



RIPEC

# How Rhode Island Compares State and Local Revenues and Expenditures

## Executive Summary March 2021

In annually crafting their budgets, state and local governments make a series of significant policy choices as to how revenues will be raised and spent. Comparisons among state and local governments with respect to taxing policies 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.

“How Rhode Island Compares” uses the most recent available state and local revenue and expenditure data compiled by the U.S. Census Bureau—for fiscal year (FY) 2018—to compare Rhode Island 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 FY 2018 data to that of FY 2013.

Highlights in this report, and findings for policymakers to consider, include:

### Revenues

- Rhode Island’s **total state and local revenues** of \$13.6 billion in FY 2018 were on the higher end of states (18<sup>th</sup> highest) on a per capita basis and in the middle (26<sup>th</sup>) in terms of personal income. Total revenues were the highest in New England on a personal income basis and the third highest in per capita terms.
- Total **revenue growth** was relatively slow in Rhode Island between FY 2013 and FY 2018 (7.9 percent).
- Of its **sources of revenues**, Rhode Island has a higher reliance on taxes than the U.S., with 45.0 percent of the Ocean State’s total revenues comprised of taxes, as compared to the national average of 43.1 percent, although Rhode Island is less reliant on taxes than other New England states. Rhode Island is also distinct in its outsized reliance on lottery revenues (roughly ten times greater than what other states on average collect in lottery revenues). Rhode Island’s reliance on lottery revenues has declined and its reliance on taxes has increased since FY 2013, however. Policymakers should consider shifting Rhode Island’s revenue mix to rely more on non-general revenue sources, such as user fees and other charges, to lessen its reliance on taxes.
- Rhode Island has an outsized reliance on **property taxes** when compared to the nation—42.3 percent of total revenues, compared to 32.8 percent—but is like other New England states in this regard. The share of Rhode Island’s total tax revenues attributable to property

tax fell from 45.7 percent in FY 2013 in large part due to the introduction of an education funding formula in 2010, which has led to year-over-year increases in state support for K-12 education and decreased the share of local dollars (which are primarily raised through property tax) going towards K-12. Rhode Island policymakers should consider further reducing the state's reliance on property taxes, since the state's relative over-reliance presents a challenge to equitably funding K-12 schools.

### **Expenditures**

- Rhode Island's **total state and local expenditures** in FY 2018 of \$13.2 billion are somewhat high when compared to the nation on per capita and personal income bases. While Rhode Island's **total expenditure growth** between FY 2013 and FY 2018 (16.1 percent) was lower than that of the nation (19.5 percent), policymakers should constrain total spending growth to bring the state more in line with the nation.
- Rhode Island allocated the largest proportion of its expenditures (27.2 percent) to **education** in FY 2018 and spent more than the national average in per capita and per income terms on education. Other New England states are similar in this regard. Also, like the region, Rhode Island overspends compared to the nation on K-12 education (13.1 percent more on a per capita basis and 13.6 percent more in personal income terms) but underspends on higher education (29.9 percent lower in per capita terms and 29.5 percent lower on a personal income basis). Despite investing more than the national average on K-12 education, Ocean State student proficiency test scores are on par with or below the nation overall, with particularly poor outcomes for students in urban schools, raising a serious question as to the state's return on its investment. Rhode Island's relative under investment in higher education also raises concerns, since economic development and growth is tied closely with education levels.
- **Social services and income maintenance** expenditures account for the second largest spending category in Rhode Island (26.7 percent of all expenditures in FY 2018). They are high relative to both the U.S. (6.5 percent higher in terms of personal income and 6.0 percent higher on a per capita basis) and New England (second highest in terms of personal income and third highest on a per capita basis), but Rhode Island also has the highest poverty rate in the region. Expenditures in this category grew at a rate far exceeding total expenditure growth (38.1 percent, compared to 16.1 percent) between FY 2013 and FY 2018, in large part due to the expansion of Medicaid under the 2010 Affordable Care Act.
- Rhode Island's **government administration and interest on general debt** expenditures made up 9.4 percent of its total expenditures in FY 2018 and are high when compared to the region and nation. However, spending in this category is somewhat misleading, as Rhode Island has relatively large expenditures in the subcategory of interest on general debt, but this figure includes private activity bonds, which typically are not paid for with public dollars, and make up a disproportionately large share of Rhode Island's debt as compared to other states. Policymakers should nevertheless note that Rhode Island's spending is also high in the subcategory of other governmental administration.
- **Public safety** expenditures made up only 8.3 percent of Rhode Island's total expenditures in FY 2018 but are a considerable outlier. Rhode Island spends more in this category than

any other New England state in per capita and personal income terms, and compared to the U.S., Rhode Island's public safety spending is 23.3 percent greater on a personal income basis and 22.8 percent higher in per capita terms. Spending in this category is largely driven by Rhode Island's high police and fire protection expenditures (the Ocean State's fire protection expenditures are the highest in the nation). Rhode Island's correction expenditures are lower than the national average, but high when accounting for the relatively small size of its incarcerated population. Public safety spending moreover grew at a higher rate (20.1 percent) between FY 2013 and FY 2018 than total expenditure growth (16.1 percent). State and municipal policymakers should focus on at least slowing the growth of public safety expenditures to bring them more in line with national and regional benchmarks.

- Rhode Island's expenditures for **environment and housing** made up 5.7 percent of the state's total expenditures in FY 2018. On both per capita and personal income bases, the Ocean State exceeded national spending in this category. However, Rhode Island apportions a comparatively small amount of this total category to natural resources and parks and recreation, while spending more on sewerage and solid waste management and housing and community development. This discrepancy is particularly stark regarding parks and recreation; Rhode Island spent 55.7 percent less than the national average in per capita terms and 56.0 percent less on a personal income basis. Rhode Island policymakers have responded with general obligation bond spending and modest operating increases in this area, but more investment and spending are needed, particularly given the state's economic reliance on tourism.
- Rhode Island's spending on **transportation** made up 4.6 percent of all state and local spending in FY 2018 and is low for the nation but relatively typical for New England. Most transportation expenditures are comprised of highway expenditures, which are 9.8 percent lower in Rhode Island than the U.S. on a personal income basis and 10.3 percent lower on a per capita basis. While the Ocean State's relatively low highway expenditures can be attributed in part to its comparatively high population density and low road utilization, Rhode Island's roads and bridges are among the worst in the nation. However, the state has embarked on an ambitious RhodeWorks program to invest more in roads and bridges, and the impact is already evident as transportation spending grew at a higher rate (22.5 percent) than total expenditures (16.1 percent) between FY 2013 and FY 2018.

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