

The COVID-19 Economic Crisis: Federal Assistance and Rhode Island's Budget

The First in a Series on the Fiscal Impact of Covid-19

April 2020



RIPEC

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I. Introduction

The COVID-19 pandemic presents a public health emergency unseen in generations. The appearance of COVID-19 in Wuhan, China was first reported to World Health Organization officials in December 2019. By mid-January, the first case in the United States was reported from Washington State.¹ In the U.S., cases grew exponentially in late March and April, reaching 899,281 confirmed cases and 46,204 fatalities by April 26. At the same time, the number of confirmed cases and fatalities worldwide reached 2.8 million and 193,710, respectively.²

While the public health impact of the COVID-19 outbreak has been great, so too has its economic impact, causing the United States to plummet into a recession at unprecedented speed. From March 2 to March 31, the S&P 500 Index fell by 16.4 percent, and has since remained well below values posted earlier this year.³ As the airline industry shuttered and governors around the country imposed, to varying degrees, social distancing protocols and closures of nonessential businesses, unemployment claims soared upward at an unparalleled pace, with a total of 26.4 million new unemployment claims reported between March 15 and April 18.⁴

In Rhode Island, the public health and economic consequences have been no less severe. Rhode Island's first case was reported on March 1, 2020 and by April 26, 7,439 confirmed cases and 226 fatalities had been reported.⁵ In response to the spread of the epidemic in Rhode Island, Governor Gina Raimondo declared a state of emergency by way of executive order on March 9.⁶ Issuing over two dozen additional executive orders in the next several weeks, the Governor forced temporary closures of an increasing number of public-facing businesses in the interest of stymying the spread of the virus.⁷ Closures included restaurants and bars (except for take-out and delivery services); entertainment and cultural venues, gyms, hair salons, and nonessential retailers, such as clothing, book, and gift stores.⁸ At the same time, business services workers with the ability to work from home were ordered to do so, and the Department of Revenue's Lottery Division ordered temporary closures of casinos in Lincoln and Tiverton.⁹

As a result of these actions, the general threat of COVID-19, and the economic fallout across the United States, the number of unemployed Rhode Islanders ballooned at an unprecedented rate. For the week ending April 11, 20,968 Rhode Islanders filed initial unemployment insurance (UI) claims, over five times greater than the state's peak weekly UI claims of 3,987 during the Great

¹ World Health Organization, [Rolling Updates on Coronavirus Disease \(COVID-19\)](#); Washington State Department of Health, [2019 Novel Coronavirus Outbreak \(COVID-19\)](#).

² World Health Organization, [Coronavirus Disease 2019, Situation Report – 97](#), April 26, 2020.

³ Wall Street Journal, Markets: Historical Prices, [S&P500 Index](#).

⁴ U.S. Department of Labor, News Release, [Unemployment Insurance Weekly Claims](#), April 23, 2020.

⁵ R.I. Department of Health, [COVID-19 Disease Data](#), Accessed April 26, 2020.

⁶ R.I. Office of the Governor, [Executive Order 20-02](#), March 9, 2020.

⁷ R.I. Office of the Governor, [Executive Orders](#).

⁸ [Executive Order 20-04](#), March 16, 2020; [Executive Order 20-09](#), March 22, 2020; [Executive Order 20-14](#), March 28, 2020.

⁹ [Executive Order 20-09](#), March 22, 2020; Twin River Casino Hotel, [Closure](#); Tiverton Casino Hotel, [Closure](#).

Recession.¹⁰ For the week ending April 18, the Department of Labor and Training reported initial and continued UI claims totaling 96,189, comprising approximately 19.3 percent of Rhode Island’s total nonfarm civilian workforce.¹¹ Echoing Rhode Island’s particularly precarious position during the Great Recession, the Ocean State had higher UI claims as a share of its workforce than any other state for the four weeks ending April 11.¹²

The COVID-19 crisis already has had a tremendous impact on the people and businesses of Rhode Island, but it is also anticipated to greatly affect the state budget and the state’s fiscal health more generally. This report, “The COVID-19 Economic Crisis: Federal Assistance and Rhode Island’s Budget,” analyzes the potential impact of the COVID-19 crisis on the Rhode Island budget, emphasizes the need for additional federal assistance in order to avoid severe budgetary fallout, and offers a set of guiding principles for state policymakers to consider in responding to the current fiscal challenges.

In addition to this introduction, this RIPEC report is comprised of four sections. Section II discusses legislation passed at the federal level to address the crisis, with particular focus on the state assistance provided under the Coronavirus Aid, Relief and Economic Security (CARES) Act, restrictions on the use of such assistance, its potential impact on Rhode Island, and pending efforts to seek additional federal relief. Section III of this report highlights the severe state revenue shortfalls expected in the current fiscal year and the next fiscal year, as well as the process by which available revenues will be determined through the state’s upcoming May Revenue Estimating Conference. Section IV describes the state’s rainy day fund, the mechanism by which the fund can be utilized to offset budget shortfalls, and the limitations of relying on this funding source. Finally, Section V summarizes the potential budgetary dilemma facing state policymakers and offers guiding principles for their consideration.

The health and economic crises brought on by COVID-19 are still unraveling, and there are several major unknowns connected to the budgetary effects of these crises as Rhode Island slowly moves to reopening its economy. Consequently, “The COVID-19 Economic Crisis” is only the first in a series of RIPEC reports that will collectively seek to provide key information, analysis, and guidance during this unprecedented time.

¹⁰ Jared Walczak and Tom VanAntwerp, “[A Visual Guide to Unemployment Benefit Claims](#),” Tax Foundation, April 16, 2020; R.I. Department of Labor and Training, “[Weekly Update of Claims Activity, Week Ending: April 11, 2020](#).”

¹¹ R.I. Department of Labor and Training, “[Weekly Update of Claims Activity, Week Ending: April 18, 2020](#)”; R.I. Department of Labor and Training, [February 2020 Rhode Island Establishment Employment Not Seasonally Adjusted](#).

¹² Federal Reserve Bank of Boston, “[Economic Fallout of the COVID-19 Pandemic in New England](#),” April 20, 2020.

II. Federal Legislation

Congress has responded to the COVID-19 crisis so far with four separate pieces of legislation: the Coronavirus Preparedness and Response Supplemental Act, the Families First Coronavirus Response Act, the CARES Act, and the Paycheck Protection Program and Health Care Enhancement Act. The most far reaching of these is the CARES Act, which appropriated \$2.2 trillion in support of individuals, businesses, and governmental entities affected by the pandemic. For states and local governments, the CARES Act established a Coronavirus Relief Fund consisting of an appropriation of \$150 billion to state and local governments, including \$1.25 billion earmarked for Rhode Island.¹³

CARES Act Relief Fund for State and Local Government

The CARES Act restricts the use by states of payments from the Relief Fund generally to unbudgeted expenditures incurred by a state due to the COVID-19 crisis:

- A State . . . shall use the funds provided . . . to cover only those costs of the State . . . that—
- (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
 - (2) were not accounted for in the budget most recently approved as of [March 27, 2020]; and
 - (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.¹⁴

The U.S. Department of Treasury has issued guidance which provides some flexibility as to the expenditures that would qualify under this provision, but also makes clear that the Relief Fund may not be used to fill shortfalls in government revenue. Under the Treasury guidance, states may use the Relief Fund for expenditures made in direct response to the public health emergency, such as addressing medical and public health needs. The guidance importantly also allows Fund payments to be used in response to “second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions due to COVID-19-related business closures.” Specifically included in this category of permissible expenditures are grants to affected small businesses, payroll support programs, and unemployment insurance costs related to the COVID-19 emergency.¹⁵ However, the guidance specifically excludes using

¹³ While allocations to states under the CARES Act are to be made pro rata based on the population of each state, Rhode Island will receive the minimum payment of \$1.25 billion, which is considerably greater than the allocation it would have received under a pro rata allocation. Since only local governments with a population exceeding 500,000 are eligible for funds under the CARES Act, no municipality in Rhode Island is eligible under the CARES Act to receive direct funding. [CARES Act](#), Section 601.

¹⁴ Ibid.

¹⁵ Also permitted are “[p]ayroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency.” U.S. Dept. of Treasury, “[Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments](#),” April 22, 2020.

the Relief Fund “to fill shortfalls in government revenue to cover expenditures that would not otherwise qualify under the statute.”¹⁶

While the Relief Fund established under the CARES Act constitutes the most important Congressional action affecting state budgets, other provisions of federal COVID-19 legislation provide funding which could be used to relieve state budget pressures.

Disaster Relief Funding

The CARES Act includes an appropriation of \$45 billion in total for the immediate needs of state and local governments in responding to the COVID-19 crisis. Reimbursable activities may include medical response, personal protection equipment, and National Guard deployment.¹⁷ This appropriation is an allocation to the existing Federal Emergency Management Agency (FEMA) Disaster Relief Fund, which covers direct disaster relief efforts undertaken by FEMA, as well as federal assistance to states and local governments under an emergency declaration from the President.¹⁸ On March 30, 2020, the President declared a major declaration for the State of Rhode Island, allowing the state to receive grants and assistance from the FEMA Disaster Relief Fund.¹⁹ Importantly, in order to receive reimbursement under the Disaster Relief Fund, the state must agree to provide a 25 percent funding match.²⁰

Education Stabilization Fund

The CARES Act also establishes an Education Stabilization Fund of \$30.8 billion to provide relief to states, school districts, and higher education institutions impacted by COVID-19.²¹ Out of these funds, Rhode Island will receive \$46.4 million for K-12 schools, \$62.5 million for (public and private) colleges and universities, and \$8.7 million for the Governor’s Emergency Education Relief Fund, which may be spent at the Governor’s discretion on any educational institution providing emergency education services, including childcare, Pre-K, K-12, and higher education institutions. Rhode Island’s total allotment under the Education Stabilization Fund is \$117.6 million.²² Unless a state obtains a financial hardship waiver from the Secretary of Education, states receiving these funds must maintain support to K-12 and higher education institutions in FY 2020 and FY 2021 equal to their average support for the previous three years.²³ Funds received by schools and districts can be used for COVID-19 response activities, such as planning and

¹⁶ Ibid.

¹⁷ [CARES Act](#), Section 05011.

¹⁸ Congressional Research Service, [The Disaster Relief Fund: Overview and Issues](#), November 22, 2019.

¹⁹ Whitehouse.gov, [President Donald J. Trump Approves Rhode Island Disaster Declaration](#), March 3, 2020.

²⁰ FEMA, [“A Guide to the Disaster Declaration Process and Federal Disaster Assistance.”](#)

²¹ [CARES Act](#), Section 18001.

²² Ibid; Federal Funds Information for the States, [Estimated State Funding for Coronavirus Pandemic](#), April 14, 2020.

²³ Additionally, any institution or organization that is supported through the Fund must continue to pay employees and contractors during COVID-19 closures.

coordinating for long term closures, technology purchasing for online learning, and other activities authorized under federal law.²⁴

Unemployment Insurance

In addition to directly increasing benefits to unemployed workers, the Relief Fund under the CARES Act can be used to pay unemployment compensation costs, according to recent U.S. Treasury guidance.²⁵ The CARES Act provides for a \$600 per week bonus fully funded by the federal government to augment states' regular unemployment benefits.²⁶ The CARES Act also provides other funding to help states cope with the unemployment impacts of COVID-19. States like Rhode Island that waive the one week waiting period for benefits will receive full reimbursement for first week payments.²⁷ States may also enter into an agreement with the Secretary of Labor for full federal reimbursement to the state for 13 additional weeks of unemployment insurance once a claimant has exhausted their full state unemployment benefit.²⁸ Finally, states will be fully reimbursed by the federal government for benefits paid under the Pandemic Unemployment Assistance program, which provides up to 39 weeks of benefits to individuals who are self-employed or otherwise would not be covered under regular unemployment compensation benefits.²⁹

Other Federal Aid in the CARES Act

The CARES Act provides additional grants and allotments through a range of other federal programs to assist states financially in their COVID-19 response. While most of these program funding increases are relatively small, the CARES Act does include \$25 billion for transit infrastructure, to be used in preparing for and responding to COVID-19 impacts through any manner of spending typically allowed under federally authorized programs.³⁰ Approximately \$104.4 million of these transit funds are allocated for Rhode Island.³¹ Additional CARES Act grant funding available to states includes \$3.5 billion for child care and development programs, \$1.5 billion for economic development, \$1 billion for community service block grants, \$1 billion for community development block grants, and \$400 million for 2020 election security.³²

²⁴ National Conference of State Legislatures, [CARES Act Gives State Education Funding, Flexibility in Wake of COVID-19](#), April 1, 2020.

²⁵ U.S. Dept. of Treasury, "[Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments](#)," April 22, 2020.

²⁶ [CARES Act](#), Section 2104.

²⁷ [CARES Act](#), Section 2105.

²⁸ Emergency Unemployment Insurance Relief additionally provides federal reimbursement for 50 percent of the state payment amounts for unemployment benefits paid to government and non-profit employees between March 13, 2020 and December 31, 2020. [CARES Act](#), Sections 2107 and 2103(b).

²⁹ [CARES Act](#), Section 2102.

³⁰ Federal Transit Administration, [Frequently Asked Questions from FTA Grantees Regarding Coronavirus Disease 2019 \(COVID-19\)](#), April 10, 2020.

³¹ Federal Transit Administration, [Fiscal Year 2020 CARES Act Supplemental Public Transportation Apportionments and Allocations](#).

³² [CARES Act](#), Titles II-XII.

Families First Coronavirus Response Act Enhanced Matching Funds for Medicaid

Passed on March 18, the Families First Coronavirus Response Act provides enhanced federal matching funds for Medicaid. The federal share of Medicaid costs for each state is determined by a formula based on a state's per capita income as compared to U.S. per capita income. This calculation, known as the Federal Medicaid Assistance Percentage (FMAP), has a statutory minimum of 50 percent reimbursement and a maximum rate of 83 percent reimbursement.³³ For federal FY 2020 (October 1, 2019 through September 30, 2020), Rhode Island qualifies for a reimbursement amount of 52.95 percent.³⁴ The Families First Act increased each state's FMAP by 6.2 percentage points, effective from January 1, 2020 through the end of the calendar quarter when the public health emergency terminates.³⁵ The FMAP increase provided by the Families First Act does not apply to administrative expenditures, or to programs already at a higher FMAP rate, except for the Children's Health Insurance Program (CHIP).³⁶

Enhanced matching funds for Medicaid are valuable to Rhode Island, as Medicaid makes up a significant portion of the state's annual expenditures.³⁷ Rhode Island's FMAP rate will increase from 52.95 percent to 59.15 percent under the Act. Total medical assistance expenditures in Rhode Island for FY 2020 are estimated to be \$2.4 billion, with the federal government covering \$1.5 billion of those expenditures, according to the November 2019 Revenue Estimating Conference.³⁸ Rhode Island's Executive Office of Health and Human Services projects that the FMAP increase of 6.2 percent for the third and fourth quarters of FY 2020 will result in approximately \$53.5 million in general revenue relief.³⁹ If the health crisis extends past the end of June, the state will continue to receive additional federal assistance under the enhanced FMAP funding in the amount of approximately \$26.7 million per quarter, ending in the quarter in which the public emergency terminates.

³³ Alison Mitchell "[Medicaid's Federal Medical Assistance Percentage \(FMAP\)](#)," Congressional Research Service.

³⁴ Kaiser Family Foundation, [Federal Medical Assistance Percentage \(FMAP\) for Medicaid and Multiplier](#).

³⁵ [Families First Coronavirus Response Act](#), Section 6008.

³⁶ In the case of CHIP, the 6.2 percentage point increase will be applied to the base FMAP used to calculate the CHIP FMAP, amounting to a 4.34 percentage point increase. The enhanced FMAP rate does not apply to adult group expenditures for the newly eligible or expansion state FMAP, family planning services eligible for 90 percent match, 100 percent match services, home health services, community first choice services, or any other services not matched at the state FMAP. Medicaid.gov, "[Families First Coronavirus Response Act – Increased FMAP FAQs](#)," April 13, 2020; R.I. Executive Office of Health and Human Services, [Medical Assistance Testimony](#), May 2020 Caseload Estimating Conference, May 24, 2020, 16.

³⁷ Medicaid program activity comprised approximately 29 percent of budget outlays in the state's general fund in FY 2018 and was cited in the Auditor General's FY 2018 Single Audit Report as the fastest growing component of the budget. Office of the Auditor General, [State of Rhode Island and Providence Plantations Single Audit Report for Fiscal Year Ended June 30, 2018](#); R.I. Executive Office of Health and Human Services, [Rhode Island Annual Medicaid Expenditure Report, SFY 2018](#), September 2019

³⁸ Rhode Island, [Revenue Estimating Conference, November 2019](#).

³⁹ [Medical Assistance Testimony](#), 16.

Future Federal Assistance

There is considerable political support for additional federal assistance to state and local governments given the severe budget impacts they are facing. However, the most recent federal legislation, the Paycheck Protection Program and Health Care Enhancement Act, which was enacted on April 24 and will deliver nearly \$500 billion in additional financial assistance in response to the crisis, did not include additional funding for states and local governments, except for funding specifically targeted at developing and expanding COVID-19 testing.⁴⁰ Seeking additional assistance from the federal government, the National Governors Association (NGA) had argued that the federal CARES Act “contained zero funding to offset . . . drastic state revenue shortfalls, and that “Congress must provide immediate fiscal assistance directly to all states.” The NGA requested that states must be allowed to use any state relief funds for replacement of lost revenues, and that these funds “should not be tied to only COVID-19 related expenses.” Additionally, the NGA is seeking a supplemental \$500 billion for states and territories to meet budgetary shortfalls.⁴¹ Democratic congressional leaders sought to include \$150 billion for states and local governments in the most recent COVID-19 legislative package, but the funding was not included in the final bill.⁴² President Trump has signaled receptivity to a subsequent legislative package that would address aid for state and local governments.⁴³ However, Senate Majority Leader Mitch McConnell more recently pushed back on the idea of more federal aid to states.⁴⁴

⁴⁰ [Paycheck Protection Program and Health Care Enhancement Act](#).

⁴¹ [National Governors Association Outlines Need For ‘Additional And Immediate’ Fiscal Assistance To States](#), April 11, 2020.

⁴² Burgess Everett and Heather Caygle, [“Senate passes \\$484 billion coronavirus deal after weeks of deadlock,”](#) *Politico*, April 21, 2020.

⁴³ Kristina Peterson and Andrew Duehren, [“Senate Passes Bill for More Small-Business Stimulus,”](#) *Wall Street Journal*, April 21, 2020.

⁴⁴ Katy Stech Ferek and Heather Gillers, [“McConnell Supports Giving States Bankruptcy Access,”](#) *Wall Street Journal*, April 22, 2020.

III. State Revenue Shortfalls

Rhode Island's current budget covers state fiscal year 2020, which began on July 1, 2019, and ends on June 30, 2020. The FY 2020 budget was enacted by the General Assembly and signed by the Governor on July 5, 2019, and consists of total expenditures of \$9,970.6 million and general revenue expenditures of \$4,077.6 million.⁴⁵ In Rhode Island, revenues upon which the state budget is based are determined by a Consensus Revenue Estimating Conference held in November and May each year.⁴⁶ Estimated revenues are determined by consensus of the three Conference principals: the State Budget Office, the House Fiscal Advisor, and the Senate Fiscal Advisor.⁴⁷ The Conference consists of a review of revenue collections and preparation of economic and revenue forecasts, and typically relies on testimony from an outside economic forecasting firm.⁴⁸ If at any time a Conference principal "feels that the recommendations of the revenue estimating conference are no longer valid," then that principal may convene an additional revenue estimating conference.⁴⁹

The November Revenue Estimating Conference left estimated general revenues for the current 2020 budget essentially unchanged at \$4,178.8 million.⁵⁰ The Conference also set forecasted general revenues for the next fiscal year, FY 2021, beginning on July 1, 2020, at \$4,241.6 million, an increase of 1.5 percent over the FY 2020 general revenue numbers.⁵¹ The Governor's proposed budget for FY 2021 is based on the revenues determined at the November Revenue Estimating Conference. When the Governor released the FY 2021 budget proposal, she also introduced a revised budget for FY 2020, incorporating the November revenue forecast for the current fiscal year.

Rhode Island's Major Revenue Sources

The Rhode Island state budget relies heavily on income and sales taxes for general revenues. Figure 1 shows that, together, these two tax sources comprise 62.4 percent of all general revenues for the FY 2020 budget as enacted. General business taxes, departmental receipts, and lottery revenues represent the next largest sources of general revenue, respectively accounting for 11.0 percent, 10.7 percent, and 9.9 percent of total general revenues. All other sources of revenue account for the remaining 6.0 percent of general revenues in the FY 2020 budget as enacted.

⁴⁵ Governor's FY 2021 Budget Proposal, [Executive Summary](#), 2.

⁴⁶ R.I. Gen. Laws [§ 35-16-1 et seq.](#)

⁴⁷ R.I. Gen. Laws [§ 35-16-1](#), [35-16-2](#).

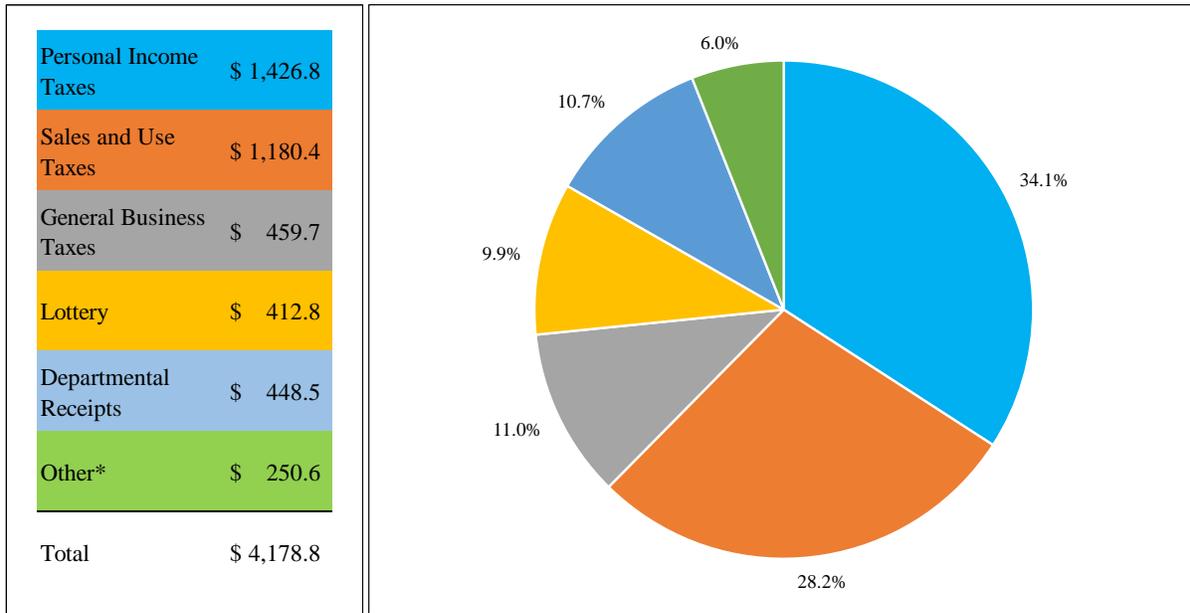
⁴⁸ R.I. Gen. Laws [§ 35-16-2](#). At the November 2019 Revenue Estimating Conference, forecasts were presented by IHS Markit. Rhode Island, [Revenue Estimating Conference, November 2019](#).

⁴⁹ [R.I. Gen. Laws § 35-16-3\(a\)](#).

⁵⁰ The FY 2020 general revenue estimate was reduced by only \$71,329 from the estimate in May. Rhode Island, [Revenue Estimating Conference, November 2019](#).

⁵¹ *Ibid.*

Figure 1
Rhode Island FY 2020 Revenues (\$ Millions)



* Other includes motor vehicle, cigarette, and alcohol taxes, inheritance and gift taxes, racing and athletics taxes, realty transfer taxes, unclaimed property, and other miscellaneous

Note: Totals may not sum due to rounding

Source: November 2019 Revenue Estimating Conference; FY 2020 Budget as Enacted

Recent Forecasts of the COVID-19 Economic Impact

Recent economic forecasts anticipate a devastating impact to the national economy as a result of the COVID-19 crisis through the second quarter of this year, with continuing effects through the end of 2020. J.P. Morgan projected that Gross Domestic Product (GDP) in the U.S. will contract dramatically in the first and second quarter of the calendar year, leaving U.S. economic activity at 10 percent below the pre-virus baseline for the full year, despite a projected rebound in the third and fourth quarters.⁵² Relying on a more optimistic rebound in the second half of 2020, Goldman Sachs projects that U.S. GDP will contract by 3.8 percent for the full year.⁵³ Morningstar’s forecast is slightly more optimistic, with U.S. GDP contracting by 2.9 percent for 2020, based on restrictions beginning to lift in June and July, and potential therapeutic drug treatments in the summer.⁵⁴ The International Monetary Fund has projected that the U.S. economy will contract by

⁵² J.P. Morgan’s projection assumes both that the virus runs its course in June and social distancing policies are significantly relaxed by mid-year. “[Fallout from COVID-19: Global Recession, Zero Interest Rates and Emergency Policy Actions](#),” *J.P. Morgan Research*, March 27, 2020.

⁵³ Patti Domm, “[Goldman sees unprecedented stop in economic activity, with 2nd quarter GDP contracting 24%](#),” *CNBC*, March 20, 2020.

⁵⁴ Preston Caldwell and Karen Andersen, “[Coronavirus Update: Long-Term Economic Impact Forecast to Be Less Than 2008 Recession](#),” *Morningstar*, April 1, 2020. Fitch similarly forecast U.S. GDP to be down 3.3% for 2020. “[Deep Global Recession in 2020 as Coronavirus Crisis Escalates](#),” *Fitch Ratings*, April 2, 2020.

5.9 percent in 2020 as a result of the pandemic, but will grow by 4.7 percent in 2021 as economic activity normalizes, helped by government fiscal and policy support.⁵⁵

In a recently published study, the Federal Reserve Bank of Boston reported that state revenues across New England are expected to decline dramatically for FY 2020 and even possibly for FY 2021. For Rhode Island, the Boston Federal Reserve estimated a decline in state revenues of between \$400 million and \$464 million in FY 2020, with further revenue declines in FY 2021.⁵⁶ Moody's Analytics has estimated that states will face enormous revenue losses due to the unprecedented fiscal stress of the COVID-19 economic crisis. According to Moody's, revenue losses will exceed the decline in state revenues of about ten percent experienced during the Great Recession. In Rhode Island, Moody's projects the tax revenue shortfall as a result of the COVID-19 crisis to range between \$504 million and \$592 million through FY 2021, depending on the severity of the crisis.⁵⁷

General Revenues Shortfalls

As illustrated in Figure 2, at least fifteen states have made downward adjustments in their estimated revenues for FY 2020 and FY 2021. Given both the level of uncertainty surrounding the current crisis and the varying dates on which projections were made, the range of estimates is wide among and even within certain states.⁵⁸ In FY 2020, estimated revenue adjustments range from 0 percent of general revenues (in Delaware) to 12 percent (in Michigan). For FY 2021, states have projected general revenue shortfalls ranging from 1 percent of general revenues (in Kentucky) to 27 percent (in New Mexico).

⁵⁵ International Monetary Fund, [World Economic Outlook](#), April 2020.

⁵⁶ "[Economic Fallout of the COVID-19 Pandemic in New England](#)," Federal Reserve Bank of Boston, April 20, 2020.

⁵⁷ At the low end, Moody's assumed a deep recession in the first half of 2020 followed by a modest rebound; at the high end, travel and business restrictions last into the third quarter. The Moody's report also projects that Rhode Island will experience an increase of Medicaid spending of between \$124 million and \$142 million, but the projection does not take account of federal FMAP changes that will offset this increased spending. "[Stress-Testing States: COVID-19](#)," Moody's Analytics, April 14, 2020.

⁵⁸ For states like Alaska with heavy reliance on oil production, dire general revenue projections somewhat predated the downward budgetary revisions of states with different economic makeups. The global economic slowdown caused by COVID-19 led to dip in oil prices that turned into a steep decline as Russia and Saudi Arabia entered a price war. Elwood Brehmer, "[Price war could cost Alaska hundreds of millions in oil revenue](#)," *Alaska Journal of Commerce*, March 13, 2020.

Figure 2
General Revenue Shortfall Estimates

State	FY 2020		FY 2021		Date of Estimate	Source of Estimate
	Amount (\$ Millions)	% of Pre-COVID GR Projection	Amount (\$ Millions)	% of Pre-COVID GR Projection		
Alaska	\$527	10%	\$815	16%	6-Apr	Joint Fiscal Office
Arizona	\$608	5%	\$1,198	10%	9-Apr	Joint Legislative Budget Committee
Arkansas	\$353	6%			23-Mar	Dept. of Finance and Administration
Colorado	\$396	3%	\$750 - \$1,800	6% - 13%	16-Mar	Office of State Planning and Budgeting
Connecticut	\$226	1%			25-Mar	Office of Fiscal Analysis
Delaware	\$1	0%	\$94	2%	16-Mar	Economic Financial and Advisory Council
Hawaii			\$319	4%	20-Mar	Council on Revenues
Illinois	\$2,657	7%	\$4,608	12%	15-Apr	Governor's Office of Management and Budget
Kentucky			\$115	1%	25-Mar	House Budget Chair
Michigan*	\$ 1,000 - \$ 3,000	4% - 12%	\$1,000 - \$4,000	4% -16%	30-Mar	Treasury
New Mexico			\$1,500 - \$2,000	20% - 27%	31-Mar	Senate Finance Committee
New York*			\$4,000 - \$7,000	5% - 8%	17-Mar	Comptroller, State
			\$9,000 - \$15,000	9% - 17%	24-Mar	Budget Director
Oklahoma	\$219	3%	\$250 - \$500	4% - 7%	31-Mar	Appropriations Chair
Vermont	\$224	10%			25-Mar	Joint Fiscal Office
	\$204 - \$208	9% - 10%			7-Apr	
Virginia			\$1,000	4%	24-Mar	Secretary of Finance

Note: The table above reflects that some states have not produced estimates, some have produced estimates for only their FY 2020 budget, others for FY 2021 only, and some for both fiscal years; GR = General Revenues

* The large majority (all but four) states begin their fiscal year on July 1, but Michigan's fiscal year begins October 1 and New York's begins April 1

Source: Center on Budget and Policy Priorities; National Conference of State Legislatures; State budget documents; RIPEC calculations

Revenue Impacts in Rhode Island

While there remains considerable uncertainty regarding the longevity of the pandemic and its aftermath, the crisis undoubtedly will have a major negative impact on Rhode Island state revenues in FY 2020 and FY 2021.

Income Tax

Shortfalls in the personal income tax, as Rhode Island's largest source of general revenue, have the potential to create the greatest negative impact on the budget. Layoffs generally result in declines in income tax receipts due to reduced wages. This shortfall will be mitigated significantly in the short term because supplemental unemployment insurance benefits of \$600 per week payable under the CARES Act are subject to income taxation at the federal level and under Rhode

Island law.⁵⁹ However, other income losses will not be offset. Since most businesses report income through the personal income tax system, declines in business income will result in shortfalls in personal income. Individuals and businesses also are experiencing capital losses that will result in lower income tax receipts.⁶⁰

While the current crisis and the Great Recession are not analogous, the impact of high unemployment on income tax revenues during the Great Recession is instructive. The unemployment rate in Rhode Island was 5.2 percent in July 2007 (the beginning of FY 2008), climbed to 11.2 percent in July 2009, and remained over 10 percent for more than three years.⁶¹ Revenues from personal income taxes fell from \$1,073.6 million in FY 2008 to \$898.1 million in FY 2010—a decline of over 16 percent. Personal income tax revenues did not return to FY 2008 levels until FY 2013, five years later.⁶²

Sales and Use Taxes

Rhode Island imposes a sales and use tax of 7 percent on most purchased items. However, food, clothing, and medical items are generally exempt from sales taxation.⁶³ As a result of a 2018 U.S. Supreme Court decision and state legislation, Rhode Island now requires most remote sellers to collect and remit sales and use taxes on the sale of taxable items.⁶⁴ Sales taxes are generally less volatile than income taxes in times of economic contraction since consumption patterns are not commensurate with income.⁶⁵ In fact, during the Great Recession, sales tax revenues in Rhode Island declined less than 5 percent.⁶⁶ However, unlike the Great Recession, social distancing and shelter-in-place orders, along with the closure of nonessential businesses, have led to a sharp contraction in consumer spending. According to the Commerce Department, retail sales in the U.S. plummeted by 8.7 percent in March from the previous month, the largest decline on record.⁶⁷ The situation has almost certainly worsened since then, as most states did not close nonessential businesses until late March or early April.⁶⁸

Lottery

Lottery revenues account for 9.9 percent of general revenues in the State of Rhode Island. The November 2019 Revenue Estimating Conference projected that lottery revenues would account for \$337.1 million in FY 2020. Of that total, 78.4 percent was expected to be derived from video lottery terminals (VLTs), 15.1 percent from all games (which is composed of traditional lottery,

⁵⁹ U.S. Dept. of Labor, [Unemployment Insurance Program Letter No. 15-20](#); R.I. Gen. Laws, [§ 44-30-12](#).

⁶⁰ Stimulus payments of up to \$600 per individual, up to \$1,200 for joint taxpayers, and up to \$500 for dependent children are not subject to federal or state income taxation. The postponement of income tax filings to July 15 does not affect the timing of the revenues, which are accounted on an accrual basis, but will complicate the revenue estimate.

⁶¹ R.I. Dept. Labor and Training, Labor Market Information, [Historic Unemployment Rates \(Seasonally Adjusted\), 1976-Present](#).

⁶² Governor's Budget Proposals, [FY 2010-2015, Executive Summaries](#), Appendix A.

⁶³ R.I. Gen. Laws, [§ 44-18-30](#).

⁶⁴ R.I. Division of Taxation, [Advisory for remote sellers, marketplace facilitators, and referrers](#).

⁶⁵ Jared Walczak, "[State Strategies for Closing FY 2020 with a Balanced Budget](#)," Tax Foundation, April 2, 2020.

⁶⁶ Sales tax revenues in Rhode Island declined from \$844.2 million in FY 2008 to \$803.3 million in FY 2010.

⁶⁷ U.S. Dept. of Commerce, "[Advance Monthly Sales for Retail and Food Services, March 2020](#)," April 15, 2020.

⁶⁸ "[A retail report shows the biggest decline in sales in three decades](#)," *New York Times*, April 15, 2020.

such as scratch tickets, Keno, Powerball, and other ticket games), 4.0 percent from table games, and 2.5 percent from sports betting. Figure 3 outlines the estimated revenues determined at the November 2019 Revenue Estimating Conference.

At midnight on March 14, 2020, Rhode Island casinos closed indefinitely due to COVID-19.⁶⁹ With casinos closed, both VLT and table game revenues stopped, and sports betting revenues are expected to be significantly impacted.⁷⁰ Since casino revenues are expected to account for 84.9 percent of estimated lottery revenues, there is a potential monthly average shortfall of \$26.7 million in lottery revenues while casinos remain closed. Additionally, while non-casino lottery revenue sources such as Powerball and Keno continue, COVID-19 undoubtedly has impacted these games. Powerball has announced changes to minimum jackpots and jackpot increases, and other states have reported a decrease in lottery sales since the beginning of COVID-19 related shutdowns.⁷¹

Gas Taxes

Rhode Island currently imposes a tax of 35 cents per gallon on gasoline, which is estimated in the budget as enacted to generate \$163.4 million in FY 2020.⁷² Those funds are used almost entirely for transportation, with 20.25 cents per gallon dedicated to the Department of Transportation, 9.75 cents to the Rhode Island Public Transit Authority, and the remainder allocated to the Turnpike and Bridge Authority, elderly transportation, and the Underground Storage Tank Fund.⁷³ Gas taxes are restricted and are not general revenues under the state budget. However, declines in gas tax revenues directly affect funding for transportation activities.

Recent reports have estimated that, on a national basis, overall travel is down 38 percent compared to pre-crisis levels and personal travel has decreased by 44 percent. Trucking is also down, but not to the same degree, as many businesses remain open and still need inventory. Long haul trucking is down only 3 percent, but local trucking operations are down 14 percent. The American

Figure 3
Lottery Revenue FY 2020 Estimates
(\$ millions)

Lottery	FY 2020 Annual	Monthly Estimated Average
All Games	\$ 57.0	\$ 4.8
VLT	\$ 295.6	\$ 24.6
Table Games	\$ 15.1	\$ 1.3
Sports Betting	\$ 9.4	\$ 0.8
Total	\$ 377.1	\$ 31.4

Source: November 2019 Revenue Estimating Conference; RIPEC Calculations

⁶⁹ Jack Perry, "[R.I. casinos to stay closed indefinitely](#)," *Providence Journal*, March 27, 2020.

⁷⁰ Because sports betting is also legally allowed remotely there is still potential for sports betting revenues during the casino shutdown. However, with most sporting events cancelled or postponed, it is likely that these revenues will be greatly impacted. Additionally, only individuals who have already activated their sports betting application at a physical casino location are able to engage in sports betting at this time.

⁷¹ "[How COVID-19 Is Impacting Lottery Jackpots](#)," *Time Magazine*, March 26, 2020; Lianne Zanna, "[Lottery ticket sales drop during COVID-19 pandemic](#)," *WWLP News*, April 1, 2020.

⁷² The gas tax yield per cent is estimated at \$4.67 million in the FY 2020 enacted budget. R.I. House Fiscal Advisory Staff, [FY 2020 Budget Analysis: Section II Statewide Overview](#), 33.

⁷³ R.I. House Fiscal Advisory Staff, [FY 2021 Budget Analysis: Section III Agency Analyses](#), 375-376.

Association of State Highway and Transportation Officials has estimated a 30 percent drop in gas tax revenues based on preliminary projections from state transportation departments. As with other state revenue sources, the magnitude of lost revenues will depend on when social distancing and other restrictions are eased.⁷⁴

⁷⁴ Ulrik Boesen, "[Gas Tax Revenue to Decline as Traffic Drops 38 Percent](#)," Tax Foundation, March 31, 2020; Rick Schuman, "[INRIX U.S. National Traffic Volume Synopsis: Issue #2 \(March 21-27, 2020\)](#)," March 30, 2020; "[AASHTO Asks Congress For \\$50 Billion in COVID-19 Relief For State DOTs](#)," AASHTO News, April 8, 2020.

IV. Rhode Island’s Rainy Day Fund

Unlike the federal government, the State of Rhode Island cannot spend more than its available revenues. The Rhode Island State Constitution requires a balanced budget. In fact, under the Rhode Island Constitution, aggregate state general revenue appropriations in any given fiscal year may not exceed 97 percent of estimated state general revenues for such fiscal year.⁷⁵ Unless subsequent federal legislation provides additional funding assistance to states, it is likely that the FY 2020 budget will be substantially out of balance. Given that the crisis has hit near the end of the fiscal year, the state will likely have no choice but to use its so-called “rainy day” fund to make up for the shortfall.

Rhode Island’s rainy day fund was incorporated into the Rhode Island Constitution by amendments approved by the voters in 1992 and 2006.⁷⁶ Under the constitutional framework, the Budget Reserve Account is funded by the three percent of revenues remaining each fiscal year after appropriations totaling 97 percent of revenues.⁷⁷ The Reserve Account is capped at five percent of estimated general revenue, with any excess funds to be transferred each year to the Rhode Island Capital Plan Fund and used solely for capital projects.⁷⁸ The Capital Plan Fund has been used in recent years to directly fund capital projects and thereby lower borrowing needs. The Fund, which has expenditures of about \$100 million per year, is used primarily for asset protection and improvement of state buildings and facilities, including courts, prisons, hospitals, dams, piers, and office buildings. Importantly, about one quarter of the Capital Plan Fund has been dedicated each year as a source of state funding to match federal transportation funds.⁷⁹

Under the constitutional provision, revenues in the Budget Reserve Account “may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the state of Rhode Island or in the event of an unanticipated deficit in any given fiscal year.”⁸⁰ It appears that both of these conditions are met in the case of the current public health emergency.

The General Assembly has enacted statutory mechanisms relating to the rainy day fund and the Rhode Island Capital Plan fund. Under the statutory framework, if at any time after the third quarter of a fiscal year, it is indicated that total available general revenues, as projected at the last Revenue Estimating Conference, will be less than estimated appropriations for the fiscal year, the General Assembly may make appropriations from the rainy day fund to make up the difference.⁸¹ It is important to note that the statutory limitation that the transfer from the rainy day fund can be no

⁷⁵ R.I. Constitution, [Article IX](#), § 16(a).

⁷⁶ R.I. Constitution, [Article IX](#), § 16, 17.

⁷⁷ Rhode Island’s rainy day fund is actually not a separate fund, but rather an account within the general fund. R.I. Gen. Laws [§ 35-3-20\(a\)](#).

⁷⁸ R.I. Constitution, [Article IX](#), § 16.

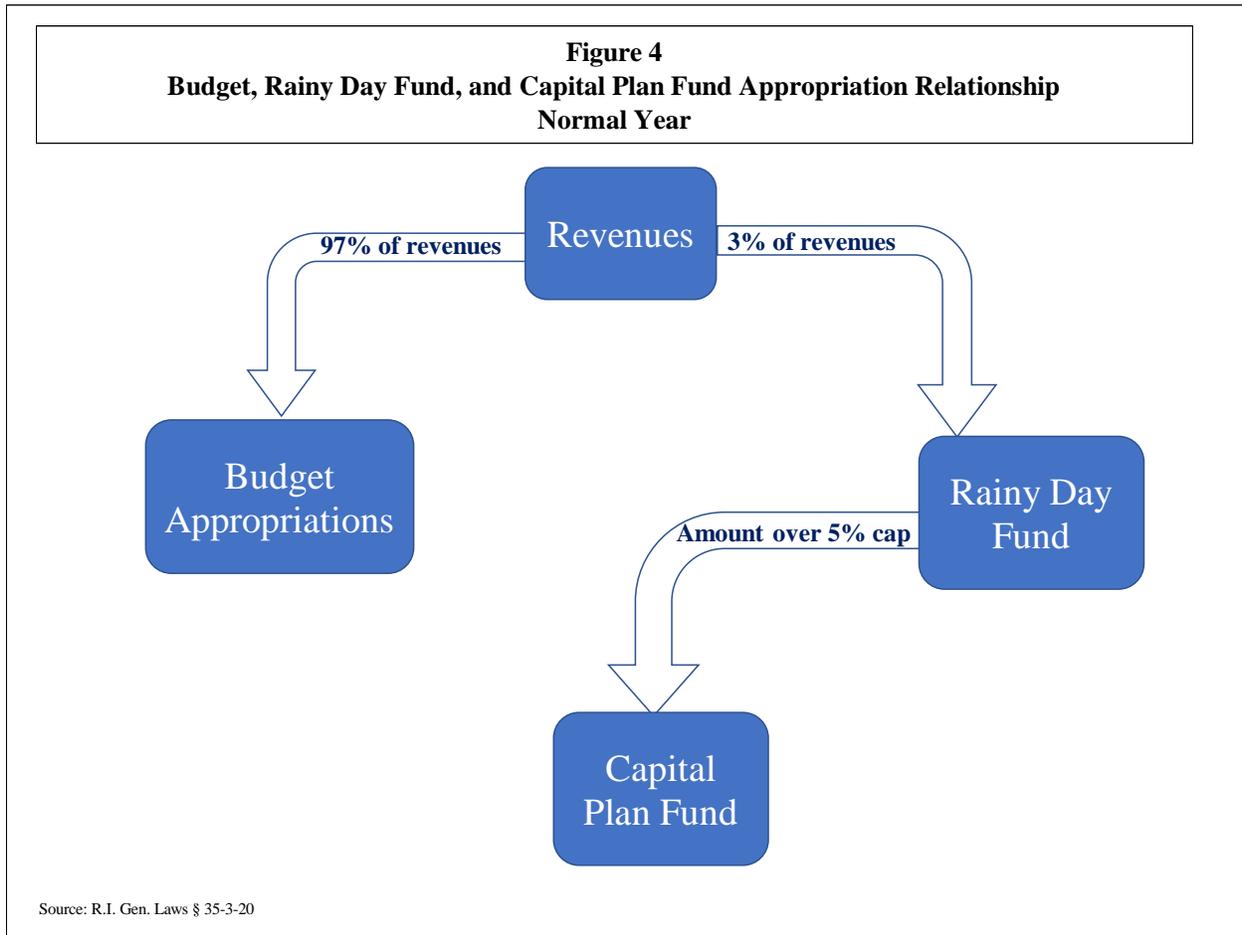
⁷⁹ R.I. House Fiscal Advisory Staff, [FY 2021 Budget Analysis: Section IV Capital Budget](#), 385-386.

⁸⁰ R.I. State Constitution [Article IX](#), § 17.

⁸¹ R.I. Gen. Laws [§ 35-3-20](#).

more than the difference between appropriations and revenues in the relevant fiscal year does not appear in the constitutional provision.⁸²

The interplay between the rainy day fund and the Rhode Island Capital Plan Fund complicates the ability to utilize transfers from the Reserve Account to cover an anticipated deficit in a fiscal year. Figure 4 illustrates how appropriations are made to the Capital Plan Fund in a typical year.



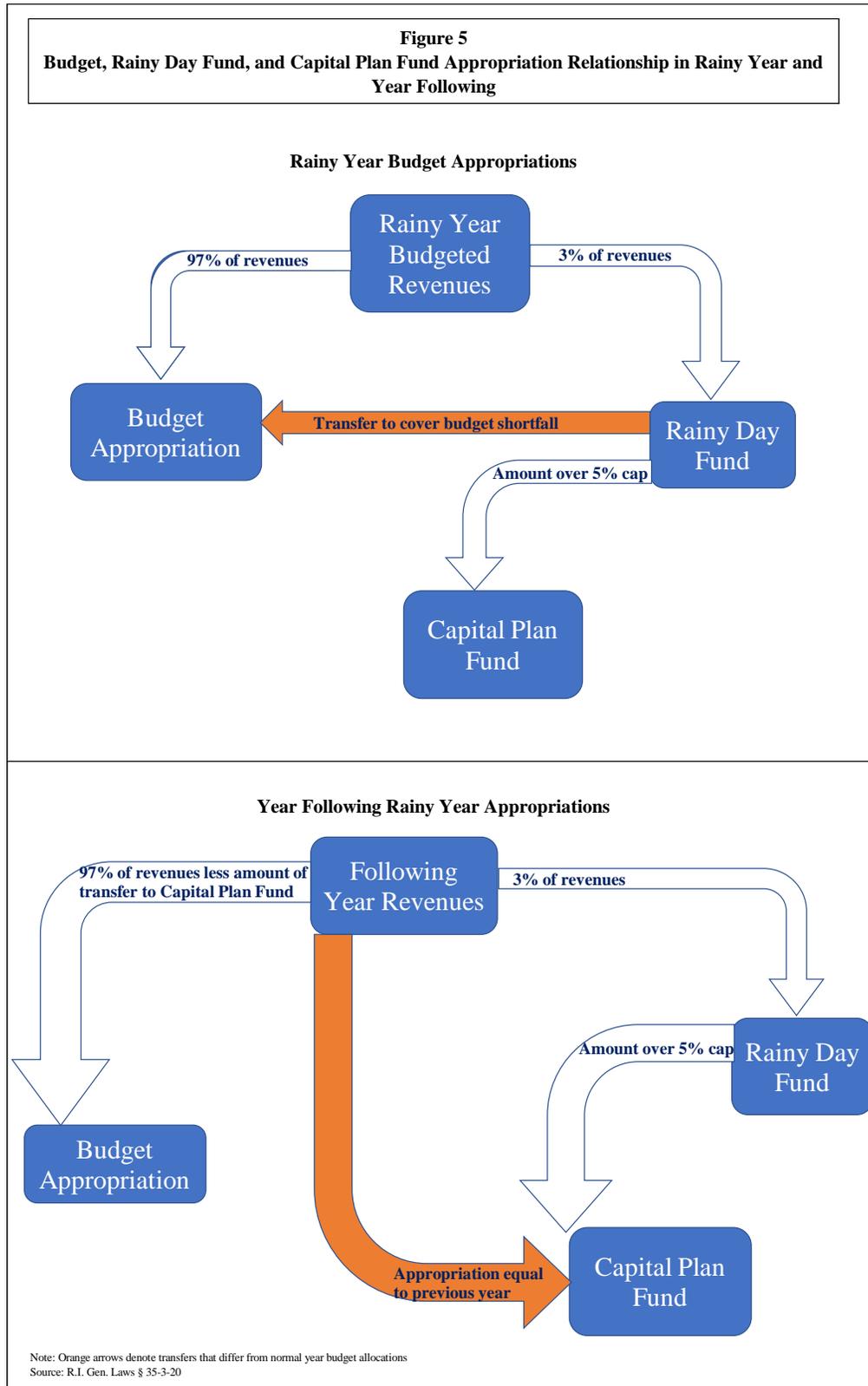
Under the statutory scheme, a transfer from the Budget Reserve Account does not affect the amount of funding to the Capital Plan Fund in that fiscal year.⁸³ However, the statute requires that this amount be made up in the following fiscal year by appropriating from the general fund to the Capital Plan Fund an amount equal to the rainy day fund transfer in the prior fiscal year.⁸⁴ Under the statutory scheme, in the fiscal year following a transfer from the rainy day fund, appropriations would be limited to 97 percent of available revenues *less* the amount required to be paid to the

⁸² The constitutional provision proscribes the purposes under which the rainy day may be used but does not limit the amount appropriated from the fund. [Article IX](#), § 17.

⁸³ “Whenever a transfer has been made . . . [from the budget reserve and cash stabilization account], that transfer shall be considered as estimated general revenues for purposes of determining the amount to be transferred to the Rhode Island Capital Fund.” R.I. Gen. Laws [§ 35-3-20](#).

⁸⁴ R.I. Gen. Laws [§ 35-3-20](#).

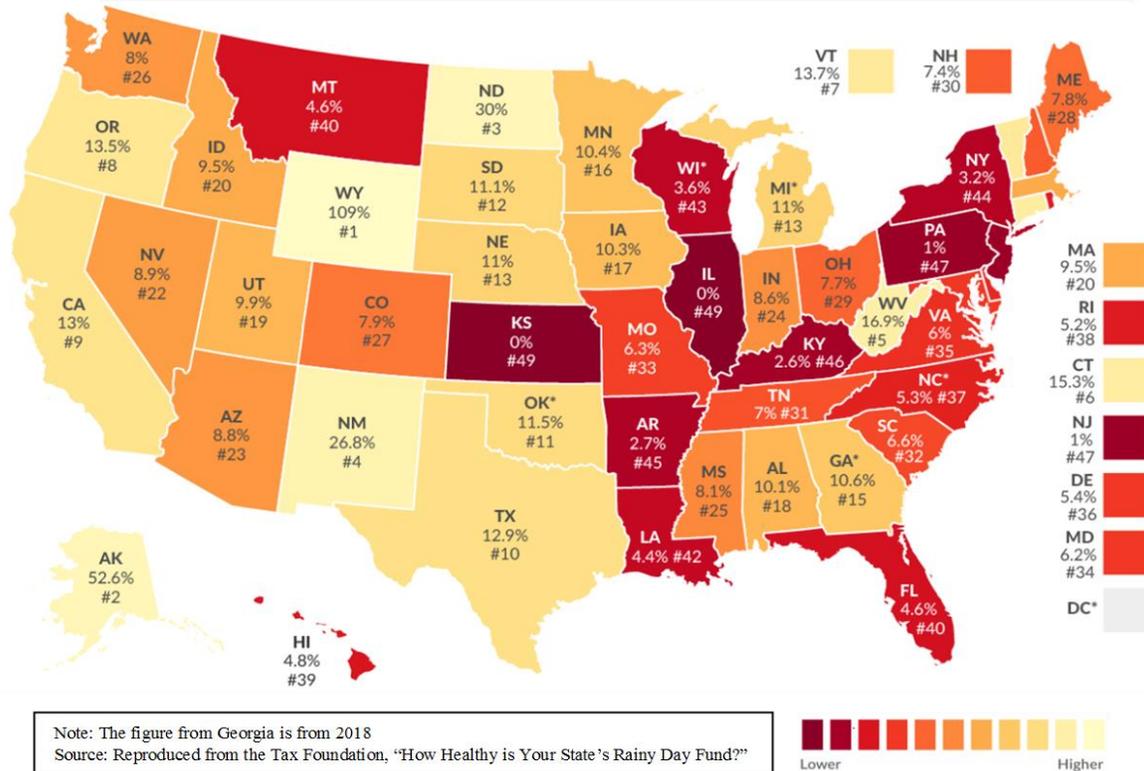
Capital Plan Fund to account for the rainy day fund transfer from the previous year. Figure 5 illustrates these transactions over two fiscal years in the case of a transfer from the rainy day fund.



Besides Rhode Island, only one other state, Wyoming, has a statutory provision requiring full repayment of the funds used in the fiscal year following a withdrawal. In total, only eight states have repayment provisions, and only four—including Wyoming and Rhode Island—require some amount of repayment in the following fiscal year. Texas mandates that any rainy day funds withdrawn must be repaid by August 31 of the next odd-numbered fiscal year, and Missouri requires full repayment within three fiscal years, with the first required repayment occurring the fiscal year after withdrawal.⁸⁵

The balance of Rhode Island’s rainy day fund was \$203.9 million at the end of FY 2019.⁸⁶ At five percent of revenues, Rhode Island’s rainy day fund is lower than the median state rainy day fund of eight percent.⁸⁷ Rhode Island ranks 38th among the states in terms of the percentage of its general fund expenditures in its rainy day fund. Illinois and Kansas rank last, with fewer than one percent of general fund expenditures in their rainy day funds, and Wyoming ranks first, with 109 percent. In the New England Region, Rhode Island has the smallest percentage of general funds in its rainy day fund. Connecticut has the largest reserves at 15.3 percent, while neighboring Massachusetts is at 9.5 percent.

Figure 6
Rainy Day Fund Balances as a Percentage of General Fund Expenditures



⁸⁵ The other states with repayment requirements are Alabama, Florida, New York, and South Carolina. Jared Walczak and Janelle Cammenga, “[State Rainy Day Funds and the COVID-19 Crisis](#),” Tax Foundation, April 7, 2020.

⁸⁶ Governor’s FY 2021 Budget Proposal, [Executive Summary](#), A-1.

⁸⁷ Jared Walczak, “[State Strategies for Closing FY 2020 with a Balanced Budget](#),” Tax Foundation, April 2, 2020.

Rhode Island’s rainy day fund has been utilized only once before, during the Great Recession. In order to close a deficit of \$42.9 million at the end of FY 2008, Governor Donald Carcieri recommended a transfer from the rainy day fund—which held a balance of \$103.1 million at the time—but the General Assembly declined.⁸⁸ During the following session, the General Assembly appropriated \$22 million from the rainy day fund to close a budget gap expected at the end of FY 2009. Even with this transfer, after closing the books on the fiscal year, the state ended FY 2009 with a deficit of \$62.3 million.⁸⁹

⁸⁸ At the time, the maximum for the rainy day fund was three percent. The five percent cap took effect on July 1, 2012. R.I. Gen. Laws [§ 35-3-20](#).

⁸⁹ The FY 2010 enacted budget included \$22 million to repay the Rhode Island Capital Plan Fund in connection with the prior transfer, but that repayment was delayed and was not made until FY 2011. Rhode Island Dept. of Administration, “[Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009](#),” 17; State of Rhode Official Statement, October 10, 2012, A-17.

V. Addressing the Fiscal Challenges

The State of Rhode Island's impending fiscal challenges depend on the longevity of the crisis and, to a large degree, on both the amount of federal assistance available and the state's ability to use such funding. The state has reported COVID-19 response costs through April 8 of \$92.7 million, an amount that will likely grow substantially as the crisis endures. Of the total expenditures, \$65.7 million were for ventilators and personal protective equipment.⁹⁰ It appears that the state is eligible for federal reimbursement for these COVID-19 response costs through the \$1.25 billion earmarked for Rhode Island under the CARES Act Relief Fund, or potentially from other funding earmarked for emergency response or health care expenditures. Since most, if not all, COVID-19 response costs will be eligible for federal reimbursement, and because the amount of the Relief Fund is relatively large in relation to the expected expenditures, these additional response costs are unlikely to have a significant impact on the budget, at least through December 31, 2020. Based on recently issued guidance from the U.S. Department of Treasury, the state also will be able to qualify for federal funding to pay for certain other secondary expenditures connected to the emergency, such as providing economic support to affected individuals and businesses.

Federal funds, however, cannot be used to directly offset the substantial state revenue losses expected to result from the COVID-19 crisis. Recent U.S. Treasury guidance has confirmed that the CARES Act Relief Fund may not be used to replace lost state revenue. While there is great uncertainty connected with the longevity of the crisis and restrictions on economic activities, in any case the state is expected to sustain a major decline in revenues in FY 2020 and 2021. Absent a major infusion of additional federal assistance, Rhode Island likely will need to utilize its rainy day fund to balance the budget in FY 2020. The rainy day fund transfer in FY 2020 could create added budget pressure in FY 2021 because the transfer would need to be made up through an appropriation from general revenues to the Rhode Island Capital Plan Fund under current state law. Even if this statutory requirement of paying the Capital Plan Fund to account for the prior year transfer is relaxed or deferred, there would remain a gap in available funding from the Capital Plan Fund for capital projects, since the Capital Fund receives its funding from the excess of the rainy day fund beyond 5 percent of revenues.

While there is great uncertainty as to nature and scope of Rhode Island's budget challenges, under any scenario policymakers will need to make important choices about how to use the limited federal and state funds available in order to best enable Rhode Island's economic recovery while enacting and executing balanced budgets. RIPEC recommends the following considerations to policymakers:

- **Maintain essential social services for those in need, particularly those most affected by the COVID-19 crisis.** Providing essential health care, food, housing, income support, and other social services to those in need during this national crisis and in its aftermath is a core function of government. The COVID-19 crisis has reordered the population of

⁹⁰ Rhode Island Office of Management and Budget, Press Release, Statewide COVID-19 Encumbrances (As of 4/8/2020).

Rhode Islanders in need and the nature of the services required. The state should maximize the use of federal funds made available for this purpose. Spending priorities of state funds will need to reflect unmet needs in this new environment.

- **Protect and advance the state's progress in becoming more competitive and productive.** Rhode Island has made progress over the last several years in improving its business climate and economy, but more needs to be done to strengthen Rhode Island's economic position. The state will need to protect this progress and continue advancing Rhode Island's economic growth and productivity. Consideration must be given to the long-term effect of short-term solutions.
- **Pursue investments aligned to support and accelerate economic recovery.** The state should utilize one-time federal and state funding to invest in initiatives in the short and long term that will best help businesses and workers to quickly recover and prosper. The COVID-19 pandemic may fundamentally change our economy in ways that are not yet fully known. Rhode Island needs to be prepared to invest to meet new challenges and exploit potential opportunities.