



RIPEC

How Rhode Island Compares State and Local Revenues and Expenditures

Executive Summary February 2022

In annually crafting their budgets, state and local governments make a series of policy choices as to how revenues will be raised and spent. Comparisons among state and local governments with respect to tax policy can provide valuable insight for policymakers given the regional and national competition among states for investment and growth. Similarly, comparing government spending can highlight policy priorities and reveal areas for potential efficiencies. This information can be particularly useful as state and local governments in Rhode Island determine how best to invest large and unprecedented allocations of federal pandemic relief funds.

This report uses the most recent available state and local revenue and expenditure data compiled by the U.S. Census Bureau—for fiscal year (FY) 2019—to compare Rhode Island’s revenue collections and spending to both the United States and the New England region on a per capita basis and per \$1,000 of personal income. The report additionally gives historical perspective for Rhode Island by comparing data from FY 2014 and FY 2019. The very large disbursement of federal pandemic relief funds to state and local governments across the country began in FY 2020, and therefore does not impact the revenue and expenditure trends explored in this report.

Highlights in this report include:

- Regarding **total state and local revenues**, Rhode Island was somewhat high compared to other states (ranked 18th highest per capita), but middling in the New England region (fourth highest per capita and third highest per income) in FY 2019. From FY 2014 to FY 2019, total revenues in the Ocean State grew by 8.8 percent, an average annual increase of 1.8 percent. On both a per capita and personal income basis, Rhode Island’s total revenues grew more slowly than those of the U.S. in this period.
- In FY 2019, Rhode Island’s **total state and local expenditures** ranked 13th highest of U.S. states in per capita terms and on the higher end of New England states (third highest per capita and second highest per income). Total spending in Rhode Island grew by 16.1 percent between FY 2014 and FY 2019, an average annual increase of 3.2 percent. Total Ocean State expenditures grew at a rate lower than that of the nation during this period.
- **Taxes** comprised a larger proportion of total revenues in Rhode Island than in the nation overall in FY 2019 (47.0 percent vs. 45.6 percent), although the Ocean State, due in part to its greater reliance on intergovernmental revenues in the form of federal funding, was less reliant on tax revenues than any other New England state.

- Although Rhode Island’s **property tax** collections were on the lower end of New England states in FY 2019, Rhode Island property tax revenues made up a far larger proportion of total tax revenues than in the U.S. overall (41.3 percent vs. 31.0 percent). Between FY 2014 and FY 2019, Rhode Island’s reliance on property taxes decreased considerably—falling from 44.5 percent of total tax revenues to 41.3 percent—in large part due to increased state funding for K-12 schools. Yet, Rhode Island continues to rely more on local revenues to fund the K-12 system than both the region and the nation. Given the limitations of less affluent communities to raise education revenue through property taxes, challenges consequently remain for equitable funding of K-12 schools in Rhode Island.
- Rhode Island allocated the largest portion of its expenditures in FY 2019 to education (27.1 percent), and while it spent slightly more than the U.S. in per capita and per income terms, it significantly overspent the nation on **elementary and secondary education**. Despite Rhode Island’s relative overspending on K-12 education, its student proficiency test scores are on par with or below the nation, with particularly poor outcomes for students in urban schools, raising a serious question as to the state’s return on investment.
- On both a per capita and personal income basis, the Ocean State significantly underspent the nation on **higher education** in FY 2019. Rhode Island’s relative underinvestment in higher education raises concerns, since economic development and growth are tied closely with education levels. This underinvestment is linked to Rhode Island’s low ranking in public higher education enrollment per capita (37th highest in the U.S.), highlighting issues as to access to affordable higher education options for Rhode Island students.
- **Social services and income maintenance** expenditures comprised Rhode Island’s second largest spending category in FY 2019 (26.7 percent of total expenditures) and were not only high compared to the nation (5.0 percent higher per capita and per income) but played an outsized role in driving increased spending in recent years. From FY 2014 to FY 2019, spending in this category grew at a rate significantly greater than total spending (28.1 percent vs. 16.1 percent). Rhode Island’s poverty rate decreased in this period, and likewise so did spending on cash and other public assistance programs. Spending on Medicaid, however, increased significantly. While most of that increase was paid for with federal funds, there also has been significant growth in state spending on Medicaid, a trend apparent not only in Rhode Island, but across the United States.
- **Public safety expenditures** made up less than a tenth (8.3 percent) of Rhode Island’s total expenditures in FY 2019, but they greatly exceeded national and regional spending and grew at a rate higher than total expenditures (20.2 percent vs. 16.1 percent). Rhode Island had the highest fire protection expenditures in the U.S. on both a per capita and personal income basis in FY 2019, and though its crime rate was among the lowest in the nation, Ocean State spending on police protection was among the highest in the nation (sixth highest per capita and fourth highest per income). While spending less than the U.S. on correction in per capita and personal income terms, Rhode Island’s correction expenditures were the highest in New England in both measures, even though the state’s incarcerated population per capita was tied for second smallest in the nation in 2019.
- The Ocean State had slightly higher **environment and housing expenditures** in per capita and personal income terms than did the nation in FY 2019 but apportioned a comparatively

small amount to natural resources and parks and recreation. This underinvestment was highlighted in a 2018 report commissioned by the Rhode Island Department of Environmental Management, which was followed by general obligation bond spending and modest operating increases in this area.

- Rhode Island's FY 2019 **transportation** expenditures were relatively typical for New England but below national benchmarks. The state has increased investment in transportation in recent years, and spending grew significantly more than total expenditures between FY 2014 and FY 2019 (27.0 percent vs. 16.1 percent).

Based on these findings, RIPEC offers the following recommendations to policymakers:

- Rhode Island should continue to **increase the state share of elementary and secondary education funding** to both decrease reliance on property tax revenues and increase equity in elementary and secondary education expenditures. At the same time, policymakers should seek to **slow the growth in total state and local expenditures for K-12** and focus investments on improving student outcomes.
- Given the critical importance of higher education to economic prosperity, policymakers should **allocate more resources for higher education** and seek to grow enrollment in public higher education institutions to improve access and affordability for Rhode Island students.
- Rhode Island should seek to **constrain the growth of total spending** to bring the state more in line with the region and nation.
- Rhode Island should focus on **controlling the growth of spending on social services and income maintenance**, particularly spending on Medicaid, which is growing at a faster rate than total expenditures.
- State and municipal policymakers should seek to **at least slow the growth of public safety expenditures** to bring them more in line with national and regional benchmarks.
- There is need for **further investment in natural resources and parks and recreation**, particularly given the state's economic reliance on tourism, even though Rhode Island recently increased spending in these areas.
- While the Ocean State has significantly increased transportation spending in recent years, given that the state's transportation infrastructure remains among the worst in the nation and its spending in this category was still below that of the nation in FY 2019, policymakers should **continue to increase investments to improve the state's roads and bridges**.

Policymakers make important decisions every budget season, but large inflows of federal funding to state and local governments in the form of pandemic relief—combined with strong state general revenues—today present an unprecedented opportunity for policymakers to reconsider the configuration of local revenue streams and to invest state and local funds in areas in which the state has historically underinvested.

Interactive 50-state breakdowns of key revenue and expenditure data that correspond with this report are available [here](#).