

Combining revenue and expenditure changes, along with other adjustments, the preliminary closing statement for FY 2021 determined that a total of \$267.5 million was available as an additional resource for the FY 2022 budget, which would carry forward to be available for FY 2023.¹⁴

The November Revenue Estimating Conference

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.¹⁵ Revenue estimates reflect the consensus reached by the three Conference principals: the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor.¹⁶ The Conference relies on testimony from executive branch officials as well as economic projections by an independent forecasting firm to produce revenue estimates for both the current and subsequent fiscal year.¹⁷

The Revenue Estimating Conference has taken on outsized importance during the COVID-19 pandemic and the accompanying period of economic uncertainty. Beginning with the May 2020 Conference, held less than two months after the first cases of COVID-19 were detected in Rhode Island, and in subsequent conferences, principals were faced with several complicating variables—dramatic swings in the state’s labor market, an unprecedented infusion of federal funds into state coffers, and evolving predictions about the likely length and severity of the pandemic.

Economic Forecasting Testimony

Given the uncertain course of the pandemic and its related effects on the national and local economies, the economic forecasting testimony presented by IHS Markit—a state-contracted national firm—has been a critical input for calculating revenue estimates. IHS Markit’s outlook for key indicators at the November 2021 Conference was generally improved over projections at the May Conference, as illustrated in Figure 3.

At the November 2021 Conference, IHS Markit projected that Rhode Island employment growth will proceed at a steady yet decelerating pace over time as the recovery from the pandemic continues. IHS Markit projected employment growth for FY 2022 to be 4.9 percent—slightly

¹⁴ Ibid. The FY 2022 budget as enacted assumed an FY 2021 surplus of \$281.4 million. The final closing statements for FY 2021, reported on January 31, 2022, included an increase of \$42.0 million in the surplus, primarily due to an increase in Medicaid revenues connected with Eleanor Slater Hospital not included in the preliminary closing statement. R.I. Dept. of Administration, [FY 2021 Final Closing Statements](#), January 31, 2022. The governor’s proposed budget estimated and included this increase in surplus funds available as revenues. R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

¹⁵ R.I. Gen. Laws [§ 35-16-3\(a\)](#).

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

¹⁷ R.I. Gen. Laws [§ 35-17-1](#).

lower than the 5.1 percent rate projected at the May 2021 Conference. However, for FY 2023, IHS Markit projected employment to grow at a rate of 3.2 percent, significantly higher than the 2.4 percent growth rate projected in May.¹⁸ The forecast for personal income growth improved for FY 2022 from a 1.8 percent decline in May to a 1.0 percent decline projected in November. For FY 2023, the November forecast projected 4.7 percent personal income growth as compared to a rate of 3.6 percent the previous May. Likewise, the most recent projection for consumer spending growth in FY 2022—9.3 percent—is higher than the 7.9 percent rate projected in May. November’s estimate for FY 2023 personal consumption growth is 5.0 percent, slightly lower than the 5.1 percent growth rate projected in May.¹⁹

Figure 3
Change in Economic Forecast in Key Indicators From May to November 2021 Revenue Estimating Conference

		May	November
Nonfarm Employment Growth	FY 2022	5.1%	4.9%
	FY 2023	2.4%	3.2%
Personal Income Growth	FY 2022	-1.8%	-1.0%
	FY 2023	3.6%	4.7%
Personal Consumption Growth	FY 2022	7.9%	9.3%
	FY 2023	5.1%	5.0%

Source: R.I. November 2021 Revenue Estimating Conference Consensus Economic Forecast.

For FY 2024 through FY 2027, IHS Markit’s forecast for key metrics relating to state revenues is relatively bullish, with growth rates significantly higher than historical trends for Rhode Island. Personal income growth is projected to average 4.8 percent per year during the period. Similarly, personal consumption expenditures are forecast to grow 4.3 percent in FY 2024, and thereafter increase by an average of 4.9 percent through FY 2027.²⁰

Revenue Estimates

The November 2021 Revenue Estimating Conference determined that the revenue outlook for FY 2022 had improved considerably over May 2021 estimates, which were used to construct the budget enacted in June. As shown in Figure 4, Conference principals adopted a general revenue estimate of \$4.68 billion for FY 2022, an increase of \$273.6 million (6.2 percent) over the enacted estimate of \$4.41 billion. Nearly all the increase over FY 2022 as enacted is attributable to a large

¹⁸ R.I. OMB, [November 2021 Revenue Estimating Conference Report](#); R.I. OMB, [May 2021 Revenue Estimating Conference Report](#).

¹⁹ Ibid.

²⁰ R.I. OMB, [November 2021 Revenue Estimating Conference Report](#).

projected jump in sales and use and personal income tax revenues, by far the two largest sources of state general fund revenues. Sales and use tax revenues were estimated to increase by \$126.8 million over the enacted level—an increase of 9.7 percent. Similarly, personal income tax revenue estimates were adjusted upward by \$107.2 million—an increase over enacted levels of 6.9 percent.²¹

Despite the improved outlook in the current fiscal year, the revenues estimated at the November Conference for FY 2023 reflect a lower projected growth trend relative to FY 2022 levels. The FY 2023 estimate of \$4.58 billion

in total general revenues represents a decline of \$101.1 million from the updated FY 2022 estimate. Revenues from the hospital licensing fee are not factored into FY 2023 general revenue estimates because this item is included in the budget on a year-to-year basis.²² With the hospital licensing fee included at its FY 2022 level, estimated general revenues for FY 2023 would increase by \$69.1 million from FY 2022 revised levels—a growth rate of only 1.5 percent. Notably, the November Conference included relatively small projected increases from FY 2022 to FY 2023 for personal income taxes (\$47.5 million) and for sales and use taxes (\$30.0 million).²³

Revenue Items in the Governor’s Budget

The governor’s FY 2023 budget contains no major changes to broad-based taxes and relatively small changes in revenues. The budget proposes to continue the hospital licensing fee for FY 2023 at the same level—5.725 percent of patient revenues—as for FY 2022, for an addition of \$170.2 million. The governor also proposes several tax cuts, the most significant of which would phase-out the personal income tax on military pensions over five fiscal years, at a cost of \$0.7 million in FY 2023, and \$5.8 million annually when fully phased-in. The FY 2023 proposed budget also includes a reduction of the corporate minimum tax from \$400 to \$375, at a cost of \$0.8 million for FY 2023, as well as a reduction of the penalty interest rate for delinquent payments of certain taxes from 18.0 percent to 12.0 percent, at a cost of \$2.5 million in FY 2023.²⁴

Figure 4
November 2021 Revenue Estimating Conference
General Revenue Estimates (\$ Millions)

Estimated FY 2022 Increase Over Enacted FY 2022	
Estimated FY 2022 Revenues	\$ 4,684.3
Enacted FY 2022 Revenues	\$ 4,410.7
	\$ 273.6
Estimated FY 2023 Increase Over Estimated FY 2022	
Estimated FY 2023 Revenues + Hospital Licensing Fee*	\$ 4,753.4
Estimated FY 2022 Revenues	\$ 4,684.3
	\$ 69.1

* FY 2023 estimate assumes hospital licensing fee at FY 2022 level.

Source: R.I. November 2021 Revenue Estimating Conference.

²¹ Ibid.

²² Ibid. In FY 2022, revenue from the hospital licensing fee totaled \$170.2 million.

²³ Ibid.

²⁴ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#); R.I. Senate Fiscal Office, [Governor’s FY 2023 and FY 2022 Supplemental Budgets](#).

Expenditures

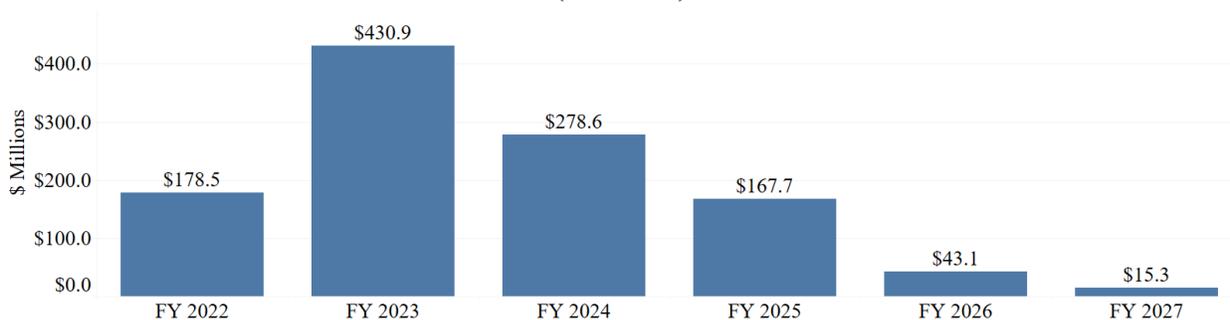
ARPA Spending Proposals

The centerpiece of Governor McKee’s FY 2023 budget proposal is his plan for spending the state’s SFRF allocation of \$1.13 billion under ARPA. Of this allocation, the General Assembly already has approved \$119.0 million to be spent as a so-called “down payment” in the current year to address immediate needs, in response to the governor’s request. This funding is included in the governor’s revised FY 2022 budget as part of his overall ARPA spending plan. The governor’s FY 2023 budget also allocates Rhode Island’s full ARPA Capital Project Fund allocation in the amount of \$112.3 million.²⁵

With respect to the ARPA down payment appropriation, Governor McKee released a proposal to spend the first \$113.0 million of Rhode Island’s SFRF allocation in October 2021. The largest spending category in the governor’s proposal was small business support (\$45.0 million), followed by services for children (\$38.5 million), funding for housing (\$29.0 million), and broadband grants (\$0.5 million). On January 4, 2022, the General Assembly approved all of the governor’s proposed spending items, plus an additional \$6.0 million for childcare providers.²⁶

As part of his FY 2023 proposed budget, Governor McKee included a plan to spend \$1.01 billion in remaining SFRF money beginning in the current fiscal year and extending through FY 2027, the final year in which SFRF money must be expended under federal guidelines. Since the FY 2023 Appropriations Act will include appropriations only through FY 2023, the governor’s proposed appropriations of ARPA funds beyond FY 2023 represent plans for appropriations, to become authorized upon subsequent approval by the General Assembly in connection with future budgets. The governor’s proposed schedule for SFRF spending over six fiscal years is outlined in Figure 5.

Figure 5
Proposed Timeline of SFRF Spending, FY 2022 - FY 2027
(\$ Millions)



Note: SFRF is Coronavirus State Fiscal Recovery Funds.
Source: R.I. OMB, FY 2023 Proposed Budget Executive Summary.

²⁵ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

²⁶ Ibid; R.I. General Assembly Press Releases, [“Legislators approve spending portion of ARPA funds,”](#) January 4, 2022.

The proposed SFRF spending, including the previously approved down payment appropriation, includes a wide range of programs, with the largest allocations directed towards the categories of housing (\$250.0 million), economic and workforce development (\$211.8 million), small business and impacted industries (\$180.5 million), and public health (\$152.3 million). The largest proposed individual programs are for affordable housing development (\$90.0 million), investments in the blue economy (\$70.0 million), infrastructure upgrades to the Port of Davisville at Quonset (\$60.0 million), and workforce support for health care providers (\$50.0 million).²⁷ Figure 6 depicts the breakdown of proposed spending of SFRF dollars by category, with the size of each rectangle indicating the relative amount allocated. A full listing of proposed spending items is contained in the appendix to this report.

Figure 6
Proposed SFRF Spending, FY 2022-FY 2027 (\$ Millions)



Note: Includes \$119.0 million in spending that has already been authorized. "Other" spending includes Behavioral Health, Public Infrastructure and Technology, and Administrative Costs. SFRF is Coronavirus State Fiscal Recovery Funds.
Source: R.I. OMB, FY 2023 Proposed Budget Executive Summary.

Separately from the state’s SFRF allocation, the FY 2023 budget proposes to spend the state’s \$112.3 million allocation of ARPA Capital Projects Fund money across three programs: matching

²⁷ R.I. OMB, [FY 2023 Budget Overview](#). Totals include amounts already authorized under the initial round of “down payment” spending.

grants for municipal community wellness centers (\$46.7 million), a new student services center at Rhode Island College (\$35.0 million), and a grant program to match federal dollars for last-mile broadband projects (\$25.0 million).²⁸

Spending of Surplus Funds

Governor McKee’s proposed FY 2023 budget relies on a general revenue surplus of \$618.4 million to fund several initiatives. The largest proposed spending item from surplus funds is a transfer of \$210.0 million to the RI Capital Plan Fund (RICAP) to help address deferred maintenance of buildings and facilities. Combined with other RICAP funding, this proposed investment will support the construction of a new Zambarano medical hospital in Burrillville (\$108.2 million), as well as upgrades to the Pastore Campus in Cranston (\$120.8 million), the State House (\$45.1 million), and state-run group homes (\$13.1 million). In addition, the budget proposes \$100.0 million from surplus funds to match \$400.0 million in federal funds for transportation provided through the federal Infrastructure Investment and Jobs Act.²⁹

Surplus funds also are proposed to be tapped in the amount of \$62.0 million to retire a pension liability connected with the state’s deferral of pension contributions in 1991 and 1992.³⁰ The budget additionally includes \$50.0 million for information technology improvements, including the replacement of the Department of Labor and Training’s systems for temporary disability insurance and employer tax functions. Finally, the governor’s budget recommends spending \$21.9 million in surplus funds to match federal funding for investments in water, sewer, and stormwater management.³¹

Eleanor Slater Hospital

Rhode Island’s two-campus state-run Eleanor Slater Hospital (ESH) has been the source of continuing budget issues related to federal reimbursement dating back to 2019. Historically funded through a combination of general revenues and revenues from Medicaid, Medicare, and third-party payers, the state hospital has a mix of medical and psychiatric patients. To receive Medicaid reimbursement, the proportion of a hospital’s patient population with a “Qualifying Psychiatric Disease” must be less than 51.0 percent. In March 2020, ESH reported that it was out of compliance with the patient mix rule from August 2019 to early February 2020, resulting in a loss of \$20.0 million in Medicaid funds and requiring an offsetting general revenue payment in the revised FY 2020 budget.³² In addition, it was determined that the state could not receive Medicaid payments for patients in the psychiatric forensic unit at the Benton facility, resulting in a loss of \$15.0 million in Medicaid funds. The hospital also reported that a large majority of patients other

²⁸ Ibid. Administrative costs for Capital Projects Fund programs are estimated at \$5.6 million.

²⁹ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

³⁰ The state was scheduled to pay \$6.0 million in FY 2023 and each of the next eleven fiscal years thereafter. If approved, this proposed payment would retire the debt and result in future annual savings. R.I. House Fiscal Advisory Staff, [Governor's FY 2023 Budget, Section I: Budget at a Glance](#).

³¹ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

³² R.I. House Fiscal Advisory Staff, [FY 2020 Revised Budget](#).

than those in the Benton facility did not meet a hospital level of care and would more likely meet a nursing home level of care for federal reimbursement purposes.³³

These compliance issues were reflected in the enacted FY 2021 budget, in which the total budget for ESH included general revenue replacement of \$55.0 million in Medicaid funds that were assumed in the governor's recommended budget but subsequently determined to be not forthcoming. The state used general revenues to pay all costs for forensic patients and for the patients who did not qualify for hospital-level care while appropriate placements for these patients were identified.³⁴ However, the Medicaid reimbursement situation for FY 2021 most recently improved for ESH; in the final closing statements for FY 2021, the Rhode Island Auditor General reported an increase of \$39.7 million in Medicaid reimbursement and a reduction in general revenues of \$50.8 million.³⁵

In May 2021, the Department of Behavioral Health, Developmental Disabilities, and Hospitals conducted a review of patient records and concluded that ESH had fallen back out of compliance with federal billing regulations with respect to patient mix. Consequently, the enacted FY 2022 budget for ESH contained just \$2.0 million in Medicaid funds, covering only patients under age 22 and over age 65.³⁶ However, the governor's proposed revised FY 2022 budget includes an assumed increase of \$19.2 million in Medicaid reimbursement in the current year. General revenue expenditures also increased in the revised budget by \$7.2 million.³⁷

The FY 2023 budget proposal assumes savings from a reorganization of the structure of ESH that would separate medical and psychiatric patients into separate facilities. Governor McKee proposes to transfer to RICAP \$210.0 million, \$108.2 million of which would be used to establish a new 100-bed medical facility at the Zambarano Campus, while the 52-bed Benton facility within ESH would become the Rhode Island Psychiatric Hospital at an operating cost of \$30.6 million from general revenues. The proposal assumes that this reorganization would help the state come into federal compliance on its patient mix for billing purposes.³⁸ The proposal would also fund infrastructure upgrades throughout the ESH system, including the establishment of an electronic medical records system.³⁹

Figure 7 depicts the changes in revenue sources for ESH from FY 2020, the last fiscal year before billing complications began, through the governor's proposed FY 2023 budget.

³³ R.I. House Fiscal Advisory Staff, [FY 2022 Enacted Budget](#).

³⁴ Ibid.

³⁵ R.I. Dept. of Administration, Division of Accounts and Control, "[FY 2021 Closing Statements – Final](#)," January 31, 2022.

³⁶ R.I. House Fiscal Advisory Staff, [FY 2022 Budget as Enacted, Section III: Agency Analyses](#).

³⁷ R.I. Senate Fiscal Office, [Governor's FY 2023 and FY 2022 Supplemental Budgets](#).

³⁸ Ibid; R.I. OMB, [FY 2023 Budget Overview](#).

³⁹ Ibid.

Figure 7
Sources of Revenue in Eleanor Slater Hospital Budget, FY 2020-FY 2023
(\$ Millions)



Note: FY 2021 revised figures reflect the FY 2021 final closing statement. FY 2022 revised figures reflect the governor's revised FY 2022 budget submission. "Other Revenue" includes restricted receipts and other sources of federal funds.

Source: R.I. House Fiscal Advisory Staff Agency Analyses, FY 2020-2023; R.I. OMB, FY 2023 Proposed Budget Technical Appendix; R.I. Dept. of Administration, FY 2021 Closing Statement.

■ Other Revenue
 ■ Medicaid
 ■ General Revenue

Apart from the dramatic change in the source of funding and the sharp increase in general revenue funding to finance operations, ESH has relatively high costs per patient. The governor's FY 2023 budget seeks total expenditures for ESH from all sources of \$143.7 million.⁴⁰ Assuming a total patient census of 188, the per patient cost is about \$764,362 per year, or \$2,094 per day.⁴¹ The billing difficulties at ESH revealed that many patients receive services less than hospital level care, and that some needed only skilled nursing level care, which costs only a fraction of the per patient costs incurred at ESH. According to a September 2020 study by consultants engaged by ESH, the average cost of skilled nursing care is about \$125,000 per year.⁴²

K-12 Education Formula Funding

The governor's FY 2023 proposal includes \$1.08 billion in state K-12 education aid to local school districts, state-run schools, and charter public schools pursuant to the state's education funding

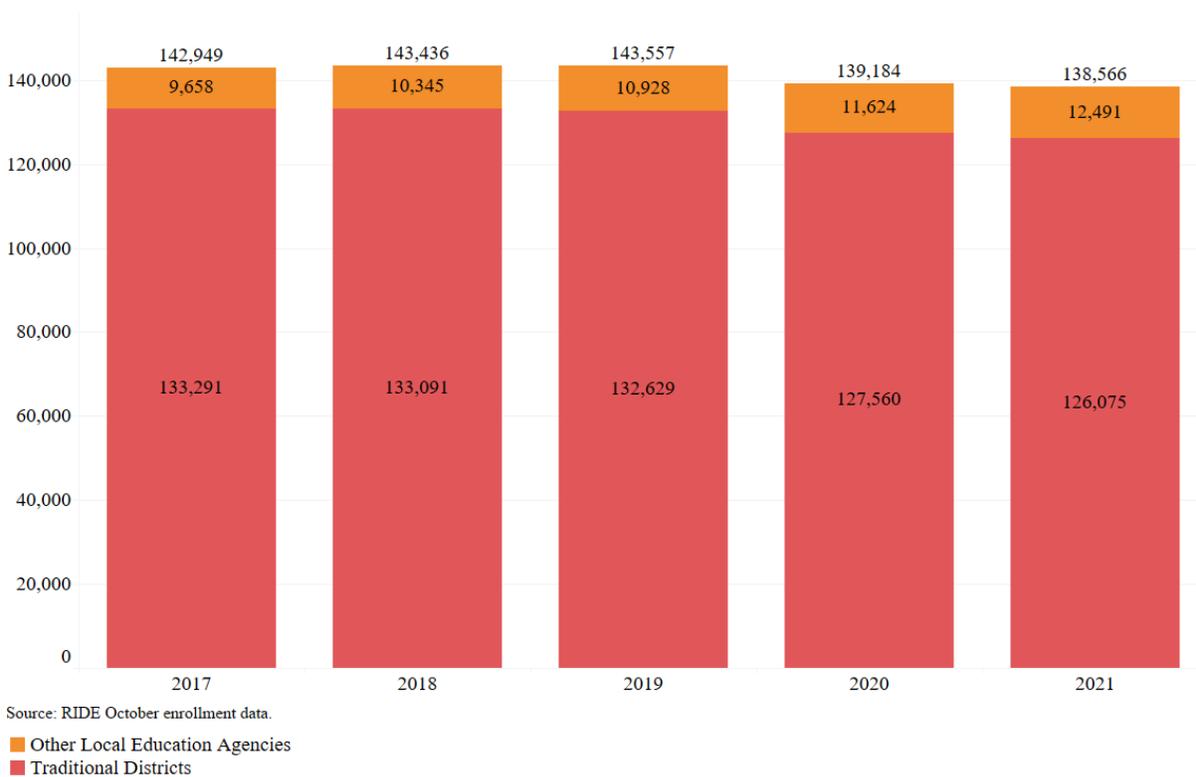
⁴⁰ Ibid.

⁴¹ The governor's recommended budget includes 136 patients at ESH and a new 52-bed psychiatric facility. R.I. House Fiscal Advisory Staff, [Governor's FY 2023 Budget, Section III: Agency Analyses](#).

⁴² Alvarez & Marsal, "[Eleanor Slater Hospital Transition & Redesign](#)," September 18, 2020. This consultant study reported at the time that ESH costs were approximately \$550,000 per patient, "almost 5x the average cost of services provided in nursing facilities and community-based placements." For a study finding that most patients served at long-term acute care hospitals could be treated at skilled nursing facilities at much lower cost, see L. Einav, A. Finkelstein, and N. Mahoney, "[Long-Term Care Hospitals: A Case Study in Waste](#)," National Bureau of Economic Research, April 2019.

formula, a net increase of \$23.7 million over the enacted FY 2022 budget. Importantly, based on declines in public school enrollment associated with the COVID-19 pandemic, application of the funding formula without legislative modification will result in a \$25.9 million *reduction* in state formula aid from the enacted FY 2022 level.⁴³ However, Governor McKee proposes spending an additional \$49.7 million to hold school districts “harmless,” so that districts would not experience a reduction from the amount appropriated in FY 2022 as a result of a decline in enrollment. The FY 2022 enacted budget contained a provision which calculated state aid for districts using the larger of March 2020 and March 2021 enrollment data.⁴⁴ Figure 8 illustrates public school enrollment for traditional districts and other local education agencies from 2017 through 2021. Updated public school enrollment figures for the 2021-2022 school year are expected in April.

Figure 8
Rhode Island Public School October Enrollment
2017-2021



Other Spending Items

⁴³ R.I. House Fiscal Advisory Staff, “[Staff Presentation to the House Finance Committee \(2-3-22\)](#).” According to data from the Rhode Island Department of Education, there has been a net decrease of 4,991 students attending public schools between 2019 and 2021. Enrollment in traditional school districts is estimated to have decreased by 6,554 students, while charter school enrollment has increased by 1,523 students. Steph Machado, “[RI public school enrollment down by nearly 5,000 students during pandemic](#),” *WPRI 12*, February 7, 2022.

⁴⁴ R.I. House Fiscal Advisory Staff, [Governor's FY 2023 Budget, Section VI: Special Reports - Education Aid](#). The calculation of the student success factor, which adds additional education aid equal to 40.0 percent of the core foundational cost for students qualifying for free or reduced price lunch, used the greater of the percentage of students living in poverty in an individual district as of either March 2020 or March 2021.

While the governor's FY 2023 proposed budget includes an extraordinary number of substantial one-time spending items, the operating budget is relatively conservative with respect to new programs or program expansions of a continuing nature funded by general revenues. However, there are some notable continuing spending commitments from general revenues. The budget recommends an increase of \$21.2 million in general revenues (\$44.0 million in all funds) for several initiatives related to the consent decree with the Department of Justice pertaining to services for adults with developmental disabilities, including wage increases for direct support professionals, a transformation fund, and a technology fund.⁴⁵ The governor's budget also recommends an increase of \$6.6 million from all funding sources, and \$4.3 million in general revenues, to extend Medicaid coverage to women from 60 days to 12 months postpartum, regardless of immigration status, as well as an additional \$1.9 million in general revenues to extend Medicaid coverage to children otherwise ineligible but for their immigration status.⁴⁶

There are additional continuing general revenue commitments in the governor's proposed budget related to salary increases for state employees. In late 2021, Governor McKee reached agreements with the majority of state employee unions that include cost-of-living adjustments of 2.5 percent annually from FY 2021 through FY 2024, for a total increase of 10.0 percent. The agreements also include payments of two \$1,500 bonuses, one payable to current union employees upon ratification of the contract, and the second for those employed on July 1, 2022. The governor's budget includes total expenditures of \$73.1 million (\$44.3 million in general revenues) in FY 2022 and \$100.9 million (\$61.3 million in general revenues) in FY 2023 to account for these agreements, as well as the assumed extension of the pay increases (but not the bonuses) to non-union employees. The budget does not account for potential costs where settlements have not been reached.⁴⁷

Bond Initiatives

The governor's FY 2023 budget proposes \$350.0 million in bond referenda to be placed on the ballot for voter approval in November 2022. As shown in Figure 9, proposed borrowing is divided between three separate bond proposals: K-12 school construction (\$250.0 million), higher education (\$62.0 million), and the green economy (\$38.0 million).⁴⁸

The proposed school construction bond is the same size as a school construction bond approved by voters in 2018 and is included in the capital plan as the second phase of \$500.0 million in total bond funding, to be used to increase state investments in school buildings, including spending on enhanced reimbursement rates for local education agencies undertaking new school construction projects. Of the \$250.0 million proposed bond, \$200.0 million would be used for these reimbursements, while \$50.0 million would be earmarked for the School Building Authority

⁴⁵ R.I. Senate Fiscal Office, [Governor's FY 2023 and FY 2022 Supplemental Budgets](#).

⁴⁶ The proposal assumes an October 1, 2022 start date and enrollment of about 400 children in the first year, with eventual full enrollment projected at 1,500 children with a cost of approximately \$7.0 million per year. R.I. House Fiscal Advisory Staff, [Governor's FY 2023 Budget, Section III: Agency Analyses](#).

⁴⁷ Ibid.

⁴⁸ R.I. OMB, [FY 2023 Budget Overview](#).

Capital Fund for projects to address high priority building, health, and fire safety code deficiencies. The projected costs for school construction reimbursement total \$88.5 million for FY 2023, \$8.5 million more than the enacted FY 2022 amount.⁴⁹

The \$62.0 million bond for higher education is comprised of \$50.0 million in borrowing for improvements at the University of Rhode Island’s Narragansett Bay Campus and \$12.0 million to restore and enhance academic and student support spaces across the Community College of Rhode Island’s four campuses.⁵⁰

Finally, \$38.0 million is proposed for a “green economy” bond to fund several environmental and recreational enhancement programs, many of which have been included in prior green economy bonds approved by voters, most recently in 2020. The largest item in the proposed green economy bond for this year is a \$16.0 million program to provide up to 75.0 percent matching grants for municipal resiliency projects. This bond proposal also includes \$5.0 million for grants to support clean energy projects. The remainder of the bond proceeds would be allocated in amounts between \$2.0 million and \$4.0 million for a range of programs, including watershed and forest restoration, brownfield remediation, open space and farmland conservation, and matching grants for local land acquisition and recreation development.⁵¹

III. Fiscal Developments After Submission of Governor’s FY 2023 Budget

**Figure 9
Ballot Initiatives, Governor's FY 2023 Budget**

K-12 School Construction	Enhanced LEA Reimbursement	\$ 200.0
	School Building Authority Capital Fund	\$ 50.0
	<i>Subtotal</i>	<i>\$ 250.0</i>
Higher Education	URI Narragansett Bay Campus Improvements	\$ 50.0
	CCRI Academic Enhancements	\$ 12.0
	<i>Subtotal</i>	<i>\$ 62.0</i>
Green Economy	Municipal Resiliency Matching Grants	\$ 16.0
	Small Business Energy Loan Program	\$ 5.0
	Narragansett Bay and Watershed Restoration	\$ 3.0
	Forrest Conservation	\$ 3.0
	Brownfield Remediation and Economic Development	\$ 4.0
	State Open Space Land Acquisition Program	\$ 3.0
	Local Open Space Land Acquisition Program	\$ 2.0
	Local Recreation Grant Program	\$ 2.0
	<i>Subtotal</i>	<i>\$ 38.0</i>
	Total	

Source: R.I. OMB, FY 2023 Budget Proposal, Executive Summary.

⁴⁹ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#); R.I. House Fiscal Advisory Staff, [Governor’s FY 2023 Budget, Section VI: Special Reports - Education Aid](#).

⁵⁰ Ibid.

⁵¹ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

There have been two developments which have improved the state's financial position since the introduction of the governor's FY 2023 budget. In February 2022, the Rhode Island Office of Management and Budget issued its FY 2022 Second Quarter Report of projected expenditures. The report most notably identifies additional savings of \$36.1 million connected with the extension of the enhanced federal matching ratio for Medicaid. The governor's revised FY 2022 budget had assumed that the enhanced matching rate would terminate on March 31, 2022. However, due to the extension of the public health emergency by the U.S. Secretary of Health and Human Services on January 14, 2022, the state will continue to benefit from the enhanced rate through the remainder of FY 2022.⁵²

Finally, state revenues are running significantly higher than estimated in the current fiscal year. According to the Rhode Island Department of Revenue's most recent Revenue Assessment Report through January 2022, general revenues are \$78.1 million, or 3.0 percent, higher than estimated revenues.⁵³ While caution should be exercised in extrapolating projected revenues from monthly Revenue Assessment Reports, if the current trend continues, general revenues could be up as much as \$135.0 million for FY 2022. Moreover, increased revenues for the current year likely would result in greater projected revenues for FY 2023, since projections for FY 2023 would be calculated using a higher base.

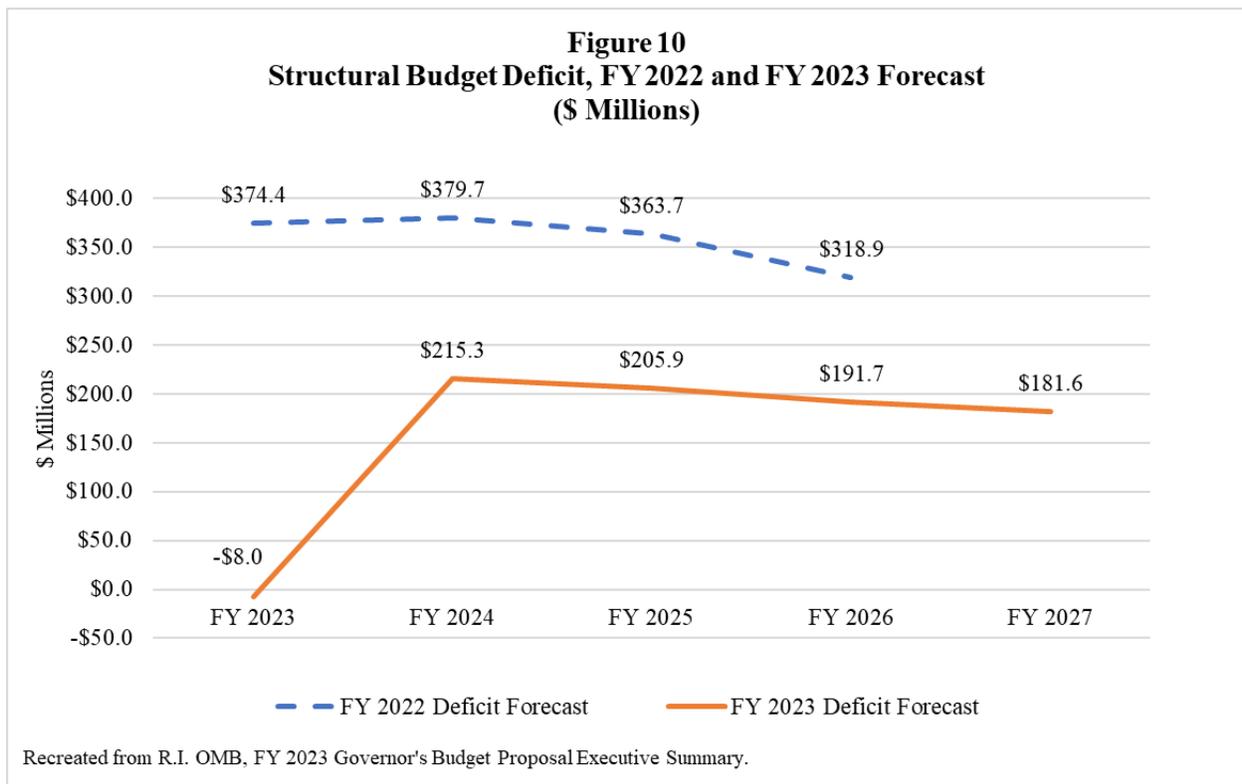
⁵² R.I. Dept. of Administration, [FY 2022 Second Quarter Report](#), February 16, 2022.

⁵³ R.I. Dept. of Revenue, [Revenue Assessment Report FY 2022 Monthly and Year-to-Date as of January 2022](#).

IV. The Budget Outlook for FY 2024 and Beyond

Rhode Island’s budget picture continues to be complicated by extraordinary allocations of federal pandemic relief funding. Importantly, this federal funding is one-time and must be spent within the next few fiscal years, and therefore will not be available to pay for continuing state expenditures. To the extent that the governor’s FY 2023 budget makes use of one-time federal funding to pay for continuing state expenses, and the General Assembly approves the use of such expenditures, there will be a structural imbalance that will need to be resolved in the next fiscal year.

The governor’s FY 2023 budget includes financial projections of anticipated general revenues and expenditures for five fiscal years ending in FY 2027, as required by law.⁵⁴ As depicted in Figure 10, substantial structural deficits are projected beginning with a \$215.3 million deficit in FY 2024 and thereafter declining modestly to a \$181.6 million annual deficit in FY 2027. Figure 10 additionally illustrates that these deficits are significantly lower than those projected one year earlier in the FY 2022 deficit forecast. The governor’s forecast explains that a large FY 2024 deficit “reflects the assumption that much of the federal support, general revenue surplus, and other one-time strategies used to solve the FY 2023 deficit will be exhausted.”⁵⁵



⁵⁴ State law requires that the state budget officer prepare a five-year final projection of “anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas.” R.I. Gen. Laws [§ 35-3-1\(a\)\(6\)](#).

⁵⁵ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

With respect to the deficit projection for FY 2024, the governor's budget cites the need to backfill federal funding in the amount of \$21.8 million for increased childcare spending, \$12.6 million to advance wage increases for developmental disability providers, and \$5.1 million for a new State Police Training Academy for 40 troopers. The budget, however, also reports that these increases would be partially offset by certain savings items, the most significant being increased Medicaid reimbursement connected with ESH. Significantly, a major driver of the projected deficit for FY 2024 is \$65.4 million required to pay for the last year of the motor vehicle excise tax phase-out.⁵⁶

The deficit projections included in the governor's FY 2023 budget are based on growth assumptions for personal income taxes and sales and use taxes that appear conservative in light of the relatively bullish economic forecast presented at the November 2021 Revenue Estimating Conference. The financial projections in the governor's budget assume that personal income taxes will grow at an average rate of 3.2 percent per year between FY 2024 and FY 2027, and sales and use taxes will grow at an average annual rate of 3.3 percent. The economic forecast presented at the November 2021 Revenue Conference projected that, over this same period, both personal income and personal consumption expenditures will grow at a rate of 4.8 percent per annum.⁵⁷ However, caution is required given the changing financial environment, including the impacts of inflation, gasoline prices, and the pandemic. In particular, sales tax revenues could be negatively affected by shifting consumer preferences from taxable goods, favored during the pandemic, to non-taxable services.⁵⁸

Another approach to inform the size of the structural deficit is to analyze and account for the expenditure of one-time funding in the FY 2023 budget to determine to what extent such funding has been used to pay for continuing expenses. In his budget, the governor has fully accounted for ARPA funding to pay for one-time expenditure items. However, one-time surplus funds totaling \$618.4 million are not fully attributed to one-time spending items. Figure 11 illustrates the various one-time initiatives attached to surplus funds, which total \$473.0 million, thereby leaving a balance of \$145.4 million. However, there are three one-time items paid for with general revenues in the governor's proposed budget: bonus payments for state employees (\$12.6 million), the write-off of a long-standing receivable related to start-up loans for Developmental Disability Organizations (DDO) (\$12.6 million), and the cost of the statewide workforce compensation and job classification study (\$2.0 million). Offsetting these three items, a total of \$118.2 million in surplus funds is used in the governor's budget to pay for continuing state expenditures.⁵⁹

⁵⁶ Ibid.

⁵⁷ R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#); R.I. OMB, [November 2021 Revenue Estimating Conference Report](#).

⁵⁸ Ibid.

⁵⁹ The R.I. House Fiscal Advisory Staff reports this number to be \$135.5 million. R.I. House Fiscal Advisory Staff, [Governor's FY 2023 Budget, Section II: Statewide Overview](#).

Figure 11
Surplus Revenues and Expenditures in Proposed FY 2023 Budget
(\$ Millions)

Transfer to R.I. Capital Plan	\$338.0
Match money for water/sewer/stormwater funds	\$21.9
Retirement of deferred pension debt from 1991-92	\$62.0
Transfer to Information Technology Investment Fund	\$50.0
State Police technology upgrades	\$1.1
Proposed one-time expenditures	\$473.0
Operating budget surplus	\$618.4
Proposed one-time expenditures	\$473.0
Difference between operating budget surplus and one-time expenditures	\$145.4
Bonus payments to state employee unions	\$12.6
Write-off of DDO start-up loans	\$12.6
Statewide workforce compensation & job classification study	\$2.0
Off-setting one-time items funded by general revenues	\$27.2
Difference between operating budget surplus and one-time expenditures	\$145.4
Off-setting one-time items funded by general revenues	\$27.2
Operating budget surplus funds used to pay for continuing expenditures	\$118.2

Note: DDO is Developmental Disability Organizations.
Source: R.I. House Fiscal Advisory Staff; R.I. OMB; RIPEC Calculations.

Both the projected deficits forecast in the governor’s budget and the structural deficit determined through analysis of one-time funding do not account for positive improvements in the state’s financial position since submission of the governor’s budget. Most significantly, state revenues appear to be running substantially ahead of estimates in the current year (FY 2022). In fact, if current revenue trends reflected in the latest revenue assessment continue, the projected increase in the current year would exceed the amount of surplus used by the governor to balance the FY 2023 budget. Moreover, as indicated above, the expected uptick in revenues in the current year likely will lead to revenues exceeding estimates for FY 2023.

Based on this analysis, after accounting for expected increased state revenues, the governor’s proposed FY 2023 budget likely will be in balance in terms of current general revenues and expenditures. With respect to the deficit of \$215.3 million for FY 2024 projected in the governor’s budget, general revenues are likely to be stronger than projected given the higher levels of revenues expected for FY 2022 and 2023. However, there are some one-time items that will likely require continuing commitments of general revenue expenditures, and certain other expenditure items, such as the full impact of salary raises for state employees, that have not been fully accounted for. Consequently, while the deficit for FY 2024 likely will be less than the \$215.3 million projected in the governor’s budget, a significant projected deficit for FY 2024 likely will remain.

V. Federal Funding Status and Outlook

Congressional spending packages enacted over the course of the pandemic have provided the state with \$7.06 billion in federal funds, exclusive of direct stimulus payments to individuals, direct unemployment insurance benefit payments, and tax changes for individuals and businesses.⁶⁰ Given the sheer magnitude of the federal money already allocated to the state, as well as future spending appropriated or under consideration in Congress, federal funds are likely to play a significant role in Rhode Island’s budget picture for several years to come.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was the first major relief package for states and local governments. Signed into law in March 2020, it provided \$1.25 billion to Rhode Island to pay for necessary expenditures incurred as a result of the pandemic—as well as for certain “second-order” effects, such as economic support to individuals and businesses affected by the pandemic—and for payroll expenses for public employees connected with response activities.⁶¹ CARES Act funds were required to be committed by December 31, 2021.

The second major relief package for states and local governments is ARPA, signed into law in March 2021. ARPA provided funds to compensate for government expenditures incurred because of the pandemic and cover revenue losses through December 31, 2024. In total, Rhode Island will receive \$1.78 billion from three sources of ARPA funds: the State Fiscal Recovery Fund (\$1.13 billion), Local Fiscal Recovery Fund (\$536.9 million), and Coronavirus Capital Projects Fund (\$112.3 million).⁶²

Besides these direct allocations to state and local governments under the CARES Act and ARPA, additional large streams of federal funding have been allocated to Rhode Island. Over \$1.02 billion in education stabilization funds for elementary, secondary, and higher education have been provided, including \$646.3 million for K-12 schools.⁶³ Rhode Island is expected to receive \$629.4 million in federal disaster relief funds under the Stafford Act. The state also has been allocated \$435.8 million to reimburse eligible health care providers for expenses connected with the pandemic, \$352.0 million for rental assistance, \$285.1 million for Centers for Disease Control and Prevention Grants, and \$126.4 million for childcare assistance programs.⁶⁴

⁶⁰ R.I. House Fiscal Advisory Staff, [Budget Analysis FY 2023](#). The R.I. House Fiscal Advisory Staff has prepared a very comprehensive analysis of the various COVID-19 relief funds allocated to Rhode Island and the spending associated with these revenues.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Funding for higher education included both public and private institutions. Ibid.

⁶⁴ Ibid.

As of November 14, 2021, Rhode Island had spent \$1.79 billion on responding to the COVID-19 pandemic and encumbered an additional \$90.3 million.⁶⁵ Figure 12 shows a breakdown of this spending by category.

The direct aid allocated to states by the CARES Act was limited to expenditures directly related to COVID-19 that were not previously budgeted by the state and that were incurred between March 1, 2020 and December 31, 2020.⁶⁶ While direct replacement of lost revenues was not an allowable use of the state’s CARES Act allocation, U.S. Treasury guidance explained that by covering new expenses incurred by the state at the same time the state might be experiencing a revenue shortfall, CARES Act funding may indirectly act as revenue replacement.⁶⁷ In fact, Rhode Island used \$97.3 million of its Coronavirus Relief Funds allocation to replace previously budgeted state funds to balance the FY 2020 supplemental budget.⁶⁸

ARPA provides much more flexible funding to state and local governments. Treasury guidance allows for states to use the funds to respond to the economic impacts of the pandemic, provide premium pay to certain classes of workers, and/or invest in water, sewer, and broadband infrastructure. Importantly, guidelines also allow state and local governments to use a portion of the funds to replace lost revenues, as determined by a formula. All ARPA funds must be obligated by December 31, 2024 and spent by December 31, 2026.⁶⁹

Figure 12
Rhode Island Federal Spending During COVID-19 (\$ Millions)



⁶⁵ [Rhode Island COVID-19 Transparency Portal](#).

⁶⁶ The deadline was extended to December 31, 2021 with the passage of the Consolidated Appropriations Act. National Conference of State Legislatures, “[How States are Spending their Stimulus Funds](#),” March 2, 2022.

⁶⁷ Congressional Research Service, “[General State and Local Fiscal Assistance and COVID-19: Background and Available Data](#),” February 8, 2021.

⁶⁸ Rhode Island Public Expenditure Council, “[Rhode Island’s FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout](#),” July 2020.

⁶⁹ U.S. Dept. of the Treasury, “[Coronavirus State and Local Fiscal Recovery Funds, Interim Final Rule](#).” The final rule uses a calculation to determine the extent of revenue loss caused by the pandemic and its economic effects. States may calculate their expected revenues in a non-COVID-19 scenario by taking their revenues in the fiscal year prior to the pandemic and increasing those revenues year-over-year by 4.1 percent or by an average of annual revenue growth

After appropriating more than \$6 trillion to address the pandemic and its economic effects, Congress has turned to other parts of President Joe Biden’s agenda that will have additional budgetary and economic consequences for Rhode Island. The first initiative to achieve passage was the Infrastructure Investment and Jobs Act, passed with bipartisan support and signed into law by the president on November 11, 2021. The legislation contains \$1.1 trillion in spending over five years for broad categories of infrastructure, including upgrades to roads, bridges, broadband, water and sewer, ports, and airports.⁷⁰ According to estimates from Rhode Island’s congressional delegation, the state will receive more than \$2.5 billion from the package, including \$1.7 billion for highway and bridge upgrades.⁷¹

A second piece of federal legislation, focused on social spending and climate change, is pending in Congress. The details and price tag of the legislation have been in flux for many months, with no clear deadline for resolution. A version of the bill, totaling \$2.2 trillion, passed the House of Representatives on November 21, 2021, but continues to be debated in the Senate and likely will be subject to further revision.⁷² Due to this uncertainty, it is unclear how much funding Rhode Island will realize from the legislation, should it pass and be signed into law.

over the prior three fiscal years, whichever is higher. On December 31 of each year between 2020-2023, the state may claim the difference between actual revenues and this counterfactual revenue projection as revenue loss and allocate SFRF funds accordingly.

⁷⁰ \$550 billion of the spending in the legislation is new, while the remainder goes toward the reauthorization of existing infrastructure programs. White House press release, “[Fact Sheet: Historic Bipartisan Infrastructure Deal](#),” July 28, 2021.

⁷¹ “[Reed: Historic Infrastructure Bill Will Help Create Jobs, Ease Congestion, Reduce Pollution, Strengthen Economy and Better Connect People and Communities](#),” November 6, 2021.

⁷² U.S. House of Representatives Office of the Clerk, “[Roll Call: Bill Number H.R. 5376](#).”

VI. RIPEC Comments

The governor's FY 2023 proposed budget is extraordinary in that it contains plans to spend \$1.24 billion in federal ARPA funds and \$618.4 million in state surplus funds. In his spending plan for ARPA funding, the governor is fairly consistent in proposing only one-time expenditures, and generally has recommended longer-term investments rather than short-term spending. However, there are some expenditures of one-time ARPA funds in the governor's budget that appear to require future spending commitments. For example, \$12.5 million was approved by the General Assembly for pay increases for 1,500 direct care workers providing services for youth under the care of the Department of Children, Youth and Families. Similarly, \$11.0 million has been approved for stabilization grants and performance bonuses for Early Intervention providers. Neither of these items are included in the governor's proposed FY 2023 budget despite that these expenditures would appear difficult to reverse going forward. Likewise, the governor's proposed expenditure of \$15.0 million to establish 11 municipal learning centers raises the question as to how such centers would be financed going forward, and the governor's proposal to spend \$21.5 million for operating subsidies for low-income housing units and services for people transitioning from homelessness to housing also appear to require a continuing funding source.

As with the state's ARPA allocation, the governor's FY 2023 budget proposes spending one-time surplus funds in large part on one-time items. Out of total surplus funds of \$618.4 million, the governor proposes spending \$473.0 million on one-time items, thereby using \$118.2 million to pay for state expenditures in the FY 2023 budget, after adjusting for certain one-time expenditures paid for with general revenues. While the use of this amount of one-time funds to balance the operating budget ordinarily would be problematic, state general revenues are running significantly above estimates in the current year and revenue estimates for FY 2023 likely are considerably understated. If revenue trends continue, the projected deficit of \$215.3 million for FY 2024 contained in the governor's proposed budget should be lower but remain significant.

The state's budget picture will continue to have the benefit of large allocations of federal funding for several years to come. In addition to direct funding to state and local governments under ARPA, billions more in federal pandemic relief funds have been allocated across a wide range of programs. In addition, the federal Infrastructure Investment and Jobs Act is estimated to provide more than \$2.5 billion to Rhode Island, including \$1.7 billion for highway and bridge upgrades. Moreover, additional federal legislation expanding funding for social programs and climate change measures remain on the agenda in Congress, although there is great uncertainty surrounding the timing and scope of these initiatives.

Based on this analysis, RIPEC offers to policymakers the following considerations, many of which have appeared in previous reports in this series on the fiscal impact of COVID-19:

The state should avoid spending beyond available resources and minimize the structural deficit going forward. While state revenues have been strong, state general revenue spending has been growing at a rate significantly greater than the historical rate of spending growth for Rhode

Island. This growth trend is likely not sustainable in the long term, and it is important to constrain spending to align with available revenues and to minimize structural deficits going forward. While it seems likely that future deficits will be less than those projected in the governor's budget, the state continues to face deficits in future fiscal years despite strong revenue collections. Policymakers would be wise to use this opportunity of abundant resources to eliminate structural spending issues.

The state should spend one-time federal funding on one-time items and prioritize those investments that produce long-term savings or have the potential to stimulate economic growth. With some limited exceptions, the governor generally has proposed to use one-time ARPA funding on one-time items. The General Assembly likewise should resist the temptation to use ARPA funds for continuing expenditures. Besides limiting the use of one-time revenues for one-time expenditures, policymakers should favor the use of one-time funds for long-term investments rather than short-term expenditures and give priority to investments that can produce long-term savings or have the potential to stimulate economic growth.

Policymakers should be more assertive in aligning extraordinary additional federal funding for K-12 education to improve student outcomes. The federal government has allocated a total of \$646.3 million in pandemic relief funds to elementary and secondary education, with 90.0 percent distributed directly to the state's local education agencies and the remaining 10.0 percent reserved for the Rhode Island Department of Education (RIDE).⁷³ The federal government has placed relatively few requirements around this spending. While Rhode Island's school districts and other local education agencies have been required by the state to submit a subgrant application to RIDE to access their ARPA allocations, RIDE's authority in this regard is limited. Moreover, the applications and plans for spending by school districts have not yet been made public.⁷⁴ Given the urgent need to address student learning loss resulting from the pandemic and the very low student proficiency levels revealed by the most recent assessments, policymakers should be more assertive in placing requirements and oversight over these federal funds.

Policymakers should resolve spending issues connected with Eleanor Slater Hospital. ESH continues to represent the most troubling spending issue in the state budget, with sharp increases in state general revenues, relatively high patient costs, and continuing questions as to future spending. The transformation plan proposed by the governor includes an investment of \$108.2 million for a new 100-bed medical facility at the Zambarano campus. Before approving this investment, policymakers should assess whether the plan places ESH on a more fiscally responsible and sustainable path.

⁷³ The FY 2022 enacted budget included total awards of these funds in the amount of \$539.8 million. Based on input from RIDE as to the expected need for funds by districts, the governor's FY 2023 budget recommends appropriating \$88.2 million of this funding in FY 2022 and \$183.3 million in FY 2023, leaving \$268.3 million available for use in FY 2024. R.I. OMB, [FY 2023 Budget Proposal, Executive Summary](#).

⁷⁴ U.S. Dept. of Education, [Rhode Island State Plan for the American Rescue Plan Elementary and Secondary School Emergency Relief Fund](#), April 21, 2021.

The state should consider increasing the rainy day fund and the Rhode Island Capital Plan Fund. Rhode Island’s rainy day fund is funded each fiscal year by an allocation of 3.0 percent of state general revenues, and is capped at 5.0 percent of general revenues, with any excess funds transferred each year to RICAP to be used solely for capital projects, in accordance with the Rhode Island Constitution. At 5.0 percent of revenues, Rhode Island’s rainy day fund was lower than the median state rainy day fund of 8.0 percent, and the state was ranked 38th nationally in terms of the percentage of general fund expenditures in its rainy day fund at the end of 2019.⁷⁵ While Rhode Island’s rainy day fund has served the state well during the pandemic, the disruption of state revenues connected with the pandemic was a transitory disruption with no permanent revenue losses. The current availability of one-time federal and surplus funds presents an excellent opportunity to increase the contribution to the rainy day fund over time from 3.0 percent to 5.0 percent of revenues and to increase the rainy day fund cap from 5.0 percent to 10.0 percent. If the current RICAP structure is retained, RICAP would increase from approximately 3.0 percent to 5.0 percent of revenues, providing much needed funding to respond to the state’s large unmet capital needs.

The state should seek to improve its business tax climate and resist efforts to increase taxes. Despite abundant state revenues and \$1.24 billion in federal ARPA funds, there remain efforts in the General Assembly to raise taxes, specifically to increase personal income taxes on high earners. Since the great majority of businesses, and nearly all small businesses, in Rhode Island are organized as pass-through entities that report their profits through the personal income tax, these proposals would impose a higher tax burden on businesses, and particularly on small businesses, at a time when they are still recovering from the pandemic’s economic fallout. Policymakers instead should be seeking to improve Rhode Island’s business tax climate, which was ranked 40th among states in a recent Tax Foundation study.⁷⁶

⁷⁵ Rhode Island Public Expenditure Council, [“The COVID-19 Economic Crisis: Federal Assistance and Rhode Island’s Budget,”](#) April 2020.

⁷⁶ Rhode Island Public Expenditure Council, [“Rhode Island Ranks 40th in Tax Foundation 2022 Business Tax Climate Index,”](#) January 2022.

Appendix

Figure 13
Governor's Recommended Spending of State Fiscal Recovery Funds
(\$ Millions)

Category/Program	Total Amount	Amount Approved in "Down Payment" Spending
Housing	\$250.0	\$29.0
Development of Affordable Housing	\$90.0	\$15.0
Down Payment Assistance	\$50.0	
Acquisition	\$25.0	\$12.0
Home Repair & Community Revitalization	\$25.0	
Homelessness Assistance	\$21.5	\$1.5
Workforce Housing	\$20.0	
Predevelopment	\$10.0	
Homelessness Infrastructure	\$5.0	
Housing Strategic Plan	\$2.0	
OHCD Support and Capacity	\$1.5	\$0.5
Economic and Workforce Development	\$211.8	
Blue Economy Investments	\$70.0	
Port of Galilee Rehabilitation	\$46.0	
Enhanced Real Jobs	\$40.0	
Bioscience Investments	\$30.0	
Higher Ed Academies	\$22.5	
Wi-Fi and Tech at the ACI	\$3.3	
Aid to Small Business and Impacted Industries	\$180.5	\$45.0
Convention Center	\$47.0	
Small Business Assistance Grants	\$45.0	\$32.0
UI Trust Fund Contribution	\$30.0	
Assistance to Impacted Industries	\$28.5	\$13.0
Small Business Access to Capital	\$20.0	
Minority Business Accelerator	\$10.0	
Public Health	\$152.3	
COVID-19 Response	\$150.1	
Medicaid Eligibility Extension/HSRI Auto-Enrollment	\$1.7	
Emergency Staffing at ESH/RI Veterans Home	\$0.6	
Climate	\$132.0	
Port of Davisville	\$60.0	
OER Electric Heat Pumps	\$37.0	
South Quay Marine Terminal	\$35.0	

Category/Program	Total Amount	Amount Approved in "Down Payment" Spending
Children, Families, and Early Education	\$118.6	\$44.5
Child Care Support	\$42.0	\$19.0
Pediatric Relief and Recovery	\$15.0	\$7.5
Municipal Learning Centers	\$15.0	
DCYF Wage Stabilization	\$12.5	\$12.5
Early Intervention Relief and Recovery	\$11.0	\$5.5
Nonprofit Assistance/Food Insecurity	\$10.0	
RIBridges Mobile Access and Child Care Tracking	\$6.7	
Support for Survivors of Domestic Violence	\$4.5	
Lead Abatement and Fire Safety Upgrades in Foster Homes	\$1.9	
Behavioral Health	\$42.4	
Certified Community Behavioral Health Clinics	\$28.1	
Psychiatric Residential Treatment Facility	\$6.0	
Mental Health Court Pilot Program	\$4.2	
Crisis Intervention Trainings	\$2.2	
9-8-8 Mental Health Hotline	\$1.9	
Public Infrastructure and Technology	\$26.5	\$0.5
DEM Permit and Licensing IT Investments	\$5.8	
Pawtucket Bus Hub Passenger Facility	\$5.0	
Main Streets Revitalization	\$5.0	
DOC Radio System	\$2.7	
DBR e-Licensing and Blockchain Digital Identity	\$2.5	
DOR Tax Modernization - STAARS Cloud Migration and Other IT	\$2.3	
DOA ERP Implementation	\$2.2	
Broadband State Office and Development of Statewide Plan	\$0.5	\$0.5
OHIC Health Spending Accountability and Transparency Program	\$0.5	
Administration	\$17.0	
Total	\$1,131.0	\$119.0

Source: R.I. OMB, Fiscal Year 2023 Budget Proposal: Executive Summary.