

Rhode Island's FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout

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

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I. Introduction

In Rhode Island, the economic fallout of the COVID-19 pandemic created a large shortfall of state revenues and a very challenging budget situation. General revenue projections were downgraded by the most recent Consensus Revenue Estimating Conference in May 2020 by a total of \$866.4 million as compared to November estimates, consisting of decreased revenues of \$280.9 million in the fiscal year ending June 30, 2020, and \$515.8 million in the next fiscal year, beginning on July 1, 2020.¹ On June 18, the General Assembly took the first step in addressing these revenue shortfalls by passing the “supplemental,” or revised, budget for the fiscal year ending June 30 (FY 2020).² However, the Assembly has postponed for now taking up the budget plan for the next fiscal year (FY 2021) for the express purpose of obtaining more certainty on the potential availability of funding from the federal government.

This report, “Rhode Island’s FY 2020 Supplemental Budget: The General Assembly Takes the First Step in Responding to Pandemic Fallout,” is the third in a series on the fiscal impact of the economic crisis caused by the COVID-19 pandemic. The first, “[The COVID-19 Economic Crisis: Federal Assistance and Rhode Island’s Budget](#),” analyzes the potential impact of the crisis on Rhode Island’s state budget in light of the considerable federal funding made available through legislation in March 2020. The second report in this series, “[The Impacts of the COVID-19 Crisis on Rhode Island’s Unemployment and Temporary Disability Programs](#),” explores the potential fiscal impact of the crisis on the state’s Unemployment and Temporary Disability Insurance programs and addresses how the fiscal health of both programs can considerably affect Rhode Islanders.

“Rhode Island’s FY 2020 Supplemental Budget” analyzes the enacted supplemental budget for FY 2020 with a focus on how the shortfall in general revenues has been addressed and how federal funding connected with the pandemic has been incorporated in the budget solution. The legal framework surrounding the supplemental budget is examined and key decisions relating to revenues and expenditures are highlighted. The report finally discusses how the enacted supplemental budget will affect the more challenging task ahead for the Assembly: devising a budget plan for FY 2021.

¹ R.I. Office of Management and Budget, [May 2020 Revenue Estimating Conference Report](#).

² R.I. General Assembly, [Legislative Status Report](#), 2020 – House Bill 7170 Substitute A as Amended. Governor Raimondo signed the legislation on June 24, 2020.

II. The Supplemental Budget

By law, the fiscal year for Rhode Island state government runs from July 1 through June 30.³ The General Assembly, most typically in June, adopts a spending plan for state government in the form of an appropriations act containing multiple articles. In those less frequent instances, as in the current year, when the Assembly fails to approve a budget before the beginning of the fiscal year, the state operates under spending allotments to agencies in the same amounts as appropriated in the previous fiscal year.⁴ Once the budget is enacted, the various departments of state government are required to report quarterly to the House and Senate with respect to expenditures to date, estimated expenditures through the end of the fiscal year, and whether a surplus or deficiency is anticipated.⁵

In January of each year, the governor submits to the General Assembly a budget plan of estimated revenues and proposed expenditures for the next fiscal year.⁶ Since the budget plan for the succeeding year necessarily depends on the operating balance at the end of the current fiscal year, the governor also submits proposed revised appropriations for the current fiscal year.⁷ This proposed set of revisions in the current year is often referred to as the supplemental budget.⁸

While the General Assembly at times has acted on the proposed supplemental budget early in the legislative session, more recently the supplemental budget for the current fiscal year has been enacted in June, at the same time that the budget for the upcoming fiscal year is enacted. When enacted in June, essentially at the end of the fiscal year, the supplemental budget is not so much a budget plan but a reconciliation of the spending that has already occurred, including any revisions to match expenditures to corresponding sources of revenue.

³ R.I. Gen. Laws [§ 35-2-1](#).

⁴ R.I. Gen. Laws [§ 35-3-19](#). This process typically is relatively straightforward but may be more problematic for FY 2021 given the large general revenue changes incorporated in the supplemental budget.

⁵ R.I. Gen. Laws [§ 35-3-17.1](#).

⁶ R.I. Gen. Laws [§ 35-3-7](#). During years in which a new government is inaugurated, the budget is submitted in February.

⁷ Listed among the contents for the governor's budget submission are financial statements of the "[e]stimated condition of the treasury at the end of the current fiscal year." R.I. Gen. Laws [§ 35-1-7\(a\)\(3\)\(ii\)](#).

⁸ This term may derive from R.I. Gen. Laws [§ 35-3-12](#), dating back to at least 1935: "[t]he governor, before final action by the general assembly, may offer a supplement to the budget and submit amendments in conformity therewith to the accompanying appropriation bill or bills."

III. The FY 2020 Supplemental Budget

In January 2020, the governor proposed revised expenditures for the FY 2020 budget totaling \$10.1 billion, \$91.1 million more than was enacted by the Assembly in June 2019.⁹ The governor’s revised FY 2020 budget recommended an increase of \$18.3 million over estimated general revenues.¹⁰ The increase was largely attributable to transfers from two quasi-public agencies, transfers of excess funds at the Department of Environmental Management, and the transfer of excess bond premium revenue. General revenue expenditures as proposed in the governor’s revised budget for FY 2020 were only \$8.7 million, or 0.2 percent, more than the FY 2020 budget as enacted. The governor’s proposed revised expenditures for FY 2020 included an increase of \$20.6 million for the Department of Children, Youth, and Families (DCYF), Medicaid savings of \$16.3 million, and various other smaller adjustments.¹¹

Incorporating the economic impact of the pandemic, the May Revenue Estimating Conference greatly changed the math for the FY 2020 budget. The general revenue shortfall of \$280.9 million determined by the Conference represents a decline of 6.7 percent from November estimated revenues. This shortfall was offset by reduced expenditures of \$43.5 million for medical assistance and cash assistance as determined by the Caseload Estimating Conference.¹² Given that the state’s estimated revenue shortfall arose with less than two months remaining in the fiscal year, nearly all expenditures in the FY 2020 budget had been already spent or committed, leaving limited options for closing the gap between revenues and expenditures.

The supplemental budget for FY 2020 departs greatly from the budget enacted by the General Assembly in June 2019 and from the governor’s proposed revised appropriations submitted in January 2020. As Figure 1 illustrates, the FY 2020 supplemental budget authorized total expenditures from all sources of \$11.8 billion, which is \$1.8 billion, or 18.0 percent more than the enacted budget of \$10.0 billion.

Figure 1
FY 2020 Budget Fund Sources, Enacted vs. Supplemental
(\$ millions)

	Enacted	Supplemental	Difference
General Revenue	\$ 4,077.6	\$ 3,958.7	\$ (118.9)
Federal Aid	3,325.4	4,840.3	1,514.9
Restricted Receipts	311.4	365.2	53.8
Other	2,256.3	2,629.4	373.1
Total	\$ 9,970.6	\$ 11,793.5	\$ 1,822.9

Source: House Fiscal Advisory Staff, "FY 2020 Revised Budget 2020-H 7170, Substitute A as Recommended by the House Finance Committee; RIPEC calculations

⁹ R.I. House Fiscal Advisory Staff Report, [FY 2021 Budget Analysis](#), 507.

¹⁰ R.I. Office of Management and Budget, Governor’s FY 2021 Budget Proposal, [Executive Summary](#). General revenues receive the most attention in the budget because they are the fund source to which most general tax receipts are credited and they can be used for any purpose. Federal funds, restricted receipts, and other funds, by contrast, are typically dedicated for specific purposes.

¹¹ R.I. Office of Management and Budget, Governor’s FY 2021 Budget Proposal, [Executive Summary](#).

¹² [R.I. Caseload Estimating Conference Report, May 18, 2020](#). In combination with the Revenue Estimating Conference, the same principals convene a Caseload Estimating Conference in May and November every year to determine estimates of anticipated medical assistance and public assistance caseloads. R.I. Gen. Laws [§ 35-17-1](#).

This large increase in total spending is somewhat misleading since nearly \$1.4 billion consists of additional federally funded unemployment insurance benefits paid to Rhode Islanders in connection with the pandemic. The supplemental budget also includes approximately \$200 million in additional direct expenditures for the COVID-19 response, all of which are funded by the federal government. COVID-19 response expenditures include \$130.0 million to the Rhode Island Emergency Management Agency, primarily for personal protective equipment, \$40.0 million to the Department of Administration, primarily for construction of alternate hospitals and lease expenses, and \$30.8 million to the Department of Health for medical laboratory supplies and other expenses.¹³

The supplemental budget for FY 2020 contains general revenue expenditures totaling \$3.96 billion, \$127.6 million less than the governor recommended and \$118.9 million, or 2.9 percent, less than the enacted budget. This reduction in expenditures is also somewhat misleading. For the most part, the reduction in general revenue expenditures does not reflect reduced spending, but rather a change in the source of funding from general revenue to federal funding from the Coronavirus Relief Fund. Of the \$118.9 million in general revenue expenditure reductions from the enacted budget, \$97.3 million are the result of swaps that replace general revenue funding with federal funding. As delineated in the supplemental budget, savings realized through constraints on hiring and spending have been largely negated by overspending at Eleanor Slater Hospital, DCYF, and in other areas.

As listed in Figure 2, the FY 2020 supplemental budget relies on a combination of four budgeting mechanisms to solve the deficit resulting from a shortfall of general revenues: 1) a transfer from the rainy day fund to the general fund, 2) “swapping” general fund sources for certain expenditures with federal sources, 3) “scooping” from state funds and quasi-public agencies for the general fund, and 4) savings from adjusting for net changes in expenditures. Each of these budgeting mechanisms is discussed below.

Rainy Day Fund Transfer

Better known as the rainy day fund, Rhode Island’s Budget Reserve Account was established under the Rhode Island Constitution and is funded by three percent of revenues annually.¹⁴ The Reserve Account is capped at five percent of estimated general revenues and any excess funds are transferred each year to the Rhode Island Capital Plan Fund to be used solely for capital projects. The Capital Plan Fund, which has expenditures of about \$125 million per year, is used primarily

Figure 2
Supplemental Budget Balancing Mechanisms (\$ millions)

Budget Mechanism	Amount
Rainy Day Fund Transfer	\$ 120.0
Federal Funding Replacement of State Funding (Swaps)	\$ 97.3
Fund Transfers (Scoops)	\$ 24.9
Spending Adjustments	\$ 6.5

Source: Presentation to House Finance Committee on 2020 H-7170 Substitute A, June 16, 2020

¹³ R.I. House Fiscal Advisory Staff, [FY 2020 Revised Budget](#).

¹⁴ Annual appropriations are limited constitutionally to 97 percent of revenues. R.I. Constitution, [Article IX](#), § 16.

for asset protection and improvements of state buildings and facilities.¹⁵ Importantly, about one quarter of the Capital Plan Fund has been dedicated each year for state funding to match federal transportation funds.¹⁶ 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.”¹⁷

Both conditions for a rainy day fund transfer having been satisfied by the current situation, the supplemental budget enacted by the General Assembly relies on a transfer of \$120 million from the rainy day fund. Given that the estimated total amount of the rainy day fund is \$197.6 million, the transfer would leave a remaining balance in the rainy day fund of \$77.6 million.¹⁸ By statute, the amount of the transfer is required to be made up in the following fiscal year by appropriating from the general fund to the Capital Plan Fund an amount equal to the transfer in the prior fiscal year.¹⁹ This statutory requirement imposes severe spending constraints on the budget for the fiscal year following a rainy day fund transfer since the appropriations for such year would be limited to 97 percent of available revenues *less* the amount required to be paid into the Capital Plan Fund to account for the rainy day fund transfer from the previous year.

While the statutory requirement of paying to the Capital Plan to account for the prior year transfer can be deferred, there would remain a gap in available funding from the Capital Plan Fund for capital projects. Figure 3 illustrates the impact on the Capital Plan Fund in FY 2021 if the statutory requirement is deferred. Based on estimated general revenues for FY 2021 of \$3.7 billion, \$111.8 million would be transferred to the rainy day fund.²⁰ Aside from some carryforward

Figure 3
Rainy Day Fund Balances & Transfers (\$
Millions) FY 2020 - FY 2021

	FY 2020	FY 2021
Balance Forward	\$ 203.9	\$ 77.6
Plus 3% Estimated	118.6	111.8
Initial Balance	\$ 322.5	\$ 189.4
Maximum Balance (5%)	\$ 197.6	\$ 186.3
Transfer to RICAP	(124.9)	(3.1)
Withdrawals	(120.0)	-
Balance	\$ 77.6	\$ 186.3

Note: RICAP is the Rhode Island Capital Plan Fund
Source: House Fiscal 2020 H-7170 Substitute A, Staff
Presentation; HB 7170 SUB Aaa; RIPEC calculations

¹⁵ The governor’s five-year plan for the Capital Plan Fund totals \$644.4 million from FY 2021 through FY 2025. R.I. Office of Management and Budget, Governor’s FY 2021 Budget Proposal, [Capital Budget](#).

¹⁶ R.I. House Fiscal Advisory Staff, FY 2021 Budget Analysis: [Section IV Capital Budget](#), 385-386.

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

¹⁸ R.I. House Fiscal Advisory Staff, [FY 2020 Revised Budget](#), 273.

¹⁹ R.I. Gen. Laws [§ 35-3-20](#).

²⁰ The governor’s proposed FY 2021 budget includes general revenues of \$4.36 billion, \$120 million greater than the \$4.24 billion in estimated revenues determined at the November Estimating Conference. To the extent such additional revenue proposals are adopted by the Assembly, rainy day fund calculations could change to some degree. R.I. Office of Management and Budget, Governor’s FY 2021 Budget Proposal, [Executive Summary](#).

funding anticipated from unused Capital Plan Fund expenditures in FY 2020, only \$3.1 million in excess funds above the five percent cap would be newly available in FY 2021 for the Capital Plan Fund. Anticipating funding unavailability in the Capital Plan Fund, the supplemental budget repeals all amounts appropriated for Capital Plan projects for fiscal years FY 2021 through FY 2024, except for about \$6.8 million in projects for FY 2021, to the extent funds are available.²¹

Federal Funds Replace State Funding

Utilizing flexibility under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act, the supplemental budget uses \$97.3 million of Rhode Island’s allocation of Coronavirus Relief Funds to cover \$97.3 million in expenditures in FY 2020 that were initially to be funded by state general revenues. Of this amount, \$34.7 million consists of federal funds used to pay for state personnel utilized to respond to the pandemic. Under U.S. Treasury Guidance, Coronavirus Relief Funds can be used for payroll 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.”²² Of the \$34.7 million in swaps for payroll, \$24.2 million is for public safety employees, \$6.2 million is for employees in public health, and \$4.3 million is allocated to employees in other agencies.²³

Over half of the swaps used to solve the budget gap relate to education spending, with federal funds used to replace \$41.7 million in elementary and secondary education spending and \$15.0 million in higher education expenses. With respect to elementary and secondary education, the swap amount of \$41.7 million corresponds to the amount of education stabilization funds received in total by local education agencies under the CARES Act.²⁴ The supplemental budget essentially reduced general revenue funding in the same amounts for each school district and charter school as those additional amounts received by such local education agencies in educational funds under the CARES Act.²⁵ The swap of \$15.0 million for higher education represents a reduction in general revenue funding out of \$29.5 million received by the three institutions of higher education under the CARES Act. Maintenance of effort requirements under the CARES Act prescribed that the maximum reduction for higher education for FY 2020 is \$15.9 million.²⁶ Importantly, institutions of higher education are required to use no less than 50 percent of educational funds received under the CARES Act to provide emergency financial aid grants to students for expenses related to the disruption of campus operations due to the coronavirus.²⁷

²¹ R.I. General Assembly, [2020 – House Bill 7170 Substitute A as Amended](#).

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

²³ R.I. House Fiscal Advisory Staff Presentation to House Finance Committee on [2020 H-7170 Substitute A](#), June 16, 2020.

²⁴ Local education agencies are public authorities within states that maintain at least one elementary or secondary education institution. They include municipal school districts, regional school districts, and charter schools.

²⁵ The reduction in K-12 funding does not implicate maintenance of effort limitations under state law, which require municipalities to annually provide at least level funding per pupil. R.I. Gen. Laws, [§ 16-7-23](#).

²⁶ R.I. House Fiscal Advisory Staff Presentation to House Finance Committee on [2020 H-7170 Substitute A](#), June 16, 2020; R.I. Gen. Laws, [§ 16-7-23](#).

²⁷ CARES Act, [Section 18004](#).

While not part of solving the budget gap, the supplemental budget also appropriated \$50.0 million of the state's Coronavirus Relief Fund allocation to local education agencies. In distributing these funds, the General Assembly relied on the proportion of Title I-A students in each local education agency, which reflects the formula used in the CARES Act, rather than Rhode Island's school funding formula. It is important to note that, unlike educational stabilization funds, which have few spending constraints, local education agencies can spend their Relief Fund allocations only for expenditures incurred due to the COVID-19 pandemic from March 1 through December 30, 2020.²⁸

Fund Transfers

The FY 2020 supplemental budget also increased revenues by \$24.9 million through transfers from quasi-public state agencies and other funds. The enacted FY 2020 budget included \$31.2 million in agency and other transfers.²⁹ The supplemental budget left those transfers unchanged and increased the transfer from the Infrastructure Bank by \$17.8 million, from \$4.0 million in the enacted budget to \$21.8 million.³⁰ The transfer from the Infrastructure Bank corresponds to bond premiums on proceeds from the issuance of general obligation and tobacco bonds. The supplemental budget also includes the transfer of \$5.0 million in funds previously appropriated for the Rebuild Rhode Island Tax Credit program.³¹

Agency Adjustments

Based on the enhanced federal matching rate for Medicaid under the Families First Coronavirus Response Act, general revenue expenditures for Medicaid were reduced by \$66.8 million in the supplemental budget across various agencies.³² The supplemental budget also eliminates the \$10.0 million appropriation included in the FY 2020 enacted budget for the Rebuild Rhode Island Fund and incorporates savings in various line items throughout state government. Some of these savings were identified in the governor's proposed revised appropriations in January and some result from restrictions on spending imposed by the administration or from constraints on state services connected with the pandemic.

The supplemental budget resolved certain agency overspending items, most notably a deficit of \$63.4 million related to federal compliance and billing issues at Eleanor Slater Hospital. The deficit resulted from a failure to comply with Medicaid funding rules that disallow funding for facilities that have more psychiatric patients than medical patients. An additional issue has arisen

²⁸ CARES Act, [Section 5001\(a\)](#).

²⁹ The enacted budget included transfers of \$1.5 million from Rhode Island Housing, \$4.0 million from the Infrastructure Bank, \$1.5 million from the Student Loan Authority, and \$1.2 million from the Quonset Development Corporation, as well as \$5.0 million in other transfers.

³⁰ In the revised budget submitted in January, the governor proposed increasing the transfer from the Infrastructure Bank to \$12.9 million.

³¹ R.I. General Assembly, [2020 – House Bill 7170 Substitute A as Amended](#).

³² [Families First Coronavirus Response Act](#), Section 6008; R.I. Senate Fiscal Office Report, [FY 2020 Supplemental Budget](#), June 16, 2020.

as to the Medicaid eligibility of forensic patients. Finally, there is a question as to whether the level of care provided at Eleanor Slater Hospital for certain patients meets the standard for hospital level reimbursement under Medicaid.³³ The supplemental budget also includes additional funding to address a deficit of \$11.7 million at DCYF.³⁴

Figure 4 contains general revenue expenditure changes for each agency in relation to the enacted budget.

³³ R. I. House Fiscal Advisory Staff Presentation to House Finance Committee on [2020 H-7170 Substitute A](#), June 16, 2020.

³⁴ The governor's proposed revised budget included a projected deficit of \$20.5 million for DCYF, but the final deficit in the supplemental budget was smaller at \$11.7 million. Ibid.

Figure 4
FY 2020 Agency Expenditures from General Revenues, Enacted to Supplemental Difference

	FY 2020		Difference
	Enacted	Supplemental	
General Government			
Administration	\$ 206,638,425	\$ 194,616,242	\$ (12,022,183)
Business Regulation	17,896,681	16,951,991	(944,690)
Executive Office of Commerce	28,181,129	17,675,827	(10,505,302)
Labor and Training	14,679,932	14,113,689	(566,243)
Revenue	216,254,237	211,526,687	(4,727,550)
Legislature	43,804,101	43,804,101	-
Lieutenant Governor	1,147,816	1,150,903	3,087
Secretary of State	9,533,255	9,311,397	(221,858)
General Treasurer	3,037,551	2,965,993	(71,558)
Board of Elections	2,748,855	2,802,636	53,781
Rhode Island Ethics Commission	1,845,298	1,848,405	3,107
Governor's Office	6,093,211	5,507,308	(585,903)
Human Rights	1,353,591	1,297,046	(56,545)
Public Utilities Commission	-	-	-
Subtotal - General Government	\$ 553,214,082	\$ 523,572,225	\$ (29,641,857)
Human Services			
Health and Human Services	\$ 1,002,282,411	\$ 947,579,577	\$ (54,702,834)
Children, Youth and Families	165,124,585	176,775,082	11,650,497
Health	30,968,921	23,130,443	(7,838,478)
Human Services	92,178,627	91,304,952	(873,675)
BHDDH	196,381,240	248,920,154	52,538,914
Child Advocate	986,701	870,221	(116,480)
Deaf and Hard of Hearing	533,338	494,519	(38,819)
Commission on Disabilities	1,055,069	1,075,665	20,596
Mental Health Advocate	602,411	627,051	24,640
Subtotal - Human Services	\$ 1,490,113,303	\$ 1,490,777,664	\$ 664,361
Education			
Elementary and Secondary	\$ 1,239,252,258	\$ 1,195,622,855	\$ (43,629,403)
Higher Education	243,650,858	231,755,260	(11,895,598)
Arts Council	2,004,748	2,002,857	(1,891)
Atomic Energy	1,059,094	1,055,815	(3,279)
Historical Preservation	1,488,293	1,621,528	133,235
Subtotal - Education	\$ 1,487,455,251	\$ 1,432,058,315	\$ (55,396,936)
Public Safety			
Attorney General	\$ 28,675,203	\$ 28,635,863	\$ (39,340)
Corrections	242,088,059	235,486,945	(6,601,114)
Judicial	105,213,960	103,818,280	(1,395,680)
Military Staff	3,219,493	2,267,625	(951,868)
Emergency Management	2,364,647	2,307,118	(57,529)
Public Safety	105,918,952	81,334,304	(24,584,648)
Public Defender	12,824,871	12,649,755	(175,116)
Subtotal - Public Safety	\$ 500,305,185	\$ 466,499,890	\$ (33,805,295)
Natural Resources			
Environmental Management	\$ 43,623,975	\$ 42,934,315	\$ (689,660)
CRMC	2,883,195	2,871,930	(11,265)
Subtotal - Natural Resources	\$ 46,507,170	\$ 45,806,245	\$ (700,925)
Transportation			
Transportation	\$ -	\$ -	\$ -
Subtotal - Transportation	\$ -	\$ -	\$ -
Total	\$ 4,077,594,991	\$ 3,958,714,339	\$ (118,880,652)

Source: House Fiscal Advisory Staff, "FY 2020 Revised Budget 2020-H 7170, Substitute A As Recommended by the House Finance Committee; RIPEC calculations

IV. Conclusion

Due to the coronavirus pandemic, the supplemental budget for FY 2020 departs greatly from the budget enacted by the General Assembly in June 2019 and from the governor's proposed revised appropriations submitted in January 2020 by increasing total spending by \$1.8 billion (18.0 percent) over the enacted budget of \$10.0 billion. This increase in spending is primarily attributable to large enhancements in federal funding to state-run programs like unemployment insurance and to pay for COVID-19 response costs unanticipated when the FY 2020 budget was enacted.

Likewise, apparent revenue reductions in the supplemental budget as compared to the enacted budget are, in good part, the product of federal funds rather than reduced spending. Indeed, of \$118.9 million in general revenue expenditure reductions, \$97.3 million are attributable to federal funding swaps. The state did achieve some modest general revenue savings through hiring and spending constraints, but those were largely neutralized by overspending in other areas, particularly at Eleanor Slater Hospital and DCYF. It is important to recognize that the swap of federal funding for general revenue funding is a one-time mechanism that cannot be relied upon to fund future spending.

The transfer of \$120 million from the rainy day fund leaves a balance of \$77.6 million to potentially help solve the budget gap in FY 2021. In addition, as part of the FY 2021 budget plan, three percent of revenues, or \$111.8 million, will be added to the rainy day fund, bringing the balance of the fund to \$189.4 million. However, by statute, the rainy day fund is not available to balance the budget initially; the fund can be used only in the case of a deficit after the third quarter in a fiscal year.³⁵ Of course, the General Assembly could override this provision; there is no constitutional limitation on using the rainy day fund to fill the budget gap in FY 2021.³⁶

The impact of the rainy day fund transfer on the Rhode Island Capital Plan Fund is more problematic. Assuming the Assembly defers the statutory requirement to refund the Capital Plan Fund in FY 2021, there would be limited funding available in FY 2021 from the Capital Plan Fund for capital projects. While many capital projects can be postponed, certain expenditures for necessary repairs funded through asset protection and the state match for federal transportation funding will need to be funded through other sources. This shortfall in funding for the Capital Plan will be compounded if additional transfers from the rainy day fund are used to resolve the FY 2021 budget gap, leaving a potential shortfall in funding for Capital Plan projects in FY 2022.

In passing the FY 2020 supplemental budget, Rhode Island's General Assembly has presented a balanced budget and tackled the first major step in responding to the fiscal fallout to accompany

³⁵ R.I. Gen. Laws [§ 35-3-20](#).

³⁶ 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." [R.I. State Constitution](#), § 17.

the COVID-19 pandemic. There is a larger challenge looking forward, however. The May Revenue Estimating Conference projected \$515.8 million less in general revenues for FY 2021 than was estimated in November, nearly twice the revenue shortfall determined for FY 2020. While it is anticipated that the FY 2021 budget will include even greater federally funded spending related to the pandemic than the supplemental budget, policymakers will nevertheless face a significant challenge in balancing next year's budget due to large revenue shortfalls, limitations on Capital Plan funding, and certain persistent overspending issues revealed in the supplemental budget. However, the pandemic and its economic fallout also present an opportunity for policymakers to move beyond the practice of filling budget gaps and instead begin the difficult but essential process of restructuring state finances with the goal of sustainability for FY 2021 and beyond.