

# RIPEC

# NEWS RELEASE

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## **General Assembly to Further Limit State Spending Through Constitutional Amendment**

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RIPEC commends the General Assembly for proposing a Constitutional Amendment to further limit State spending and to enhance the State's Budget Reserve Fund.

The proposal would limit State spending to 97% of the estimated revenues from all sources, with the balance to be deposited into a budget reserve account that can total no more than 5.0%. In the event that the payment made to the budget reserve account would increase the amount beyond 5.0%, the excess is then transferred to the Rhode Island Capital Fund for the funding of capital projects only – not debt service as currently permitted. If approved by the voters, it would take effect in FY 2013. This will provide sufficient time to shift current budgeting practices to meet this higher standard of fiscal discipline.

Enhancing the Budget Reserve Fund to 5.0% and focusing the Capital Fund for capital improvements only were fundamental components of recent legislation submitted by the Affordable Rhode Island Coalition, which RIPEC is an active member.

The Constitution currently limits spending to 98% of the estimated revenues from all sources, including unencumbered general revenues to the new fiscal year remaining at the end of the previous fiscal year. The balance is deposited into a budget reserve account that can total no more than 3.0%. In the event that the payment made to the budget reserve account would increase the amount beyond 3.0%, the excess is then transferred to the Rhode Island Capital Fund where the funds can be used for the reduction of state indebtedness, the payment of debt service or the funding of capital projects.

There are a number of limitations to current practice. First, a 3.0% budget reserve represents insufficient funding should the State require an emergency infusion of resources. Second, financing an increasing amount of debt service each year through the Capital Reserve Fund makes it increasingly difficult to access the budget reserve fund without jeopardizing the State's need to meet its debt obligations.

From FY 1997 to FY 2007 a total of \$534.9 million has been spent from the Rhode Island Capital Fund, of which \$296.0 million (55.3%) was used to support debt service. Approximately 60% of the Capital Fund in FY 2007 is now used to service debt rather than to finance pay-as-you-go capital projects. As more of the Capital Fund is used to service debt rather than for pay-as-you-go capital projects, the State foregoes a unique opportunity to invest in and maintain its public assets and infrastructure. Because of the increased use of the Fund for debt service, the State has had to forego a number of critical capital improvement projects that would add real value and extend the life of key State assets.