The Governor's FY 2024 Budget and the State's Fiscal Outlook

Weaker Revenues Signal End to Flush State Budgets

RIPEC

May 2023

Table of Contents

Section		*Page*
I.	Introduction	3
II.	Governor McKee's Proposed FY 2024 Budget	4
III.	May Revenue and Caseload Estimating Conferences	22
IV.	The Budget Outlook for FY 2025 and Beyond	25
V.	RIPEC Comments	27

I. Introduction

Governor Daniel J. McKee's proposed budget for fiscal year (FY) 2024 is the latest in a series of extraordinary budgets benefiting from large surplus funds and incorporating unprecedented federal pandemic relief funding. The proposed FY 2024 budget has the benefit of one-time surplus funds of $610.0 million—a sizable sum in the context of a general fund budget of $5.30 billion.[1] The budget also proposes changes to expenditures of federal relief funding for FY 2024 and for the current FY 2023 fiscal year.

The governor's FY 2024 spending plan includes major changes to the state's K-12 education funding formula and several new investments, including a new bioscience initiative, an effective increase to the Budget Reserve and Cash Stabilization Account ("rainy day fund"), funding for lost toll revenues, and money to retire debt. The proposed budget also puts forth several tax relief measures, including reductions in the sales tax and the corporate minimum tax, a pause in scheduled increases in the gas tax, and rebates of taxes on electricity and natural gas.

However, results from the most recent Revenue Estimating Conference, concluded in May 2023, confirm that the run of flush state budgets is likely coming to an end. State general revenue estimates for the current year (FY 2023) were reduced in May by $61.2 million, or 1.2 percent, based primarily on a sharp reduction of $96.6 million in projected personal income tax revenues. Projected general revenues for FY 2024 at the May Conference were essentially unchanged from the November estimates (down only $2.9 million), but importantly reflect limited growth compared to FY 2023; adding hospital licensing fees in both fiscal years at the FY 2023 level, FY 2024 revenues are projected to grow by only $81.5 million—1.6 percent—over FY 2023.[2]

This report analyzes the governor's FY 2024 proposed budget, including revisions to the enacted FY 2023 budget, in the context of the budget outlook for the current and future fiscal years. The report first analyzes the revenue changes underlying the large surplus funds available. It next examines the proposed spending plan, including recommended revenue changes. The report then analyzes the state's fiscal outlook, incorporating revised revenues and expenditures projected at the May 2023 Revenue and Caseload Estimating Conferences. Finally, the report includes RIPEC comments and recommended policy considerations.

[1] The large surplus is actually slightly less than the $618.4 million surplus used by Governor McKee in his FY 2023 budget proposal. RIPEC, "The Governor's FY 2023 Budget and the State's Fiscal Outlook," March 2022.
[2] R.I. OMB, May 2023 Revenue Estimating Conference Report.

II. Governor McKee's Proposed FY 2024 Budget

On January 19, 2023, Governor McKee introduced his FY 2024 budget plan, proposing total expenditures of $13.75 billion, an increase of $148.6 million, or 1.1 percent, over the enacted FY 2023 level, as depicted in Figure 1. The governor's budget proposed state general revenue spending for FY 2024 of $5.30 billion, representing an increase of $260.6 million, or 5.2 percent, more than the FY 2023 enacted budget level.[3]

The governor additionally proposed significant revisions to spending in the current fiscal year, as also shown in Figure 1. Under his budget plan, total expenditures for FY 2023 would increase by $535.5 million, or 3.9 percent, to $14.14 billion. General revenue spending for FY 2023 similarly would increase by $224.4 million (4.5 percent) to $5.27 billion.[4]

Figure 1
Enacted and Proposed Expenditures by Source
($ Millions)

Source of Funds	FY 2023 Enacted	FY 2023 Revised	Change from Enacted	FY 2024 Recommended	Change from FY 2023 Enacted
General Revenue	$ 5,042.2	$ 5,266.6	$ 224.4	$ 5,302.8	$ 260.6
Federal Funds	5,708.4	5,951.3	243.0	5,526.0	(182.3)
Restricted Receipts	453.5	470.1	16.5	386.8	(66.7)
Other Funds	2,398.4	2,450.0	51.6	2,535.4	137.0
Total	**$ 13,602.5**	**$ 14,138.0**	**$ 535.5**	**$ 13,751.1**	**$ 148.6**

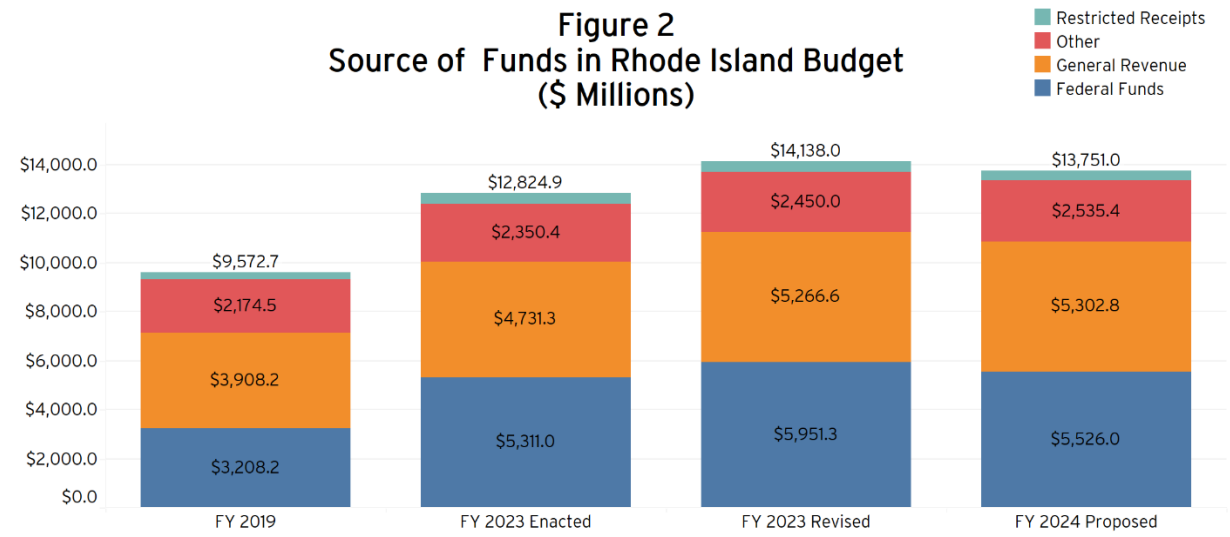
Reproduced from R.I. OMB, "FY 2024 Budget Proposal: Executive Summary"

As depicted in Figure 2, the FY 2024 budget proposed by Governor McKee represents the continuation of a level of total spending that is dramatically higher than just five years ago. At $13.75 billion, total expenditures proposed for FY 2024 are $4.18 billion more than the state's total spending in FY 2019, the last budget unaffected by the pandemic—a five-year increase of 43.6 percent. This increase is in large part attributable to federal pandemic relief funds; expenditures from federal sources have jumped considerably, from $3.21 billion in FY 2019 to $5.53 billion proposed for FY 2024.[5]

State general revenue spending, as recommended in the governor's proposed FY 2024 budget, also reflects substantial growth over this five-year period. At $5.30 billion, general revenue spending proposed for FY 2024 is up $1.39 billion compared to FY 2019—a five-year increase of 35.5 percent and an average annual increase of 7.1 percent. This rate of growth in general revenue spending over the past five years is roughly twice the state's historical average annual general revenue growth rate of 3.5 percent from FY 2014 to FY 2019.[6]

[3] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[4] Ibid.
[5] Ibid.
[6] General revenue spending increased by $587.6 million in this period, from $3.34 billion in FY 2014 to $3.92 billion in FY 2019. R.I. OMB, FY 2016 Budget Proposal, Executive Summary; R.I. OMB, FY 2022 Budget Proposal, Executive Summary; RIPEC calculations.

Figure 2
Source of Funds in Rhode Island Budget
($ Millions)



Source: R.I. House Fiscal Advisory Staff, budget documents.

Revenues

The governor's proposed FY 2024 budget relies on a projected $610.0 million surplus carried over from FY 2023.[7] As in recent budgets, this surplus is the result of state revenues exceeding estimates, federal funding and anticipated reimbursements, and, to a lesser degree, lower than expected state expenditures.

The single largest driver of the projected surplus in the governor's budget is an increase of $358.9 million in expected revenues for FY 2023, as determined at the November meeting of the biannual Consensus Revenue Estimating Conference.[8] As depicted in Figure 3, the revenues estimated at the November Conference for FY 2024 reflect a lower projected growth trend relative to FY 2023 levels, however; estimated general revenues for FY 2024 of $5.28 billion represent a year-over-year increase of $23.5 million—a growth rate of only 0.4 percent.

As Figure 4 shows, projected surplus funds also reflect $216.6 million in surplus funds for FY 2022 resulting from FY 2022 expenditures eligible for reimbursement by the Federal Emergency Management Agency

Figure 3
November 2023 Revenue Estimating Conference
($ Millions)

FY 2023 Enacted	$	4,901 .5
FY 2023 Revised Estimate	$	5,260.4
Change from FY 2023 Enacted	*$*	*358.9*
FY 2023 Estimate	$	5,260.4
FY 2024 Estimate*	$	5,283.9
Change from FY 2023 Revised	*$*	*23.5*

* Includes estimate for hospital licensing fee. Estimated at FY 2023 levels.
Source: R.I. OMB, November 2022 Revenue Estimating Conference Report.

[7] The surplus is $608.9 million above the enacted FY 2023 surplus of $1.1 million. R.I. OMB, FY 2023 First Quarter Report, November 15, 2022.
[8] The Conference is held in the first week of November and May each year. Revenue estimates reflect the consensus reached by the three Conference principals: the state budget officer, the house fiscal advisor, and the senate fiscal advisor. The Conference relies on testimony from executive branch officials as well as economic projections by an independent forecasting firm to produce revenue estimates for both the current and subsequent fiscal year. R.I. Gen. Laws § 35-16-3(a), § 35-17-1, § 35-17-1.

(FEMA) to be reimbursed in FY 2023.[9] Additionally included is $88.3 million in projected FY 2023 general revenue expenditure reductions, largely due to the continuation of enhanced Medicaid reimbursement associated with the public health emergency (PHE). Projected governmental spending reductions contributes to $7.6 million of the projected surplus.[10]

Revenue Items in the Governor's Budget

The governor's FY 2024 budget contains several noteworthy tax relief proposals, the most significant of which is the reduction of the sales and use tax from the current rate of 7.0 percent to 6.85 percent, effective October 1, 2023.[11] This tax cut would result in a revenue loss of $25.0 million for FY 2024 and a full-year impact of $34.7 million. The budget also would exempt from the sales and use tax the trade-in value of light trucks, resulting in a revenue loss of $3.7 million in FY 2024 and $5.0 million in FY 2025 and thereafter.[12]

Figure 4
Components of FY 2024 Surplus
($ Millions)

Opening Fund Surplus FY 2023	
FY 2022 FEMA Reimbursement	$ 216.6
FY 2024 FEMA Reimbursement (Anticipated)	243.7
FY 2023 Unspent Balance	19.4
Opening Fund Surplus FY 2023	479.7
FY 2023 Opening Fund Surplus Enacted	(289.2)
	$ 190.5
Net Revenue Collections Over FY 2023 Enacted	
Surplus Revenue Collection	$ 358.9
Rainy Day Fund Contribution	(17.0)
	$ 341.9
State Expenditure Reductions	
COVID Medicaid Reimbursements	$ 88.3
Spending Reductions Across Government Depts.	7.6
Expenditure Increases from Reappropriation of Unspent FY 2023 Balances	(19.4)
	$ 76.5
Surplus FY 2023 Enacted	
Surplus FY 2023 Enacted	*$ 1.1*
Anticipated FY 2024 Surplus	**$ 610.0**

Source: R.I. OMB, "FY 2023: First Quarter Report."

In his proposed budget, the governor also includes a reduction of the corporate minimum tax from $400 to $375, effective January 1, 2024, resulting in a revenue loss of $1.0 million in FY 2024 and a full-year impact of $2.1 million thereafter.[13] The governor also seeks to eliminate the requirement that businesses that sell to-go food and beverages obtain a litter control participation permit, resulting in a revenue loss of $816,000 beginning in FY 2024.[14]

[9] There is a financial statement presentation requirement that FY 2022 expenditures eligible for FEMA reimbursement be classified as general revenue expenditures and reimbursed in the following fiscal year. The shifting of this relatively large federal reimbursement between fiscal years complicates the analysis of general revenue spending from year to year.

[10] The projected reduction in governmental spending is largely attributable to staff vacancy and turnover. R.I. OMB, November 2022 Revenue Estimating Conference Report.

[11] Rhode Island's current sales tax rate of 7.0 percent is tied with three other states—Indiana, Mississippi, and Tennessee—for second highest in the nation, after California (7.25 percent). However, most states, Rhode Island not included, enable local governments to levy a sales tax. Accounting for the average combined state and local sales tax rate, Rhode Island ties with Indiana for the 24th highest sales tax rate. If the governor's plan is adopted, Rhode Island will tie with Nevada for the sixth highest state sales tax and will have the 30th highest combined state and local sales tax. Of New England states, Rhode Island currently has the highest state sales tax and combined state and local sales tax. If the state adopts the governor's proposal, Rhode Island would still be first in the region in this regard. Janelle Fritts and Jared Walczak, *2023 State Business Tax Climate Index*, Tax Foundation, October 2022; RIPEC calculations.

[12] The exemption would apply to trucks with a gross weight of 14,000 or less and would mirror the exemption for passenger cars and motorcycles. R.I. OMB, FY 2024 Budget Proposal, Executive Summary. The exemption for motorcycles was enacted in the FY 2023 budget. R.I. Dept. of Revenue, New sales tax exemptions starting in October, September 8, 2022.

[13] The reduction in the minimum corporate tax from $400 to $375 was included in the governor's FY 2023 budget proposal but was not included in the final budget enacted by the General Assembly. R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section I: Budget at a Glance.

[14] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

Also included in the governor's FY 2024 budget is the proposal to forego increases in the gas tax. Rhode Island's Gas Tax is 34.0 cents for each gallon purchased.[15] Every two years, the consumer price index is applied to the state's statutory formula to determine the amount of the tax. Projections from the Office of Revenue Analysis indicate that the tax is expected to be raised three cents per gallon in FY 2024. The governor's proposal forgoes this increase scheduled to take effect July 1, 2023. The Office of Management and Budget (OMB) estimates that maintaining the gas tax at the current level of 34.0 cents would cost $24.6 million combined in fiscal years 2024 and 2025.[16] However, because the gas tax increase anticipated for FY 2024 is not included in the revenue estimates, the governor's proposed postponement of the tax increase technically does not represent a reduction from available revenues.[17]

The governor's proposed revisions to the FY 2023 budget include a refund of the gross receipts tax on electricity and natural gas for the period from December 2022 through March 2023. All Rhode Island ratepayers are subject to a 4.0 percent gross receipts tax on purchases of electricity and a 3.0 percent gross receipts tax on purchases of natural gas.[18] The governor's refund plan would cost $35.6 million in FY 2023.[19] A summary of the revenue changes in the governor's budget and the cost of each change is depicted in Figure 5.

Figure 5
Summary of Tax Changes and Cost
($ Millions)

Proposed Tax Change	FY 2023 (Full-Year Impact)	FY 2024 (Partial-Year Impact)	FY 2025 (Full-Year Impact)
Electricity and Natural Gas Refund	$ 35.6		
Sales and Use Tax Reduction from 7.0% to 6.85%		$ 25.0	$ 34.7
Forgo Scheduled Gas Tax Increase		$ 12.2	$ 12.4
Light Trucks Trade-In Sales and Use Tax Exemption		$ 3.7	$ 5.0
Corporate Minimum Tax Reduction from $400 to $375		$ 1.0	$ 2.1
Eliminate Litter Control Participation Permit		$ 0.8	$ 0.8

Source: R.I. OMB, "FY 2024 Budget Proposal, Executive Summary."

Expenditures

American Rescue Plan Act Spending Revisions

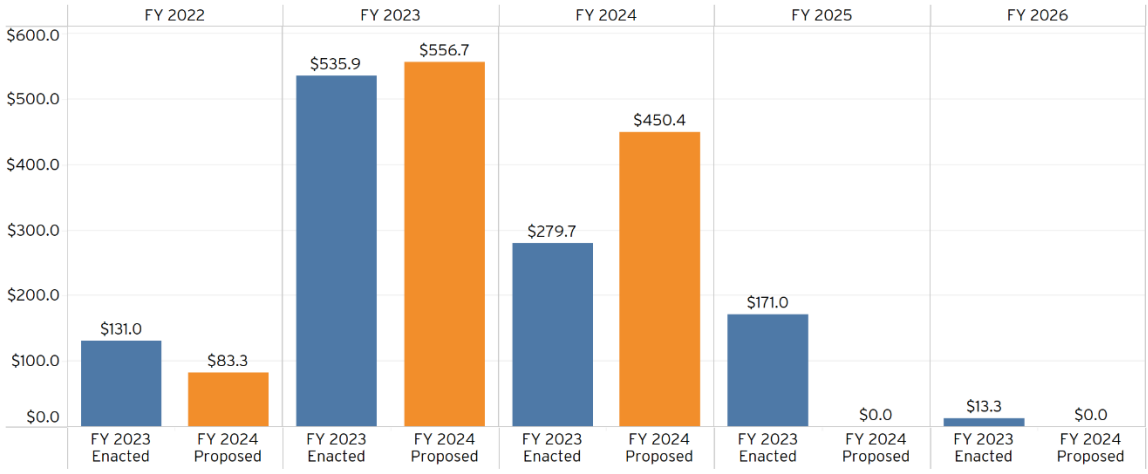
Signed into law in March 2021, the federal American Rescue Plan Act (ARPA) allocated significant support for state and local governments to assist with expenses incurred during the

[15] The $0.34/gallon gas tax is only a part of the total gas tax. Rhode Island consumers are also charged one cent per gallon in environment protection regulatory fees. Half of this fee goes to underground storage tank maintenance and the other half goes to the Rhode Island Department of Transportation. American Petroleum Institute, Notes to State Motor Fuel Excise and Other Taxes.
[16] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[17] Projections from the House Fiscal Advisory Staff and Senate Fiscal Office assume the proposal will cost $12.2 million in FY 2024 and $12.4 million in FY 2025. Taking the House Fiscal Advisory Staff and Senate Fiscal Office's estimated per penny yield of $4.13 million per penny of gas tax for FY 2024, a $0.34/gallon gas tax would yield $140.4 million while a $0.37/gallon tax would yield $152.8 million, a loss of $12.4 million. In FY 2025, the Senate Fiscal Office estimates $4.05 million per penny of gas tax producing $137.6 million for $0.34/gallon and $149.8 million for $0.37/gallon, a difference of $12.2 million. R.I. Senate Fiscal Office, Issue Brief: Motor Fuel Tax, January 2023; R.I. House Fiscal Advisory Staff, FY 2024 Budget as Proposed, Section III: Agency Analyses; RIPEC calculations.
[18] R.I. Gen. Laws, § 44-13-4.
[19] R.I. OMB, FY 2024 Budget Proposal, Executive Summary. At the governor's request, legislation has been introduced in both chambers to use rebates to provide ratepayers with tax relief on electricity and natural gas for December 2022-March 2023. This legislation remains pending. R.I. General Assembly, Legislative Status Report, House Bill No. 5312, Senate Bill 867.

COVID-19 pandemic. Under ARPA, Rhode Island received $1.13 billion in State Fiscal Recovery Fund (SFRF) aid, as well as $112.3 million in Capital Projects Funds.

Based on concerns about obligating funding in time to meet federal spending and obligation requirements, the governor's FY 2024 budget advances investments funded by the state's SFRF allocation. In the FY 2023 enacted budget, the General Assembly had approved ARPA spending over five fiscal years, with $535.9 million appropriated for FY 2023, and $279.7 million planned for FY 2024, leaving $184.3 million to be spent in FY 2025 and FY 2026. The governor's proposed budget increases SFRF spending for FY 2023 to $556.7 million and increases FY 2024 SFRF spending to $450.4 million, leaving $40.7 million to be appropriated in future years.[20] Figure 6 depicts the governor's proposed changes to SFRF spending as compared to the levels in the FY 2023 enacted budget.

Figure 6
State Fiscal Recovery Fund Spending Plan, FY 2023 as Enacted vs. FY 2024 Proposed
($ Millions)



Note: $0.1 million is budgeted for FY 2027 in the FY 2023 budget as enacted.
Recreated from Senate Fiscal Office, Governor's FY 2024 and FY 2023 Supplemental Budget, April 7, 2023.

Besides advancing the timing of SFRF investments, the governor's proposed budget includes some important changes to planned spending of SFRF funds. The most significant of these initiatives is a proposed $45.0 million in SFRF funds to support a program for development of the life sciences industry sector.[21] This proposal replaces and exceeds an allocation of $30.0 million in the enacted FY 2023 budget for bioscience investments conditioned on the approval of a then-pending application for a federal Economic Development Administration grant, which was not approved.[22]

The governor's proposed budget also recommends an additional $25.0 million in SFRF funds for future phases of improvements by the City of East Providence to the South Quay Marine Terminal, designed to serve as a centralized hub of intermodal shipping to support the offshore wind industry. The enacted FY 2023 budget included $35.0 million in SFRF funds for the first phase of this project.[23]

[20] R.I. Senate Fiscal Office, Governor's FY 2024 and FY 2023 Supplemental Budget, April 7, 2023.
[21] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[22] R.I. House Fiscal Advisory Staff, Budget Analysis FY 2024, Section I: Budget at a Glance.
[23] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

Spending of Surplus Funds

Governor McKee's proposed FY 2023 budget relies on a general revenue surplus of $610.0 million. Since these surplus funds are non-recurring, the governor's budget allocates this funding primarily to one-time and non-recurring investments. In his budget submission, the governor has identified the investments depicted in Figure 7 as funded with surplus revenues, consisting of $352.9 million in FY 2023 and $169.4 million in FY 2024, for a total of $522.3 million over the two fiscal years.[24] Among the governor's proposed one-time investments is $70.0 million in toll revenue backfill to replace the revenue lost when the state's truck toll system was ruled unconstitutional in 2022.[25]

Figure 7
One-Time and Non-Recurring Investments
($ Millions)

Item	FY 2023 Revised	FY 2024
Pre-Fund Transportation State Match	$ 87.8	$ -
Toll Revenue Backfill	70.0	-
Forgoing Statutory 3 Cent Gas Tax Increase	24.6	-
RICAP Transfer to Fund Various Projects	60.0	-
Rainy Day Fund 1% Transfer	-	55.0
Suspend 4% Gross Receipt Tax on Electricity Bills & 3% Gross Receipt Tax on Natural Gas	35.6	-
Defeasance of Existing Debt	-	35.0
Correctional Officer Contract - FY21 & FY22 Retro/FY23 COLA	35.0	-
Pre-Fund Clean/Drinking Water Match	28.5	-
RI Office of Child Support Services - Transition off of Mainframe	-	22.0
Economic Development - First Wave Closing Fund	-	20.0
Pre-Fund RI Rebuild Cap Increase	-	15.0
Education Aid - One-Time Supplemental Funding	-	8.5
Municipal Matching Fund Pool - Federal Grants	5.5	-
Gateway to Government	-	5.0
Workers Compensation Fund Supplement	4.4	-
Other	1.5	8.8
Total	**$ 352.9**	**$ 169.4**

Note: Totals may not sum due to rounding.
Recreated from OMB, "FY 2024 Budget Proposal: Executive Summary."

K-12 Education Funding

Funding Formula Aid

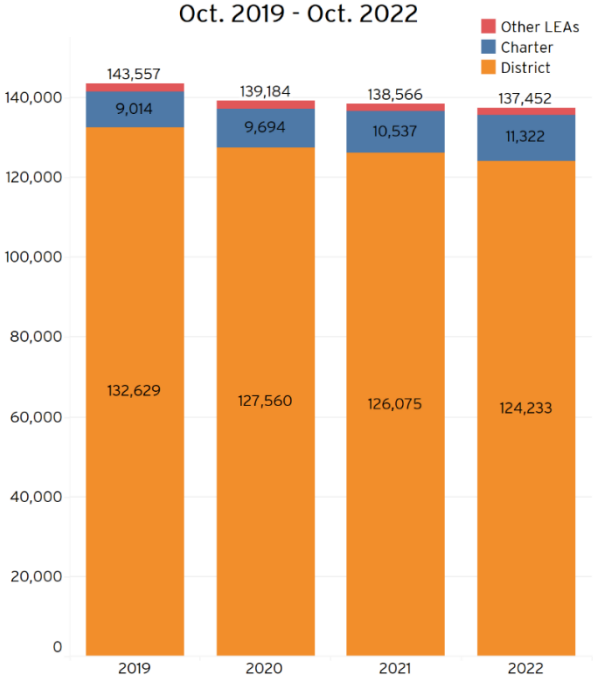
With respect to the state's education funding formula, the governor's FY 2024 budget proposal includes $1.13 billion in state K-12 education aid to local education agencies (LEAs)—which include traditional school districts, state-run schools, and charter public schools—a net increase of $36.9 million in formula aid over the enacted FY 2023 budget.[26] This proposal includes several noteworthy changes from the enacted FY 2023 budget intended to address recent issues that have affected the operation of the state's funding formula, including declining student enrollment and the need to identify a new measure of student poverty.

As shown in Figure 8, enrollment in Rhode Island public schools has declined substantially since 2019, falling by a total of 6,105 students, or 4.3 percent, between October 2019 and October 2022.[27] For traditional districts, the decline has been even greater (8,396 students, or 6.3 percent) while charter public schools have experienced increased enrollment. Initially, there was some expectation among state policymakers that enrollment would rebound after the COVID-19 health emergency subsided, but enrollment has continued to fall year over year.

[24] Ibid.
[25] American Trucking Associations v. Peter Alviti, 2022.
[26] R.I. House Fiscal Advisory Staff, Staff Presentation to the House Finance Committee, March 1, 2023.
[27] Public school enrollment was remarkably stable prior to 2020; in October 2019, there were only 603 (0.4 percent) more students enrolled in Rhode Island public schools than eight years previous, in October 2011. RIPEC, "Improving Rhode Island's K-12 Schools: Where Do We Go From Here?," October 2022.

To prevent significant declines in state formula aid to LEAs, the General Assembly held districts harmless from enrollment declines in its FY 2022 budget. Using the greater of enrollment for both total students and economically disadvantaged students from either the 2019-2020 or 2020-21 school years to determine FY 2022 funding levels, this hold harmless measure resulted in an increase of $39.7 million in formula aid as compared to the formula without adjustments.[28] Applied again the following year, hold harmless funding prevented a $49.7 million reduction in state funding formula aid in FY 2023.[29]

Figure 8
Rhode Island Public School Enrollment
Oct. 2019 - Oct. 2022



Note: Enrollment includes PreK, which amounted to 3,120 students, or 2.3 percent of all public school students, in 2022. Other LEAs include state schools and the Urban Collaborative.
Source: RIDE, October Enrollment data.

The governor's FY 2024 proposal calls for a significantly scaled-down version of hold harmless support, recommending a one-time supplemental fund of $8.5 million in school aid to LEAs experiencing enrollment losses for reasons other than transfer to charter public schools. The proposal also would create a one-time Public Schools of Choice Supplemental Transition Fund of $7.9 million to aid districts that experience enrollment losses due to resident student enrollment in charter public schools.[30] The governor also proposes adding a bonus for students experiencing homelessness equal to 25.0 percent of the per student core instructional amount, resulting in $2.5 million in additional formula aid for LEAs.[31]

The governor's most significant recommended change to the funding formula relates to the student success factor (SSF), a core component of the formula that directs greater educational resources to students living in poverty. Under current law, the formula includes a bonus equal to 40.0 percent of the core instructional amount applied for each student from a family with income at or below 185.0 percent of the federal poverty line. The governor proposes an increase in the SSF bonus to 42.0 percent for an estimated additional $9.9 million in state funding for economically disadvantaged students.[32]

[28] R.I. Senate Fiscal Office, FY 2022 As Enacted.
[29] R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section VI: Special Reports. For FY 2023, enrollment for all students and economically disadvantaged students was calculated using the greater of the 2019-2020, 2020-2021, and 2021-2022 school years. R.I. House Fiscal Advisory Staff, Governor's FY 2024 Budget, Section VI: Special Reports-Education Aid; R.I. OMB, FY 2024 Governor's Proposed Budget Executive Summary.
[30] Districts would receive 60.0 percent of the funding they would have received per resident student in the first year after that student's transition to a charter school and 30.0 percent in the second year. R.I. OMB, FY 2024 Governor's Proposed Budget Executive Summary.
[31] Ibid. Rhode Island would be the seventh state to apply a factor increase for homeless students, joining Hawaii, Louisiana, Michigan, South Carolina, Tennessee, and Texas. The District of Columbia also uses homelessness as a factor in poverty aid. Edbuild Funded, National Policy Maps: Poverty, accessed May 25, 2023.
[32] R.I. OMB, FY 2024 Governor's Proposed Budget Executive Summary. This sum was calculated by comparing the SSF bonus at 40.0 percent and 42.0 percent, with the number of economically disadvantaged students measured by direct certification times 1.6.

However, this increase is partially offset by a proposed change in the method of counting economically disadvantaged students. The current measure used to identify such students is qualification for free and reduced price lunch (FRPL) or eligibility for the supplemental nutrition assistance program (SNAP).[33] In 2022, the Rhode Island General Assembly passed legislation requiring the Rhode Island Department of Education to find an alternate measure, and in his proposed budget, the governor recommends measuring student poverty based on direct certification. Direct certification refers to the use of a means test benefit, such as SNAP, temporary assistance to needy families (TANF), or Medicaid. The governor's proposal would use both SNAP and TANF data to directly certify students.[34] Since direct certification data relies on voluntary participation and excludes non-citizens, the governor has proposed to multiply the number of students eligible through direct certification by a factor of 1.6 to determine the number of economically disadvantaged students.[35]

The governor's proposed calculation of economically disadvantaged students through direct certification for FY 2024 results in the undercounting of such students when compared to the method used under current law. For all LEAs, 62,335 students would qualify for SSF funding under current law. In contrast, using direct certification, 59,967 students would qualify for SSF funding—a difference of 3.9 percent.[36] In traditional districts alone, direct certification counts 4.2 percent fewer students living in poverty than the method under current law.

Since direct certification undercounts students living in poverty compared to current law, some of the fiscal impact of the governor's proposal to increase the SSF bonus from 40.0 percent to 42.0 percent is offset by the new measure. This offset amounts to $1.1 million for all students and $2.0 million for traditional districts.[37] In addition to the total offsetting reduction in aid to

[33] R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section VI: Special Reports. In 2014, the U.S. Department of Agriculture issued guidance that states should not use FRPL data to determine poverty levels, but although Rhode Island changed its definition of an economically disadvantaged student in law to remove references to the FRPL program, it continued to use the same standard (income at or below 185 percent the federal poverty level) for determining eligibility. It also continued to use FRPL forms up to FY 2021. Since FY 2021, FRPL data has become increasingly unreliable, with some districts not collecting the data at all. R.I. House Fiscal Advisory Staff, "Staff Presentation to the House Finance Committee," March 1, 2023. According to the R.I. Dept. of Education, LEAs received information about SSF-eligible students based on SNAP participation, but relied on income verification forms, including applications to FRPL, to confirm eligibility for students from families not enrolled in SNAP. RIPEC, "Rhode Island's Funding Formula After 10 Years: Education Finance in the Ocean State," April 2022.

[34] R.I. Dept. of Education, "Presentation to the Senate Committee on Finance", March 7, 2023. Households without an older adult (aged 60 or over) or someone with a disability qualify for SNAP if their income level is less than 185.0 percent of the federal poverty level. Households with an older adult or someone with a disability qualify for SNAP if their income is less than 200.0 percent of the federal poverty level. R.I. DHS, Supplemental Nutrition Assistance Program. TANF is distributed through Rhode Island Works. To qualify, individuals must have a dependent child, meet certain income and asset limits, and fulfill a work requirement. R.I. DHS, RI Works Program: Eligibility & How to Apply.

[35] This factor of 1.6 is recommended by the U.S. Department of Education when using direct certification data. U.S. Dept. of Education, The Community Eligibility Provision, March 2015; R.I. House Fiscal Advisory Staff, FY 2024 Budget Proposal Analysis, Section VI: Special Reports. Nine states had moved to direct certification to measure student poverty for the purpose of school funding as of 2021, while 33 states were still using FRPL as a measure of student poverty. Edbuild Funded, National Policy Maps: Poverty, accessed April 13, 2023.

[36] For the governor's proposal, this number includes 50,193 at traditional LEAs, 8,556 at charter schools, 926 at state schools, 133 at the Urban Collaborative, and 158 at the Youth Build Academy. R.I. Dept. of Education, State Education Aid/Funding Formula: FY 2024 Governor Recommended Education Aid. Under current law, this number includes 52,368 at district schools, 8,673 at charter schools, 1,035 at state schools, 92 at the Urban Collaborative, and 167 at the Youth Build Academy. RI OMB.

[37] The $1.1 million for all students is calculated by comparing the differing state share ratios of student poverty funding using the governor's proposed poverty measure with an SSF bonus of 40.0 percent ($197.4 million) versus those levels of funding using the poverty measure under current law with an SSF bonus of 40.0 percent ($198.5

economically disadvantaged students connected with direct certification, this new counting method results in wide swings for individual districts between qualifying students under current law and direct certification. For example, Providence would see 1,709 fewer economically disadvantaged students under the new method—a 10.5 percent decrease—while Woonsocket would gain 510 economically disadvantaged students, an 11.5 percent increase.[38] For one district, Central Falls, it was determined that direct certification undercounted economically disadvantaged students compared to the current measure to such an extent that, for that district alone, data from the U.S. Census Bureau's American Community survey would be utilized rather than direct certification.[39]

Categorical Funding

The governor's FY 2024 proposal significantly increases categorical funding over FY 2023, as highlighted in Figure 9. The proposal calls for $60.6 million in total categorical aid, an increase of $21.9 million. The largest proposed increase is in early childhood education, which would see an $8.0 million increase over FY 2023 for total funding of $22.9 million. Categorical aid to support English language learners who are in the most intensive programs would more than double under the governor's proposal, from $5.0 million in FY 2023 to $12.8 million in FY 2024.[40] Under the governor's proposal, categorical funding for high-cost special education also would more than double, increasing by $5.3 million, for total funding of 9.8 million.

Figure 9
Education Categorical Funding
FY 2023 Enacted vs. FY 2024 Proposed ($ Millions)

Categorical Funding	FY 2023 Enacted	FY 2024 Governor	Change to FY 2023 Enacted
Early Childhood	$ 14.9	$ 22.9	$ 8.0
English Language Learner	5.0	12.8	7.8
High Cost Special Education	4.5	9.8	5.3
Regional District Transportation	5.8	7.2	1.4
Career and Technical	4.5	4.5	-
Non-Public Transportation	3.5	3.5	-
School Choice Density	0.5	-	(0.5)
Total	**$ 38.6**	**$ 60.6**	**$ 21.9**

Source: R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis

million). R.I. OMB. The $1.9 million for traditional districts only is calculated the same way. R.I. Dept. of Education, FY 24 Governor Recommended Education Aid; RIPEC calculations.

[38] Other districts that are undercounted relative to the current law count include Pawtucket (398 students, a 7.2 percent decline), Warwick (347 students, a 13.3 percent decline), Newport (193 students, a 14.6 percent decline), Burrillville (135 students, a 21.9 percent decline), and Middletown (151 students, a 27.8 percent decline). Districts that see the largest increases due to the use of direct certification include East Providence (249 students, a 13.0 percent increase), North Kingstown (221 students, a 30.4 percent increase), Cranston (177 students, a 5.5 percent increase), and Smithfield (92 students, a 32.9 percent increase). RIPEC calculations.

[39] R.I. House Fiscal Advisory Staff, FY 2024 Budget Proposal Analysis, Section VI: Special Reports.

[40] Since the funding formula went into effect in FY 2012, the number of limited English proficient students in Rhode Island has nearly doubled (from 8,913 in October 2012 to 17,100 in October 2022). Limited English proficient students made up 12.4 percent of the total number of public school students in Rhode Island as of October 2022. R.I. Dept. of Education, October Enrollment data; RIPEC calculations.

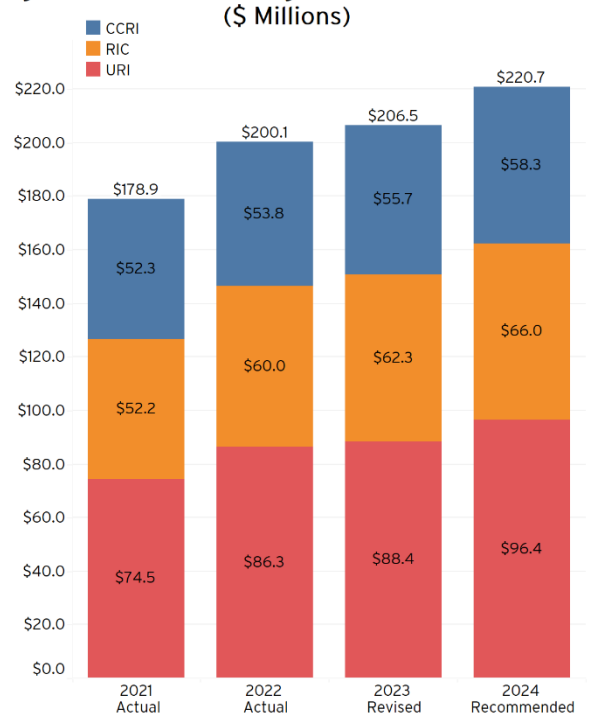
Learn365RI

The governor also has recommended $4.0 million in SFRF aid for his Learn365RI initiative, designed to increase after-school learning opportunities for students through state-municipal partnerships, with the stated goal of increasing out-of-school learning time by one million hours to catch up with Massachusetts achievement levels by 2030.[41] To support this initiative, $46.7 million is available in previously appropriated funds that will be used for the development or restoration of community wellness centers that could be used for educational purposes.[42]

Other Education Spending

To support operating expenditures at the state's three public higher education institutions, the governor's FY 2024 budget proposes an annual increase in general revenue spending of $14.2 million—6.8 percent—for total general revenue spending of $220.7 million.[43] The proposed increase is slightly more than the 5.2 percent increase in overall general revenue spending for FY 2024. Over the past three fiscal years, state general revenue support for higher education has increased by 23.3 percent, less than the increase of 30.0 percent in total general revenue spending over this same three-year period.[44] Figure 10 represents the increase in general fund spending at the state's public higher education institutions since FY 2021.

Figure 10
Higher Education Funding From General Revenues
($ Millions)



Source: R.I. OMB, FY 2024 Budget Proposal, Technical Appendix: Education

In addition to increased operating funding for public higher education institutions, the governor's FY 2024 budget includes $2.5 million in one-time funds to the Community College of Rhode Island for the Fresh Start Scholarship, aimed at re-enrolling Rhode Islanders who earned some credits at the Community College but stopped before earning a degree. The funding would support tuition and fees for 1,000 students for one

[41] The governor's calculation is based on 20,000 students receiving an additional one hour a week for 52 weeks. R.I. Governor Press Release, "Governor Dan McKee Education Address," April 12, 2023.
[42] R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section VI: Special Reports. The governor noted in his announcement speech that the legislature had authorized another $47.0 million that could be used to support his Learn365RI program. The governor recommended $15.0 million for municipal learning centers in FY 2023 to be used in conjunction with $46.7 million to restore or build community wellness centers. The General Assembly did not appropriate funds for municipal learning centers but did authorize the requested funds for community wellness centers, which could be used for out-of-school educational opportunities. Ibid.
[43] R.I. OMB, FY 2024 Governor's Proposed Budget Executive Summary. General revenue spending makes up most of the state's investment in public higher education, which also includes bonded debt and Rhode Island Capital Plan Fund spending.
[44] Historically, Rhode Island has committed fewer funds to higher education than the U.S. overall. In FY 2019, Rhode Island's higher education spending was 32.7 percent lower than U.S. states collectively on a per capita basis. RIPEC, "How Rhode Island Compares: State and Local Revenues and Expenditures," February 2022.

semester. In his proposed budget, the governor also seeks to direct $8.0 million in SFRF aid to the Office of the Postsecondary Commissioner to support the RI Reconnect initiative, which works with students to address barriers to education and workforce training completion, particularly for communities of color and lower-income students.[45]

In an amendment to his budget submission, the governor proposed a new Hope Scholarship pilot program to provide last-dollar tuition support to Rhode Island College in-state students for their junior and senior years. The Hope Scholarship program would be supported by $9.4 million in SFRF funds and $1.0 million in existing institutional financial aid. Also included in a budget amendment is the governor's proposed appropriation of $2.0 million in SFRF funds for a new Institute for Cybersecurity & Emerging Technologies to be housed at Rhode Island College.[46]

The governor's budget also includes $8.3 million in additional funding for pre-K programs, with $7.0 million to preserve 800 seats funded by an expiring federal grant and $1.3 million to prepare 35 new classrooms for the 2024-2025 school year. This proposal is part of ongoing efforts to reach 5,000 Pre-K seats by 2028.[47] In 2014, the state received $19.0 million over four years in Preschool Grant Expansion funds and an additional three-year, $27.0 million grant in 2020.[48] With the help of this federal funding, from FY 2015 to FY 2023, the number of Pre-K classrooms in Rhode Island expanded from 17 (306 seats) to 128 (2,370 seats).[49]

Health and Human Services Spending

While Rhode Island's enacted FY 2023 budget provided $186.9 million in total for FY 2023 through FY 2025 for the state's ongoing COVID-19 response, none of these funds have been used to date. The governor's budget recommends spending $34.9 million of these funds for the Department of Health's baseline COVID-19 response in FY 2024. An additional $61.0 million is reserved in the governor's budget for COVID-19 mitigation and contingency funds for state agencies related to COVID. The governor's proposed adjustment to COVID-19 response spending would free up $90.9 million for other purposes.[50]

The FY 2023 enacted budget included $30.0 million in SFRF dollars to support planning and infrastructure necessary for behavioral health and community organizations to transition to the federal Certified Community Behavioral Health Clinic (CCBHC) model. With the anticipation that CCBHCs will come online in FY 2024, the governor's budget proposal allocates $21.7 million to support reimbursement rates for the provision of care at these facilities.[51]

In his budget, the governor recommends adding $30.0 million in SFRF aid to the $15.0 million appropriated in FY 2023 to expand shelter capacity for individuals and families experiencing homelessness.[52] In a proposed amendment to his budget submission, the governor

[45] R.I. OMB, FY 2024 Governor's Proposed Budget Executive Summary.
[46] R.I. OMB, Governor's FY 2024 Budget Amendment 9, April 7, 2023.
[47] R.I. Governor's Office, "Governor McKee Announces Update on RI's Plan to Reach 5,000 RI Pre-K Seats by 2028," October 24, 2022.
[48] R.I. Dept. of Education, R.I. Pre-K Programs.
[49] The governor's FY 2025 outyear estimates include funding for the 35 additional classrooms mentioned above but leaves the state less than halfway to its 5,000-seat goal without additional federal funding forthcoming. R.I. House Fiscal Advisory Staff. FY 2024 Budget Analysis, Section VI: Special Reports.
[50] R.I. House Fiscal Advisory Staff, FY 2023 as Enacted, Section I: Budget at a Glance.
[51] R.I. House Fiscal Advisory Staff, Governor's FY 2024 Budget: Staff Presentation to the House Finance Committee, March 2, 2023.
[52] Ibid.

recommended substantial additional investment to respond to homelessness and the lack of affordable housing, including an appropriation of $21.0 million in SFRF funds to the Department of Housing for housing development. This appropriation would include a $17.0 million allocation to a priority project fund that advances the development of supportive housing, housing dedicated to vulnerable Rhode Islanders, and other housing-related priorities.[53]

Other health and human services initiatives in the governor's budget include the addition of $1.3 million in SFRF funding to the $1.3 million already appropriated to pay for the first two months of qualified health plan for individuals and families who are no longer eligible for Medicaid determination. In the enacted FY 2023 budget, the Department of Behavioral Healthcare, Development Disabilities, and Hospitals received 1.9 million in SFRF funds to operate the federally mandated 9-8-8 hotline, which connects to the National Suicide Prevention Lifeline. The governor's budget proposes $1.6 million to maintain hotline operations through FY 2024. The governor's proposal does not identify a permanent funding source, but legislation before the Rhode Island House and Senate would fund the program with an unspecified fee on subscribers of commercial landline telephones, mobile telephones, and IP-enabled voice services.[54]

State Hospitals

In October 2022, the Rhode Island State Psychiatric Hospital opened. This new facility provides care and treatment for court-order forensic patients, and better positions the state to qualify for federal funding for patients served by the two-campus, state-run Eleanor Slater Hospital (ESH).[55] ESH, which previously had included forensic patients, had been the source of continuing budget issues related to federal reimbursement dating back to 2019. Historically funded through a combination of general revenues and revenues from Medicaid, Medicare, and third-party payers, ESH had a mix of medical and psychiatric patients. To receive Medicaid reimbursement, the proportion of a hospital's patient population with a "Qualifying Psychiatric Disease" must be less than 51.0 percent. Beginning in August 2019, ESH fell out of compliance with this patient mix rule, resulting in a loss of Medicaid funding.[56]

The FY 2023 enacted budget assumes the reorganization of ESH into two separate facilities, with psychiatric patients served by the new Rhode Island Psychiatric Hospital and medical patients continuing to be served at ESH. With psychiatric patients removed to a new facility, ESH can more easily comply with the patient mix rule required for Medicaid eligibility. The FY 2023 budget assumes that ESH would come into compliance with the patient mix and begin billing Medicaid for patients on January 1, 2023.[57]

Consistent with the capital plan approved by the General Assembly in the FY 2023 enacted budget, the governor has requested $108.2 million from Rhode Island Capital Plan funds to construct a new 108-bed long-term care facility at the Zambarano Campus of ESH. The estimated cost of the facility is still preliminary and actual costs will not be determined until the design is complete, which is not expected until spring/summer of 2025.[58]

[53] R.I. OMB, Governor's FY 2024 Budget Amendment 12, May 5, 2023.
[54] Ibid; R.I. General Assembly, 2023, House Bill 6121, Senate Bill 799.
[55] R.I. House Fiscal Advisory Staff, Governor's FY 2024 Budget Analysis, Section III: Agency Analyses.
[56] R.I. House Fiscal Advisory Staff, FY 2020 Revised Budget.
[57] R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis, Section V: FY 2023 Revised Budget.
[58] R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis, Section IV: Capital Budget.

Apart from the volatility in the sources of funding for operations and the undetermined nature of the investment in a new facility, the state hospitals (ESH and the Psychiatric Hospital) continue to experience relatively high per patient costs. The governor's FY 2024 budget seeks total expenditures for state hospitals from all sources of $148.3 million based on 143 patients at ESH and 52 beds at the Psychiatric Hospital.[59] Assuming a total patient census of 195, the per patient cost is about $760,500 per year. The billing difficulties at ESH revealed that many patients receive services less than hospital level care, and that some needed only skilled nursing level care, which costs only a fraction of the per patient costs incurred at ESH.[60]

Economic Development Spending

The most significant economic development initiative in the governor's FY 2024 budget proposal is the investment of $45.0 million in SFRF aid in the life sciences sector. Paired with private investment, the allocation would be used in the development of one or more wet lab incubator spaces and to create a fund that provides wraparound services to aid in the development of life science technologies and businesses, and the life sciences workforce.[61]

As part of his FY 2024 budget plan, the governor also proposes to invest $15.0 million in surplus funds to raise the program cap applicable to the Rebuild Rhode Island program from $210.0 million to $225.0 million. Rebuild Rhode Island issues tax credits to qualified commercial, residential, and mixed-use projects with the objective of advancing economic development. The governor's proposal would pre-fund obligations instead of allocating $3.0 million annually over the next five years.[62]

In a proposed amendment to his FY 2024 budget submission, the governor has recommended the creation of a new statewide Low Income Housing Tax Credit Program to provide a tax incentive for developers of low-income housing. This new program would award tax benefits through a competitive process and would be capped at $30.0 million annually for five years.[63]

The governor's FY 2024 budget also includes $25.0 million in SFRF dollars for the City of East Providence to finance the next phase of developing the South Quay Marine Terminal as an intermodal shipping hub to support the offshore wind industry. The FY 2023 budget included $35.0 million in SFRF aid to finance the first phase of the project.[64] The state additionally dedicated $15.0 million in Rebuild Rhode Island tax credits to the project in 2020, bringing the state's total investment to $75.0 million if the governor's proposal is approved by the General Assembly.[65] Described by developers as a $100.0 million project in 2022, estimates since have swelled to more than $200.0 million.[66] Project developers reported that there would be no

[59] R.I. House Fiscal Advisory Staff, Governor's FY 2024 Budget Analysis, Section III: Agency Analyses.
[60] According to a September 2020 study by consultants engaged by ESH, the average per patient cost of skilled nursing care at that time was about $125,000 per year. Alvarez & Marsal, "Eleanor Slater Hospital Transition & Redesign," September 18, 2020. This consultant study reported at the time that ESH costs were approximately $550,000 per patient, "almost 5x the average cost of services provided in nursing facilities and community-based placements." For a study finding that most patients served at long-term acute care hospitals could be treated at skilled nursing facilities at much lower cost, see L. Einav, A. Finkelstein, and N. Mahoney, "Long-Term Care Hospitals: A Case Study in Waste," National Bureau of Economic Research, April 2019.
[61] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[62] Ibid.
[63] R.I. OMB, Governor's FY 2024 Budget Amendment 13, May 5, 2023.
[64] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[65] East Providence Waterfront Commission, East Providence Waterfront District: 2020 Update.
[66] Ibid.

additional fiscal impact to the state when applying for SFRF aid in 2022 but cite only unspecified and unsecured federal grants to fund the remaining $125.0 million of total costs.[67]

The governor's proposed budget includes several other economic development initiatives, the largest of which would dedicate $20.0 million in general revenues to the First Wave Closing Fund, used to provide last-dollar flexible financing for business attraction and retention. The budget also includes $5.0 million in SFRF funds to assist small businesses with ventilation improvements at their facilities. Additional funding of $2.6 million is proposed for the Small Business Assistance Program, which provides loans to businesses struggling to obtain credit through conventional bank loans. The governor also proposes to appropriate $2.4 million to the Wavemaker Fellowship, which incentivizes recent college graduates to start their careers in Rhode Island by defraying student loan payments, with $0.8 million of this funding used to expand the program to teachers in specified content areas. The governor recommends increasing funding from $0.3 million to $1.0 million for SupplyRI, a program that helps connect local suppliers to the procurement needs of larger Rhode Island companies and institutions.[68]

The FY 2023 enacted budget included a $70.0 million SFRF allocation for capital investments in projects related to the blue economy. This appropriation was contingent on Rhode Island receiving $35.0 million in matching federal grants from the then-pending Economic Development Administration grant.[69] Rhode Island was not one of the awardees announced in September 2022, so the governor's FY 2024 budget excludes these projects.[70]

Transportation Funding

The governor's proposed FY 2024 budget includes major investments in transportation. The budget allocates $87.8 million in surplus funds to provide the required state match through FY 2025 for funds appropriated under the federal Infrastructure Investment and Jobs Act.[71] This act, signed into law in 2021, provides funds for various infrastructure projects over a five-year period. As of November 2022, Rhode Island was set to receive $885.0 million in transportation funds to invest in roads, bridges, airports, public transportation, and ports. The state is also due to receive $100.0 million to expand access to high-speed broadband, $66.5 million for clean water infrastructure, $292.0 million for public transportation, $23.0 million for electric vehicle charging stations, and $20.1 million for clean energy and power.[72]

The governor's budget proposes using $70.0 million in surplus funds in the FY 2023 revised budget to replace toll revenue lost due to a successful court challenge to the state's commercial truck tolling program, which was initiated to raise funds to fix bridges falling into disrepair.[73]

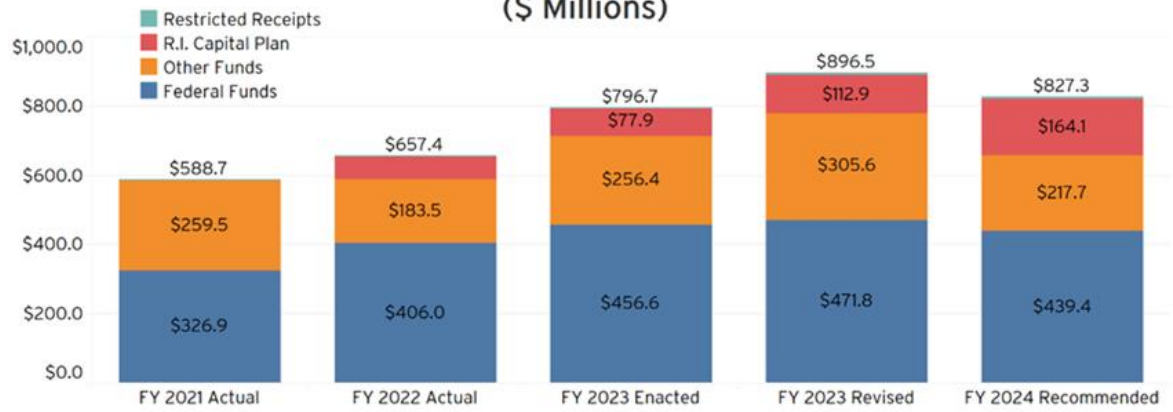
[67] R.I. Senate Fiscal Office, "South Quay: Special Communication Document."
[68] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[69] R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, Section I: Budget at a Glance.
[70] R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis, Section VI: Special Reports.
[71] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[72] Office of the President of the United States, Rhode Island Factsheet, November 2022.
[73] The program consisted of a series of tolls placed at various bridge locations along major corridors in the state, with toll charges levied only on large, commercial trucks. At the time the case was heard, Rhode Island had 700 bridges listed on the National Bridge Inventory System, with 100 of those falling into disrepair. American Trucking Associations; Inc et al v. Peter Alviti, Jr. C.A. No. 18-378, 2022.

Finding the tolling violated the Commerce Clause of the U.S. Constitution, the 2022 ruling suspended the program. The state's appeal of the ruling remains pending.[74]

The governor's FY 2024 budget proposal also includes $20.0 million from the state's SFRF allocation to create a fund for a municipal road program that cities and towns can access to complete road projects.[75] This program would equally divide $15.0 million to each city and town ($384,615 each), with the remaining $5.0 million proportionally distributed by the miles of road in each community. Under the program, state funds could be used for up to one-third of the total cost of a project, with the city or town covering the remaining two-thirds. Accounting for the local match, the program could yield up to $60.0 million for local road projects.[76]

The transportation funding proposed in the governor's budget continues a policy of increased investment in transportation that began with Governor Raimondo's Rhode Works Program. As depicted in Figure 11, Governor McKee proposes to significantly increase transportation spending in both his FY 2023 revised budget and FY 2024 proposed budget. The FY 2023 revised budget increases spending by $99.8 million (12.5 percent) over the FY 2023 enacted budget and represents a $307.8 million (52.3 percent) increase over the FY 2021 spending level. The governor's proposed FY 2024 budget reduces transportation spending from his FY 2023 revised budget by $69.2 million (8.4 percent) but represents an increase over FY 2023 as enacted of $30.6 million (3.8 percent). Compared to FY 2021, the governor's proposed transportation spending for FY 2024 represents an increase over three years of $238.6 million (40.5 percent).[77]

Figure 11
Rhode Island Department of Transportation Spending By Source of Funds
($ Millions)



Note: Other funds includes gas tax revenues, motor vehicle fees, and toll revenue.
Source: R.I. OMB, FY 2024 Budget Proposal, Volume IV: Public Safety, Natural Resources, and Transportation.

[74] The court found that the state violated the Commerce Clause by discriminating against out-of-state trucks in two respects. The state did not toll bridge users based on a fair approximation of their use (trucks entering/exiting the state were tolled more than in-state trucks that used the bridges the same amount or more). The court also found that the tolling program discriminated on out-of-state trucks by design; the program targeted large trucks (Class 8 or higher) to exempt smaller trucks used for daily business in the state. Ibid.
[75] The state only manages about 20.0 percent of the miles of roads in Rhode Island, with the remaining 80.0 percent left to cities and towns. R.I. Governor's Office, News Releases, "Governor McKee, RIDOT, Rhode Island League of Cities and Towns, Municipal Leaders Highlight Proposed #RIReady Municipal Road Fund Program | Governor's Office, State of Rhode Island," April 10, 2023.
[76] Ibid.
[77] R.I. OMB, FY 2024 Budget Proposal, Volume IV: Public Safety, Natural Resources, and Transportation.

Rainy Day Fund

Rhode Island's rainy day fund is funded each year by an allocation of 3.0 percent of state general revenues, and is capped at 5.0 percent of general revenues, with any excess funds transferred each year to the Rhode Island Capital Plan Fund (RICAP) to be used solely for capital projects, in accordance with the Rhode Island Constitution.[78] In this FY 2024 budget, the governor proposes the creation of an additional fund to supplement the rainy day fund with $55.0 million in surplus revenues. The supplemental fund would represent approximately 1.0 percent of general revenues and would effectively increase the state's rainy day reserves to 6.0 percent.[79]

Historically, Rhode Island's rainy day fund has left the state with less runway than most states. In FY 2022, Rhode Island could operate on savings alone for 19.5 days, which was lower than all but six other states and less than half of the 50-state median of 42.3 days.[80] An increase in the rainy day fund cap to 6.0 percent of general revenues, as effectively proposed in the governor's budget, would advance the state's fiscal preparedness, though Rhode Island's rainy day fund would still be small relative to most states; in FY 2023, the median rainy day fund balance of states amounted to 11.9 percent of general revenue spending.[81]

Capital Spending

The governor's FY 2024 budget includes a transfer of $60.0 million in surplus funds to RICAP to fund various new capital projects, including renovations at Davies Career and Technical High School, State House renovations, and investments in state-owned group homes.[82] This additional proposed allocation to RICAP would supplement the extraordinary infusion into RICAP of $536.9 million contained in the FY 2023 enacted budget.[83] The proposed budget also includes the transfer of $28.5 million in surplus funds to the Rhode Island Infrastructure Bank to leverage additional federal funding for investments in water, sewer, and stormwater management. The transfer would satisfy state matching requirements to access federal funds through FY 2028.[84]

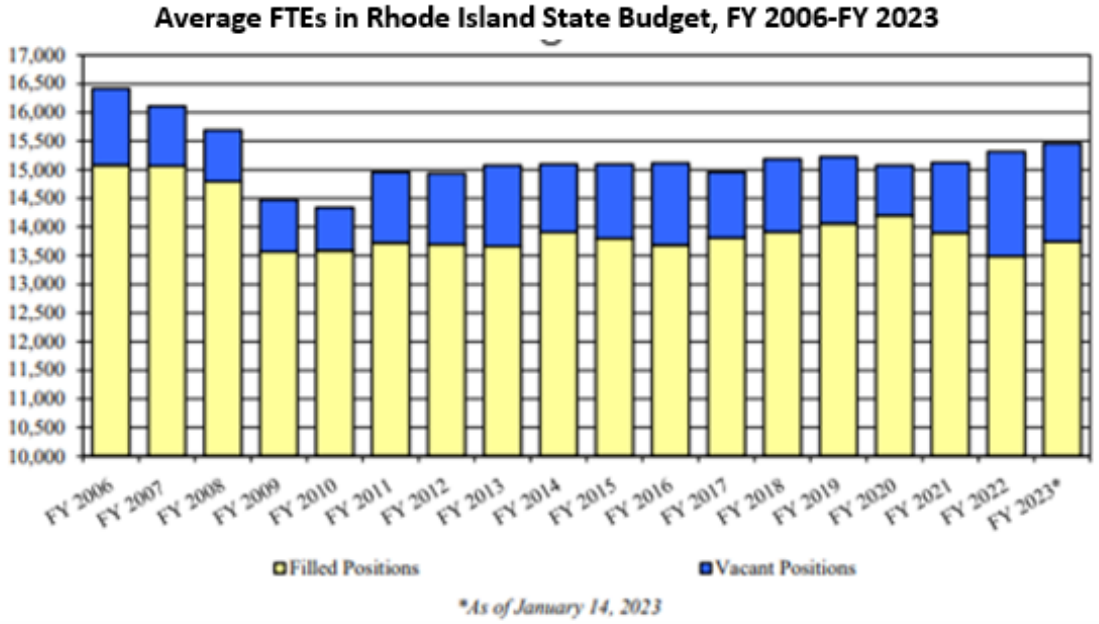
Personnel

The governor's FY 2024 budget proposal recommends $2.65 billion for personnel expenditures, a reduction of $3.9 million compared to the enacted FY 2023 budget. This includes $59.7 million more for salaries and benefits and $55.7 million less for contracted services, the latter primarily connected to the wind down of one-time pandemic-related spending. Of total personnel costs, $1.25 billion is funded by general revenues. General revenue spending on personnel costs consists of $735.3 million for salaries and wages, $409.8 million for benefits, and $109.4 million for contracted services.[85] If approved by the General Assembly, the proportion of general

[78] R.I. Constitution, Article IX, § 16.
[79] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[80] The states with less runway than Rhode Island in FY 2022 were Washington, Illinois, New Jersey, New York, Hawaii, and Montana. Justin Theal and Alexandre Fall, "Record State Budget Reserves Buffer Against Mounting Fiscal Threats," The Pew Charitable Trusts, March 22, 2023.
[81] Kathryn White, "Rainy Day Funds Reach Historic Levels, Leaving States More Prepared Than Ever for a Future Downturn," National Association of State Budget Officers, January 25, 2023.
[82] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[83] R.I. House Fiscal Advisory Staff, Budget as Enacted FY 2023, Section IV: Capital Budget.
[84] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.
[85] R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis, Section VI: Special Reports.

revenues dedicated to personnel costs would decline slightly from FY 2023 (24.0 percent to 23.6 percent) and would be slightly below the four-year annual average from FY 2020 through FY 2023 (24.1 percent).[86]

The governor's proposed FY 2024 expenditures are to support 15,591.5 full-time equivalent (FTE) positions, 128.0 (8.3 percent) more than the governor's revised FY 2023 budget.[87] The FTEs requested in the governor's proposal continues the growth of authorized FTEs over the past few years. If approved by the General Assembly, the level of FTEs recommended by the governor would represent the highest level of authorized FTEs since FY 2008, when hundreds of filled and vacant positions were eliminated due to the Great Recession. While authorized FTEs have grown, vacancies have remained at historically high levels, with an average of 1,844.7 positions left unfilled as of January 2023, a slight increase over the average 1,827.1 unfilled positions in FY 2022. The number of vacancies in January 2023 represents a 50.2 percent increase since FY 2021.[88] The figure below, prepared by the Rhode Island House Fiscal Advisory Staff, depicts the average number of vacant and filled FTE positions from FY 2006 to FY 2023.[89]



Prepared by Rhode Island House Fiscal Advisory Staff in FY 2024 Budget as Proposed, Section VI: Special Reports.

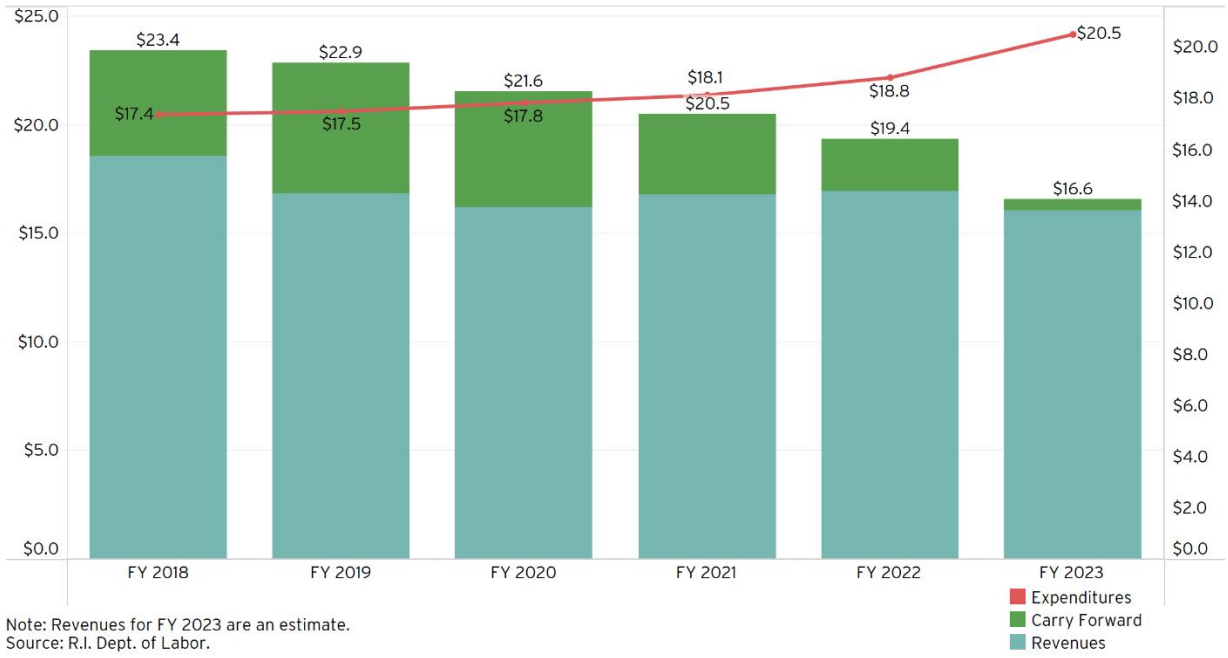
Other Spending Items

In his budget, the governor proposes that $4.4 million be deposited in the Workers' Compensation Administrative Fund (WCAF) to shore up the fund and prevent an employer rate increase.[90] Depicted in Figure 12, net revenues—including revenues from the fund balance carried over from the previous year—have declined year over year since FY 2018, from $23.4

[86] RIPEC, "Rhode Island's FY 2023 Enacted Budget and Fiscal Outlook," September 2022; RIPEC calculations.
[87] R.I. House Fiscal Advisory Staff, FY 2023 Budget Analysis, Section I: Budget at a Glance.
[88] R.I. House Fiscal Advisory Staff, FY 2024 Budget Analysis, Section VI: Special Reports; RIPEC calculations. The number of average vacancies in FY 2021 was significantly lower, at 1228.2 FTEs.
[89] Ibid.
[90] The WCAF is used to pay for the administration of the worker's compensation system which includes the Division of Workers' Compensation, the Workers' Compensation Court, the Medical Advisory Board, and the Workers' Compensation Advisory Council. R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

million in FY 2018 to $16.6 million in FY 2023.[91] At the same time, the administrative cost of running the workers' compensation system has risen from $17.4 million in FY 2018 to an estimated $20.5 million in FY 2023, a five-year increase of 17.8 percent.[92] As a result of declining revenues, increasing expenditures, and the depletion of carryforward funds, the WCAF balance for FY 2023 is projected to be $3.9 million in the red. The governor's $4.4 million proposal would cover this shortfall and leave a fund balance of roughly $0.5 million.

Figure 12
Workers' Compensation Fund Net Revenues and Expenditures, FY 2018- FY 2023
($ Millions)



Note: Revenues for FY 2023 are an estimate.
Source: R.I. Dept. of Labor.

The governor also proposes to use $35.0 million in surplus funds to retire various state debts, resulting in savings of approximately $4.5 million in FY 2024.[93]

[91] The WCAF is funded through a percentage of premiums paid by employers determined by the Department of Labor and Training (DLT). R.I. Gen Laws, § 28-37-1. DLT reduced the rate from a high of 6.75 percent in FY 2014 to a low of 5.0 percent in FY 2021 due to the carry forward amounts in the fund that helped operate the system. The WCAF is also responsible for an Indirect Cost Recovery of ten percent which goes into the state's General Fund. R.I. Gen Laws, § 35-4-27.
[92] R.I. Dept. of Labor and Training.
[93] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

III. May Revenue and Caseload Estimating Conferences

Since the governor's budget was submitted in January, revenue and expenditure projections for the current and next fiscal year have been revised by the May 2023 Revenue and Caseload Estimating Conferences. For FY 2023, the May Conference projected a general revenue reduction of $61.2 million as compared to the November estimates upon which the governor's budget was based. However, this revenue shortfall was mostly offset by a reduction of $53.3 million in general revenue expenditures relating to caseload as projected by the May Conference. For FY 2024, general revenues were essentially unchanged ($2.9 million reduction) by the May Conference compared to November, but the net position was improved by savings of $55.6 million in projected general revenue caseload expenditures.

Revenue Estimating Conference

Economic Forecasting Testimony

Given the uneven nature of Rhode Island's recovery from the pandemic, the economic forecasting testimony presented by S&P Global—a state-contracted national firm—has been a critical input for calculating revenue estimates. S&P Global's outlook for key indicators at the May 2023 Conference was generally improved over projections at the November Conference, as illustrated in Figure 13.

Figure 13
Change in Economic Forecast in Key Indicators from November 2022 to May 2023 Revenue Estimating Conference

		November	May
Non-Farm Employment Growth	FY 2023	1.7%	2.1%
	FY 2024	-1.0%	0.2%
Personal Income Growth	FY 2023	3.4%	4.6%
	FY 2024	3.9%	4.1%
Personal Consumption Growth	FY 2023	5.6%	7.3%
	FY 2024	2.8%	3.6%

Source: S&P Global, Rhode Island Economic Outlook Update, May 1 2023.

For FY 2025 through FY 2028, S&P Global's forecast for key metrics related to state revenues is not overly optimistic, however, and falls short of the revenue output from FY 2020 to FY 2024. Rhode Island employment growth is projected to grow by only 4,100 jobs over the four-year period—an average of 0.2 percent per year. Personal income growth is expected to grow by an average of 4.3 percent per year from FY 2025 to FY 2028—below the average of 5.1 percent from FY 2020 to FY 2024. Personal expenditures also are expected to rise slowly, from a 3.2 percent growth rate in FY 2025 to a 4.1 percent growth rate in FY 2028, an average of 3.7 percent over the four years. This lags the previous five years, which saw an average annual growth rate of personal expenditures of 5.3 percent.[94]

[94] S&P Global, "Rhode Island Economic Outlook Update," May 1, 2023; RIPEC calculations.

Revenues

Total projected revenue estimates at the May 2023 Revenue Estimating Conference were lower than the November 2022 estimates used to construct the governor's FY 2023 budget revisions and FY 2024 budget proposal. As shown in Figure 14, Conference principals in May adopted a general revenue estimate of $5.20 billion for FY 2023—a decrease of $61.2 million (1.2 percent) as compared to the November estimate of $5.26 billion. This decrease is largely attributable to an estimated decline in personal income tax revenues of $96.6 million from November estimates. General business tax revenues were projected to be $5.1 million lower than projected in November, while sales and use taxes, other taxes, and other forms of revenue were projected to see slight increases.

Similarly, for FY 2024, May 2023 estimates for personal income tax revenue were significantly lower than November estimates ($92.7 million less), but because of projected increases in other revenues over November projections, total general revenues for FY 2024 were estimated to be only $2.9 million (0.1 percent) less than was projected in November. When factoring in the estimated hospital licensing fee, which is included in the budget on a year-to-year basis, total general revenues for FY 2024 were projected at the May Conference to be $81.8 million higher than in FY 2023 at the May Conference, an increase of only 1.6 percent.

Figure 14
May 2023 Revenue Estimating Conference
($ Millions)

	FY 2023				FY 2024			FY23-24 Change
	Enacted	Nov. 2022 Estimate	May 2023 Estimate	May-Nov. Change	Nov. 2022 Estimate	May 2023 Estimate	May-Nov. Change	May 2023 Estimate
Personal Income Tax	$ 1,775.0	$ 1,910.3	$ 1,813.7	$ (96.6)	$ 1,979.6	$ 1,886.9	$ (92.7)	$ 73.2
General Business Taxes	537.2	602.6	$ 597.5	$ (5.1)	601.5	615.0	$ 13.5	$ 17.5
Sales and Use Taxes	1,508.6	1,575.0	$ 1,579.0	$ 4.0	1,580.0	1,607.0	$ 27.0	$ 28.0
Other Taxes	221.3	238.5	$ 252.2	$ 13.7	210.0	217.7	$ 7.7	$ (34.5)
Other Revenues	859.4	934.0	$ 956.8	$ 22.8	733.7	775.3	$ 41.6	$ (181.5)
Estimated Hospital Licensing Fee					*$ 179.1*	*$ 179.1*		
Total General Revenues	**$ 4,901.5**	**$5,260.4**	**$ 5,199.2**	**$ (61.2)**	**$5,283.9**	**$ 5,281.0**	**$ (2.9)**	**$ 81.8**

Note: General Business Taxes include business corporations, public utilities gross, financial institutions, insurance companies, bank deposits, and healthcare provider taxes. Other taxes includes motor vehicles, cigarettes, alcohol, inheritance and gift, racing and athletics, and realty transfer taxes. Other revenues includes departmental receipts, other miscellaneous, lottery, and unclaimed property. FY 2024 hospital licensing fee estimate assumes FY 2023 levels.
Source: R.I. OMB, May 2023 Revenue Estimating Conference Report.

Caseload Estimating Conference

On the other side of the ledger, projections for expenditures in the current and next fiscal year for cash assistance, costs for private community providers serving individuals with developmental disabilities, and medical assistance were reduced at the May 2023 Caseload Estimating Conference as compared to the expenditure projections at the November 2022 Conference. For FY 2023, projected total expenditures were reduced by $117.7 million, including a reduction of $53.3 million in general revenue expenditures, from the November estimate. The reduction in projected general revenue spending was primarily attributable to lower medical

assistance expenditures resulting from the extension of the enhanced federal Medicaid matching funds under the PHE.[95]

For FY 2024, the May Caseload Estimating Conference similarly reduced projected expenditures as compared to the November Conference. Total expenditures were reduced by $85.1 million, including a reduction of $55.6 million in general revenue expenditures. As for FY 2023, the reduction was largely attributable to medical assistance expenditures, and was primarily due to the extension of enhanced federal Medicaid matching funds through the first two quarters of FY 2024 (through December 31, 2023).[96]

[95] R.I. OMB, May Caseload Estimating Conference Report. The FY 2023 Third Quarter Report issued on May 15, 2023, also projected a net reduction of $10.0 million in other general revenue expenditures. R.I. OMB, Third Quarter Financial Statement Requirement Memo, April 4, 2023.

[96] The Families First Coronavirus Response Act, signed into law in 2020, temporarily increased the state's Medicaid match rate by 6.2 percent until the end of the quarter after the end of the PHE was declared if the state maintained "continuous coverage" for enrollees. This mandated that individuals enrolled in Medicaid could not have their coverage terminated even if they were no longer eligible. At the end of 2022, Congress passed the Consolidated Appropriations Act which decoupled the enhanced match percentage and the continuous coverage requirement and extended some of the enhanced percentage match provisions until the end of calendar year (CY) 2023 (the match percentage is scheduled to phase down from 6.2 percent in Q1 of CY 2023, to 5.0 percent in Q2, 2.5 percent in Q3, then 1.5 percent in Q4). R.I. House Fiscal Advisory Staff, Medicaid Report as Recommended. The November 2022 Caseload Estimating Conference assumed an end of the PHE in January 2023, with the enhanced percentage match effective through March 2023. R.I. OMB, November Caseload Estimating Conference Report. The May Caseload Estimating Conference makes updates to those assumptions to reflect the extension of the percentage match with the phasedown through the end of CY 2023 and the associated savings with the termination of coverage for those subject to redetermination. R.I. OMB, May Caseload Estimating Conference Report.

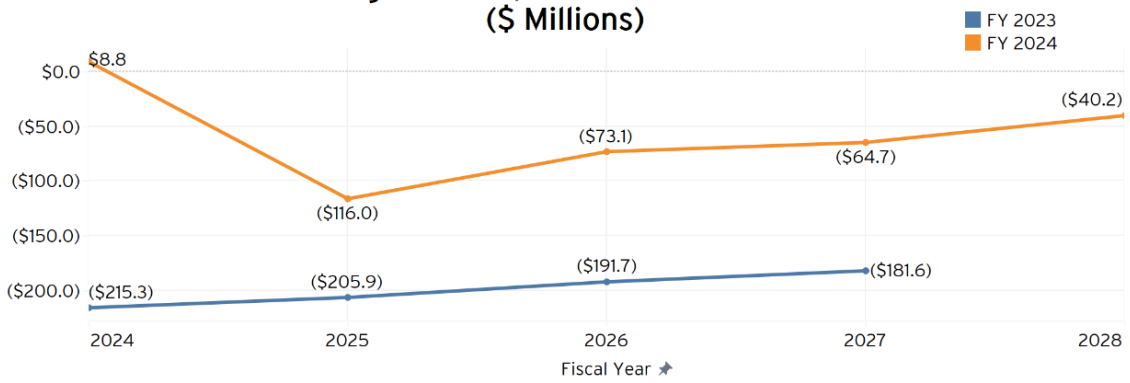
IV. The Budget Outlook for FY 2025 and Beyond

Rhode Island's budget picture remains complicated given the extraordinary allocations of federal pandemic funding and large state general revenue surpluses. This federal funding is one-time and must be spent within the next couple of fiscal years, and therefore will not be available to pay for continuing state expenditures. Similarly, surplus funds are non-recurring and will not be available on a continuing basis. To the extent that the governor's FY 2024 budget makes use of one-time federal or surplus funds to pay for continuing state expenses, and the General Assembly approves the use of one-time funds for such expenditures, there will be a structural imbalance that will need to be resolved in the next fiscal year.

State general revenue surplus funds are not segregated from other general revenue funds and therefore are not earmarked to specific expenditures. However, as discussed on page 9, the governor's budget submission includes a listing of one-time expenditures attributed to the general revenue surplus of $610.0 million. The governor has identified one-time expenditures of $352.9 million in FY 2023 and $169.4 million in FY 2024, for a total of $522.3 million. The gap of $87.7 million presumably represents surplus funds used to pay continuing state expenditures. In addition, among the one-time items attributed by the governor to surplus funds is $70.0 million to backfill toll revenue lost when the state's truck toll system was ruled unconstitutional. If the state does not prevail in the pending appeal of the ruling, this revenue loss would represent a continuing gap in funding.

The governor's FY 2024 budget includes financial projections of anticipated general revenues and expenditures for five fiscal years ending in FY 2028, as required by law.[97] As depicted in Figure 15, structural deficits continue to be projected for future fiscal years, beginning with a projected deficit of $116.0 million in FY 2025 and thereafter declining to a deficit of $40.2 million in FY 2028. Figure 15 additionally illustrates that these deficits are significantly lower than those projected one year earlier in the FY 2023 deficit forecast. The governor's budget submission indicates the $522.3 million in non-recurring expenditures "are excluded from the outyear base."[98]

Figure 15
Structural Budget Deficit, FY 2023 and FY 2024 Forecast
($ Millions)



Recreated from R.I. OMB, FY 2024 Governor's Budget Proposal, Executive Summary.

[97] State law requires that the state budget officer prepare a five-year final projection of "anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas." R.I. Gen. Laws § 35-3-1(a)(6).
[98] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

The governor's five-year forecast projects that growth in state general revenues will slow considerably over this period—from $5.28 billion in FY 2024 to $5.85 billion in FY 2028, an average annual growth rate of 2.6 percent. The forecast projects state general revenue expenditures to be even more constrained, growing from $5.30 billion in FY 2024 to $5.72 billion in FY 2028, an average annual growth rate of 1.9 percent.[99]

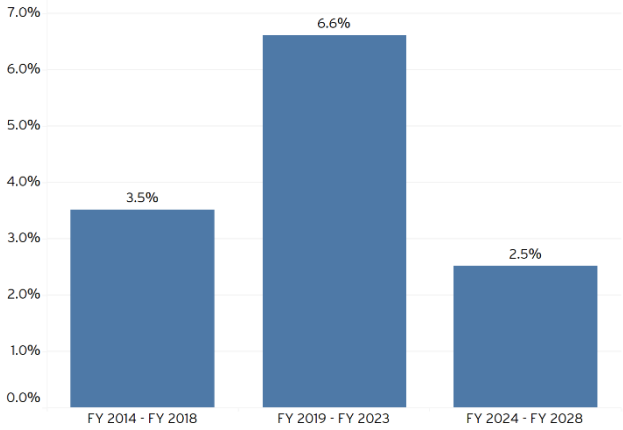
[99] R.I. OMB, FY 2024 Budget Proposal, Executive Summary.

VI. RIPEC Comments

The governor's proposed FY 2024 budget would appear to be the last of a series of flush state budgets fueled by enormous allocations of federal pandemic funding and very large general revenue surpluses. With total expenditures of $13.75 billion, the governor's spending plan is $4.18 billion—43.7 percent—more than just five years ago (FY 2019), the last fiscal year before the pandemic. Most of this increase is driven by a large uptick in federal funding connected with the pandemic, but proposed state general revenue expenditures of $5.30 billion are $1.39 billion—35.5 percent—more than general revenue expenditures in FY 2019.

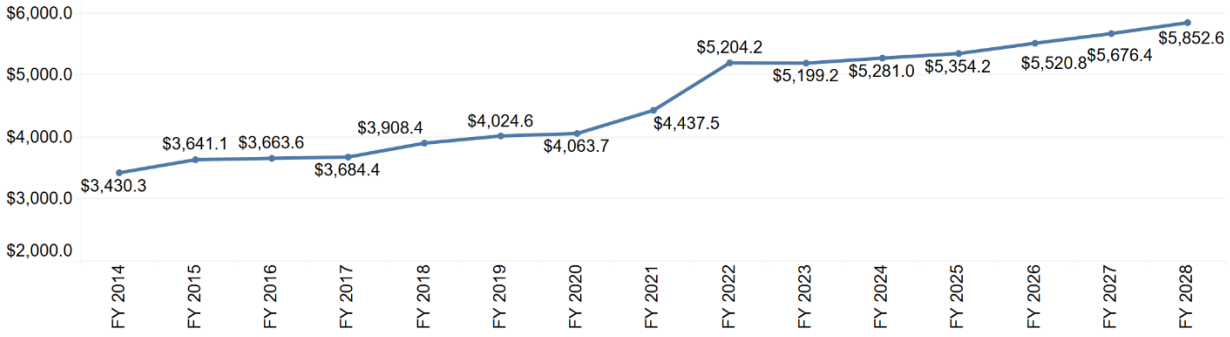
At the same time, state revenue growth in FY 2024 is projected to be much weaker than revenues in the prior fiscal year, marking the beginning of more constrained revenues forecasted for future fiscal years. The governor's FY 2024 budget was based on an increase in state general revenues of only $23.6 million—0.4 percent—over the enacted FY 2023 budget. The May Revenue Estimating Conference revised FY 2024 state revenues to be $81.8 million greater than revised FY 2023 revenues, still a modest growth rate of only 1.6 percent. Depicted in Figure 16, state budget forecasters anticipate that revenue growth will continue to be constrained at an average annual growth rate of 2.5 percent between FY 2024 and FY 2028. This forecasted revenue growth significantly lags the pre-pandemic (FY 2014 – FY 2018) average annual growth rate of 3.5 percent. Figure 17 depicts the dramatic swings in actual and forecasted state general revenue for the period from FY 2014 through FY 2028.

Figure 16
Rhode Island General Revenues Five-Year Average Annual Growth Rate, Actual and Projected
FY 2014 - FY 2028



Note: General revenues for FY 2013-FY 2022 are actual. Projections for FY 2023 and FY 2024 were determined by the May 2023 Revenue Estimating Conference. FY 2025-2028 general revenue projections were supplied in R.I. OMB's executive summary of the FY 2024 budget as proposed.
Source: R.I. OMB, May Revenue Estimating Conference Reports, 2014-2023; R.I. OMB, FY 2024 Budget as Proposed, Executive Summary; RIPEC calculations.

Figure 17
Rhode Island General Revenues, Actual and Projected
FY 2014 - FY 2028
($ Millions)



Note: General revenues for FY 2013-FY 2022 are actual. Projections for FY 2023 and FY 2024 were determined by the May 2023 Revenue Estimating Conference. FY 2025-2028 general revenue projections were supplied in R.I. OMB's executive summary of the FY 2024 budget as proposed.
Source: R.I. OMB, May Revenue Estimating Conference Reports, 2014-2023; R.I. OMB, FY 2024 Budget as Proposed, Executive Summary.

While the FY 2024 budget is relatively tight in terms of revenue growth from the prior fiscal year, in his FY 2024 budget proposal, the governor made use of $87.7 million in one-time surplus funds to pay for continuing state expenditures. The governor deserves credit for allocating the much larger remainder of the surplus ($522.3 million) to one-time, non-recurring items in his spending plan.

Given this constrained revenue situation for FY 2024, the governor's proposed budget also deserves praise for recommending several revenue proposals to provide tax relief to Rhode Islanders and improve the state's competitiveness. These revenue initiatives, which include refunds for gross receipts taxes on electricity and natural gas, a reduction of the sales and use tax, and the deferral of the scheduled gas tax increase, total $78.3 million for FY 2023 and FY 2024.

The governor's FY 2024 budget proposal contains several other positive elements to improve the state's fiscal position and economy. While modest, the governor's proposal to effectively increase the state's rainy day fund from 5.0 percent to 6.0 percent of general revenue would improve the state's ability to weather economic storms. In his budget, the governor also recommends higher state operating support for the state's institutions of higher education, which have been historically underfunded. New investments in bioscience and additional funding for the South Quay terminal in East Providence have the potential to spur economic growth.

In his budget proposal, the governor also should be credited for seeking to address the school funding formula, which has not operated as intended for the last two fiscal years. However, the governor's approach is not comprehensive and instead consists of several ad hoc measures that seem to be more intended to address funding gaps for individual districts than to establish coherent and consistent policy for the long term. The governor's proposal for a major increase in categorical funding for multilingual learners is much needed but is not incorporated into the funding formula. His recommended increase in the poverty bonus of disadvantaged students represents a step in the right direction, although the impact of this change is undermined to some degree by his proposed new method of calculating students in poverty, which undercounts such students as compared to the calculation method under current law. The governor also uses other factors, such as homelessness and a transition fund for students that have left a district for charter schools, as the basis to increase funding for certain districts. Even after all these changes, the governor continues to provide hold harmless funding—in the amount of $8.5 million—to compensate districts for enrollment losses.

Based on this analysis, RIPEC offers to policymakers the following recommendations:

Given the constrained revenue outlook for FY 2025 and beyond, the state needs to avoid spending commitments beyond available resources and prepare to curtail the level of spending growth. Over the past few years, Rhode Island's state budget has experienced an unprecedented abundance of federal funding and state general revenue surpluses. In this environment, policymakers have had a relatively easy time managing expenditures. The state is now entering a period in which this federal funding will be running out and state general revenue growth will be considerably more constrained. Policymakers will need to avoid unsustainable spending commitments and be prepared to curtail the level of spending growth.

The General Assembly should approve the governor's proposed creation of a supplemental rainy day fund and should consider further increases to the fund. The governor's proposal to create an additional fund to supplement the rainy day fund with $55.0 million in surplus revenue—essentially increasing the rainy day fund reserves from 5.0 percent to 6.0 percent of general revenues—deserves strong support. However, at 6.0 percent of revenues, Rhode Island's rainy day fund would still be among the smallest among states in relation to revenues—well below the median percentage among states of 11.9 percent of general revenue expenditures. The General Assembly should consider increasing the rainy day fund beyond the level sought in the governor's proposal.

Policymakers should reconcile state education aid consistent with the funding formula and reform the formula to direct more aid to economically disadvantaged and multilingual students. Like many states, Rhode Island has protected school districts from the financial impact of enrollment losses by essentially allocating state funding for empty seats. Since it has become evident that school districts likely will not recover their enrollment declines, state aid should be reconciled consistent with actual enrollment levels going forward. Policymakers should use this opportunity to reprogram excess state funding to target more aid to economically disadvantaged and multilingual students.

Transportation funding deserves special focus to ensure that a sufficient state match is available to access increased federal infrastructure funding. Rhode Island is set to receive $885.0 million in transportation funds under the federal Infrastructure Investment and Jobs Act. This sizable enhancement in federal funding accordingly will require an increased allocation of state matching funds. At the same time, the state's commercial truck tolling program has been ruled unconstitutional, resulting in substantial lost toll revenues, subject to the state's appeal of the ruling. In addition, gas tax revenues are expected to decrease given the increasing prevalence of electric and hybrid vehicles, and there appears to be little activity to pursue revenue alternatives to the gas tax, as has been the case in some other states.[100] Policymakers should give special focus to ensure sufficient and sustainable state matching funds for transportation. Given these funding challenges, the governor's proposal to temporarily suspend the gas tax appears questionable.

Policymakers should focus on the health and human services delivery system since spending demands in this area will likely present the most challenging issue for the FY 2025 budget. With a comprehensive rate analysis expected from the Office or the Health Insurance Commission later this year, health and human services expenditures—particularly rates for providers—likely will be a major focus of the FY 2025 budget. Inflationary forces affecting labor markets and other costs will likely lead to considerable pressure to increase expenditures and rates. Accommodating these spending demands will be challenging given forecasted revenue constraints. To be better prepared to meet these challenges, policymakers should focus on consolidating programs and streamlining delivery systems.

[100] The Senate Fiscal Office estimates that gas tax revenues will decline from $155.0 million in FY 2024 to $145.9 million in FY 2028 (a 5.9 percent decline), even when factoring in scheduled rate increases in FY 2024 and FY 2028. If the state decides to forgo those scheduled increases as the governor proposes, gas tax revenues are projected to decline from $142.6 million in FY 2024 to $130.8 million in FY 2028 (an 8.3 percent decrease). R.I. Senate Fiscal Office, Issue Brief: Motor Fuel Tax. January 10, 2023; National Conference of State Legislatures, Special Fees on Plug-In Hybrid and Electric Vehicles, March 27, 2023.

The state should seek to improve its business tax climate. Rhode Island's business tax climate was ranked 42nd highest (ninth worst) in the most recent Tax Foundation study. In his budget proposal, the governor has proposed tax relief measures, but the leading recommendation to slightly reduce the sales and use tax relates to a tax in which Rhode Island is already relatively competitive (Rhode Island ranks 24th on the sales tax component of the Tax Foundation's study). The governor's other tax relief proposals are largely one-time and would not materially affect the state's competitiveness going forward. Instead, the state should consider mitigating the relatively high property tax burden on Rhode Island businesses (the Ocean State ranks 41st on the property tax component of the Tax Foundation study).[101] In particular, the General Assembly should consider approving pending legislative proposals to provide a statewide tangible tax assessment exemption.

There are several expenditure issues that will require attention for FY 2025 and beyond. The state has several spending items that will need to be assessed given the constrained revenue forecast. These include the plan to more than double the number of pre-K seats from the current level of 2,370 to 5,000 by 2028. Also, despite the restructuring of the state hospital to maximize federal reimbursement, the system continues to incur high per patient costs, and it is unclear whether plans to build a new hospital at the Zambarano campus, which remain incomplete, will improve or exacerbate these cost issues. In addition, the cost of the South Quay terminal project in East Providence has jumped sharply since last year, and funding to complete the project appears to be uncertain. Finally, even if the governor's recommended infusion of $4.4 million in one-time state assistance to the workers' compensation fund is approved, there remains a significant gap between revenues and administrative expenditures in the fund going forward.

[101] RIPEC, "Rode Island Falls to the Bottom Ten of States," January 2023.

RIPEC

About the Rhode Island Public Expenditure Council

The Rhode Island Public Expenditure Council (RIPEC) is a nonpartisan and nonprofit public policy research organization dedicated to advancing fiscally responsible government, competitive tax policies, and economic opportunities for all in Rhode Island.

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