Analyses

Each year by law, the governor’s budget proposal includes five-year projections of general fund revenue and spending.4 This long-term budget assessment, the “Five-Year Financial Projection,” also compares the revenue and spending figures to forecast future surpluses or, more often given Rhode Island’s fiscal challenges, deficits.5

The written narrative that accompanies these numbers discusses how fast the state’s major general fund revenue sources and spending categories are expected to grow and why. The January 2023 edition of the “Five-Year Financial Projection” noted that a planned federal ban on menthol cigarettes would likely negatively affect
cigarette tax revenue and that future Medicaid enrollment was a source of “significant uncertainty.” The analysis also includes a “risks” section focused mainly on describing economic threats such as a potential looming recession and high inflation.

Once the state enacts a budget, the Rhode Island House of Representatives’ Fiscal Advisory Staff revises the multiyear surplus or deficit projections by accounting for the effects of legislation the state has adopted and using updated revenue and caseload forecasts.

Policy impact

The “Five-Year FinancialProjection” has often been an afterthought in the development of Rhode Island’s executive budget proposal. The Office of Management and Budget (OMB) developed the five-year plans after the rest of the budget proposal was drafted—too late to have an impact. But that changed for the fiscal year 2024 budget, when the office produced preliminary versions of the projections at the outset of the budget development process. The governor then used the projections to help determine what policies the state could afford, notably proposing only a small sales tax cut to avoid exacerbating Rhode Island’s structural imbalance.

Next steps

Rhode Island could enhance the “Five-Year Financial Projection” to help develop a plan for eliminating future deficits by including policy options for achieving or maintaining structural balance.

The state could also begin producing budget stress tests. Candidates to perform this analysis include the OMB, the Office of Revenue Analysis, and Rhode Island’s Revenue Estimating Conference; the conference already considers pessimistic scenarios internally from time to time.
Endnotes


5 Rhode Island Office of Management and Budget, “Fiscal Year 2024 Budget Proposal,” Executive Summary, Appendix B.

6 Ibid., B-2, B-6.

7 Ibid., B-9-B-10.


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