Testimony Regarding H-8119 and H-8120, Relating to Rhode Island's "Rainy Day Fund"
House Finance Committee
July 29, 2020

Although a strong "Rainy Day Fund" remains essential for Rhode Island's fiscal health as the state faces crises such as that brought about by COVID-19, and although the state's Budget Reserve and Cash Stabilization Account ought to be enlarged, now is not the appropriate time to begin setting aside additional General Revenue funds for this purpose.

So long as the current crisis continues and until there is substantial economic recovery and increased state revenue, Rhode Island should not increase the monies set aside for the next rainy day. H-8120 proposes a gradual increase, but even FY2022 is almost certainly too soon to begin. Under current law, 3% of General Revenue is set aside each year for the Rainy Day Fund. H-8120 calls for increasing this withhold to 5%, in annual increments of 0.2%. On $4B in General Revenue, 3% equals $120M set aside each year.[1] Each additional 0.2% would mean an additional $8M withheld each year, as shown in the table.

Fiscal Year	Additional Amount to be Withheld	Cumulative Additional Amount Withheld
FY2022	$8M	$8M
FY2023	$16M	$24M
FY2024	$24M	$48M
FY2025	$32M	$80M
FY2026	$40M	$120M
FY2027	$48M	$168M
FY2028	$56M	$224M
FY2029	$64M	$288M
FY2030	$72M	$360M
FY2031	$80M	$440M

These numbers suppose a static budget, yet revenue and budgets are likely to increase. Regardless, the proposed legislation would take close to a half-billion dollars of revenue out of the regular budget and appropriations process, including tens of millions of dollars before Rhode Island has fully emerged from the current economic crisis. These funds are urgently needed for critical public services, including housing, healthcare, workforce development, and transportation. In better times, the state can start putting aside additional funds; there is no good reason to mandate this right now. The truth is that by the end of FY2021, Rhode Island's Rainy Day Fund will already be close to the current 5% cap, so the next fiscal year is not the best time to start in on this plan.[2]

Finally, before modifying the state's Constitution, additional study ought to be given to designing the most effective Rainy Day Fund.

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[1] Admittedly, $4B is an optimistic figure given the May 2020 Revenue Estimating Conference estimation of $3.73B for FY2021, yet the November Conference had envisioned $4.24B, and presumably the recovery will bring General Revenue to $4B and above in the coming years, as the economic recovery gains strength. Plus, $4B provides a nice round number.

[2] The fund will be close to the cap, because in FY2020, the General Assembly withdrew $120M, leaving approximately $77.6M in the fund, and in FY2021, 3% of revenue will be set aside as per usual, an estimated $111.9M. Unless the General Assembly needs to make another withdrawal from the Rainy Day Fund in FY2021, the fund should begin FY2022 at or close to the 5% cap.