AUGUST 2025

RHODE ISLAND'S FY 2026 ENACTED BUDGET

AUSTERITY DEFERRED DESPITE SOFTENING REVENUES AND FEDERAL UNCERTAINTY

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Executive Summary

After a period of extraordinary growth in state revenues and expenditures, Rhode Island continues to expand spending at a relatively high rate despite slowing general revenues and the uncertainty of future federal funding. Much of the increased spending in the FY 2026 budget is supported by one-time surplus funds—resulting in large and growing projected future deficits. The General Assembly also enacted several new taxes and fees, as well as increases to existing ones. This report analyzes the Assembly's taxing and spending decisions, highlighting challenges in key areas: health and human services, K–12 education, transportation, and personnel. It also outlines new tools to assess the effectiveness of state programs and the potential for improvements in this area. Finally, the report describes the budget implications of the One Big Beautiful Bill Act (OBBBA), enacted shortly after the state budget became law.

Key Findings

- Total spending in the FY26 budget is $14.34B and **general revenue spending** is $5.81B, **an increase of 3.8% over FY25 enacted** (and 10.9% over FY24). This increase exceeds projections for inflation (3.5%) and general revenue growth (1.5%) for FY26.
- The Assembly relied on **several revenue initiatives to fund increased spending**, including a health services assessment, a gas tax increase, a real estate conveyance tax increase, and new fees on electric and hybrid vehicles.
- The Assembly also relied on a **one-time general revenue surplus of $230.2M to fund continuing expenses**, contributing to a structural budget **deficit projected at $304.3M in FY27** and growing to $462.1M by FY30.
- Health and Human Services (HHS)—particularly Medicaid—drive FY26 spending increases. Despite large enrollment declines, **total Medicaid expenditures increased by $377.9M (8.4%)** over FY25.
- General revenue **spending on K-12 education grew by 4.4%, and by 5.3% on a per-pupil basis**, in FY26, outpacing total general revenue growth. Enrollment has fallen by 5.4% since FY19.
- Despite increased taxes and fees to fund transportation, the **state still relies heavily on the gas tax, projected to decline by 4.7% by FY30**. Funding shortfalls remain for RIPTA and the Washington Bridge.
- **Personnel spending jumped by $65.3M (4.9%)** in FY26 due to new collective bargaining agreements and continued growth in authorized and filled state employees.
- The budget adds new tools to improve program integrity and tax collections, but a **lack of public transparency on program evaluations** makes it hard to assess how effectively state funds are used.
- OBBBA extends the Tax Cuts and Jobs Act, makes major tax changes, and significantly revises Medicaid and SNAP. Rhode Island has the **13th highest reliance on federal funding nationwide.**

Recommendations

Bring spending growth in line with available resources

Pursue K-12 funding reform for equity, sustainability, and stronger local support

Avoid tax increases that would undermine economic competitiveness

Constrain growth in personnel spending

Control HHS costs, including the cost of Medicaid

Focus on more transparent and accountable program evaluation

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I. Introduction

Rhode Island's FY 2026 enacted budget continues a trend of robust spending increases that began with enormous pandemic-era federal funding allocations and a surge in state general revenues and has continued despite slowing revenue growth and the uncertainty of federal funding. Beginning in FY 2025, the state budget began to rely more heavily on one-time revenues to fund recurring expenditures, generating projected deficits in future years.

In this latest budget for FY 2026, Rhode Island has continued to rely on surplus funds but also has introduced new taxes and fees, and increased existing ones, to grow spending. Despite these revenue increases, large projected deficits once again loom for future budget years; the FY 2026 budget process began with a substantial projected deficit, and policymakers have set themselves up for a similar shortfall in FY 2027.

Citing tax and fee increases in the FY 2026 appropriations act passed by the General Assembly, Governor McKee refused to sign the legislation, instead allowing the budget to become law without his signature. In his message, the governor argued that the General Assembly could have made critical investments without hiking taxes and fees, specifically citing the gas tax increase, the new fee on health insurers, increases in the real estate conveyance tax, and the new sales tax on parking.[1]

This report analyzes the taxing and spending decisions contained in the FY 2026 Rhode Island state budget in the context of large increases in expenditures supported by surplus funds and new taxes and fees. This report follows a series of reports by RIPEC on the state budget, with the most recent report analyzing the state budget outlook ahead of the FY 2026 budget process.[2]

In addition to this introduction, there are seven sections of this report:

- **Section II** is a primer on Rhode Island's budget and budget process.
- **Section III** summarizes developments leading up to the enactment of the FY 2026 budget, including Governor McKee's budget submission in January 2025 and revisions to revenue estimates the following May.
- **Section IV** provides an overview of revenues and spending in the enacted budget and analyzes expenditure, revenue, and surplus trends.
- **Section V** delves deeper into key expenditure issues in the areas of health and human services, K-12 education, transportation, and personnel.

[1] Governor Daniel J. McKee, Transmittal Letter, June 25, 2025.
[2] For instance, see: RIPEC, "Rhode Island State Budget Outlook for 2026," Jan. 2026; "The Governor's FY 2025 Budget Proposal", May 2024; Rhode Island State Budget in Transition, Jan. 2024; "The Governor's FY 2024 Budget and the State's Fiscal Outlook," May 2023.

- **Section VI** analyzes new and existing tools the state uses to assess the effectiveness of state programs, as well as how these tools are applied in the budget process.
- **Section VII** describes the state budget implications of recent federal changes, primarily those contained in the recently enacted One Big Beautiful Bill Act (OBBBA).
- **Section VIII** contains RIPEC's comments and recommendations to policymakers.

II. Rhode Island Budget Basics

Under the Rhode Island Constitution, the governor prepares and presents an annual state budget for approval by the General Assembly.[3] The budget is required to be balanced, meaning that state appropriations for expenditures may not exceed state estimated revenues for the fiscal year, which runs from July 1 through June 30.[4] Each fiscal year is denominated to correspond to the calendar year in which it ends; for example, fiscal year 2026 refers to the period from July 1, 2025, through June 30, 2026.

Revenue Estimates and Sources

Estimated revenues for the state budget are set at Revenue Estimating Conferences, held in May and November of each year, at which principals of the governor, the House, and the Senate agree on projected revenues. The November session informs the governor's budget proposal, while the May session updates estimated revenues for the General Assembly's final budget. The same principals also convene separate May and November Caseload Estimating Conferences to set projected expenditures for medical and public assistance entitlement programs.[5]

There are four categories of available revenues in the budget:

1. General Revenues: The state's largest revenue source, to which most general tax receipts are credited, and which may be used essentially for any purpose.
2. Federal Funds: Aid from the federal government, typically restricted to specific uses.
3. Restricted Receipts: State revenue sources—like fees, grants, or taxes—which are earmarked by law for designated uses.[6]
4. Other: Dedicated state revenues used to source funding for specific purposes, such as the Transportation Fund, Unemployment Insurance Fund, Temporary Disability Insurance Fund, and Rhode Island Capital Plan Fund.

In state budget documents, the term "all funds" is typically used to refer to the cumulative total of these revenue sources.[7]

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[3] Constitution of the State of Rhode Island, Art. IX, Sec. 15.
[4] General revenue spending is limited to 97.0 percent of anticipated general revenues, with the remainder deposited into the state's Budget Reserve Account, commonly known as the rainy day fund. Rainy day fund revenues are capped at 5.0 percent of general revenues, with any excess funds transferred annually to the Rhode Island Capital Plan Fund, to be used solely for capital projects. Ibid; R.I. Gen. Laws § 35-2-1.
[5] R.I. Gen. Laws § 35-16-3(a), § 35-17-1, § 35-17-1.
[6] Restricted receipt funds are sometimes redirected (or "scooped") into general revenue if unspent.
[7] R.I. OMB, Budget Primer, Section 6: Financing of State Spending.

Budget Process

Rhode Island's state budget is developed over the course of nearly a year preceding the start of the fiscal year, culminating in a budget passed by the General Assembly and sent to the governor for approval. Figure 1 outlines this process.

III. The Governor's FY 2026 Budget and Subsequent Developments

The Governor's FY 2026 Budget

Governor Dan McKee submitted his proposed budget for FY 2026 on January 16, 2025, recommending total expenditures of $14.22 billion—an increase of $252.8 million (1.8 percent) over the enacted FY 2025 budget—and general revenue spending of $5.74 billion, up $148.2 million (2.6 percent) from the prior year.[8]

Solving a Large Projected Deficit

In developing a balanced budget for FY 2026, the governor was challenged by a large projected deficit. This deficit had been consistently identified in fiscal projections dating back to the governor's FY 2025 budget submission in January 2024. When the General Assembly enacted the FY 2025 budget in June 2024, it did little to improve the outlook. By October, a special report from the Office of Management and Budget (OMB) showed the projected outyear deficit had grown to nearly $400 million. However, revised projections from the November Revenue Estimating Conference, along with FY 2024 accounting adjustments, significantly improved the outlook, reducing the projected FY 2026 deficit to $223.3 million by the time the governor submitted his budget proposal.[9]

As depicted in Figure 2, the governor's FY 2026 budget solved the deficit primarily through proposed expenditure reductions ($125.0 million) and, to a lesser degree, through revenue changes ($54.3 million). The governor also proposed closing the gap with $11.2 million in fund transfers and $43.2 million by reversing supplemental contributions from surplus to the state pension and rainy day funds.[10]

Figure 2
RI State Budget Proposed Deficit Closure, FY 2026

	$ Millions
Projected Deficit	**$ (223.3)**
Net Expenditure Changes	$ 125.0
Net Revenue Changes	$ 54.3
Reverse Supplemenal Contributions	$ 43.2
Fund Transfers	$ 11.2
Subtotal	*$ (10.4)*
Increase to Statutory Rainy Day Fund Contribution	*$ 9.6*
FY 2026 Closing Surplus	**$ 0.8**

Source: R.I. OMB, FY26 Budget Overview

[8] R.I. OMB, FY 2026 Budget Data Visualization; RIPEC calculations.
[9] R.I. OMB, FY 2026 Budget Overview, January 16, 2025. In addition to $76.0 million in additional projected revenues and $65.4 million in projected caseload savings, the projected deficit reduced by $33.5 million in result of net audit adjustments from FY 2024.
[10] Ibid. Proposed fund transfers included the Rhode Island Student Loan Authority ($5.6 million) the Underground Storage Tank Trust Fund ($3.0 million), and the Rhode Island Infrastructure Bank ($2.0 million). Additional contributions to the state pension and rainy day funds were made with higher-than-anticipated revenues the previous year.

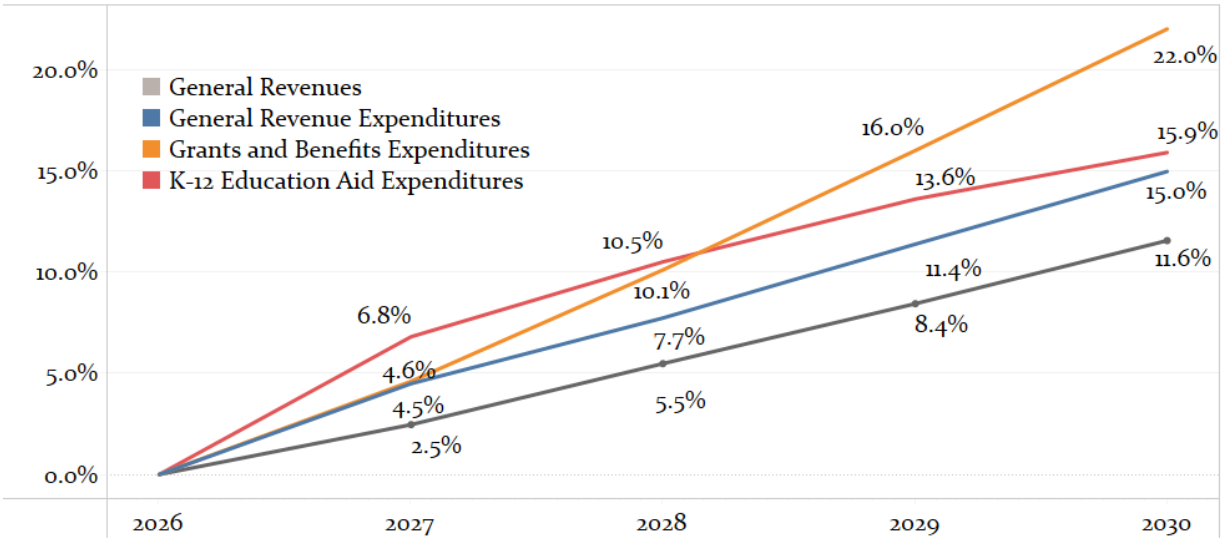
The Structural Deficit

Although the governor's FY 2026 budget was balanced, it left unaddressed the two underlying causes of the structural deficit: (1) the continued use of one-time revenues to fund ongoing expenditures, and (2) projected spending growth that outpaces projected revenue growth.

As reported in previous RIPEC budget analyses, in the FY 2025 enacted budget, one-time surplus funds and federal pandemic relief aid were used for recurring expenditures—resulting in a large projected deficit for FY 2026.[11] The governor's FY 2026 proposal continued this pattern, relying on $187.4 million in one-time surplus funds from FY 2025 to cover operating costs in FY 2026.[12]

In addition, the governor's proposal projected that, between FY 2026 and FY 2030, general revenue expenditures would increase by 15.0 percent—markedly outpacing the projected growth in general revenues of 11.6 percent during the same period. This gap is depicted in Figure 3, which also shows that the anticipated growth in general revenue spending is largely driven by two major spending areas: grants and benefits—primarily related to health and human services—and, to a lesser extent, K-12 education aid.[13]

Figure 3
Cumulative Increase Projected Over FY 2026 Proposed FY 2027-FY 2030



Source: R.I. OMB, FY 2026, Executive Summary; RIPEC calculations

[11] See, RIPEC, "The Governor's FY 2025 Budget Proposal," May 2024; "Rhode Island State Budget Outlook for FY 2026," Jan. 2025.
[12] R.I. OMB, FY 2026 Budget, Executive Summary.
[13] Ibid.

Due both to expenditures outpacing revenues and a reliance on one-time funds, the governor's FY 2026 budget projected a significant deficit of $301.0 million beginning in FY 2027 and growing to $397.8 million in FY 2030.[14]

Key Revenue and Saving Items

The governor's budget included no broad-based tax increases or reductions but did include several proposals to increase general revenues and fund restricted receipt accounts. The largest new general revenue proposal was a ten percent tax on digital advertising revenues for companies with at least $1.0 billion in gross revenue, estimated to generate $9.5 million in FY 2026. The governor's proposed budget also assumed re-implementation of the RhodeWorks tolling program, projected to raise $10.0 million in restricted funds for transportation in FY 2026.[15]

In addition, the governor proposed several changes to existing expenditures, which were expected to generate cost savings. Key proposals included repealing current law requiring an increase in motor vehicle excise tax reimbursements to cities and towns ($9.7 million); reducing out-of-state and congregate care placements while increasing in-state foster care placements ($7.0 million); and closing Rhode Island's minimum-security prison, with inmates to be housed in a separate unit of the state's medium security facility ($6.2 million).[16]

Spending Priorities

The governor's FY 2026 budget proposal did not include major new spending initiatives but did contain several new items funded through general revenues. Many of these focused on developing the state's workforce and improving outcomes in K–12 and higher education—including $2.0 million for the expansion of work-based learning, $2.9 million for dual and concurrent enrollment opportunities, and $2.5 million for Learn365 program grants to cities and towns to support out-of-school learning.[17]

Several additional new spending proposals were paired with new or modified revenue streams. For example, to support housing development and homelessness efforts, the

[14] Ibid.
[15] R.I. OMB, FY 2026 Budget, Executive Summary; R.I. House Fiscal Advisory Staff, FY 2026 Budget Analysis. In Maryland, the only state to have passed a digital advertising tax, litigation in state and federal courts has left the future of the tax uncertain. R.I. Senate Fiscal Staff, Article 5 – Sections 7, 8, & 18, Feb. 6, 2025. Additionally, the governor proposed a new annual registration fee on electric and hybrid vehicles ($1.7 million), an increase in the cost recovery charge applied to restricted receipt accounts ($6.8 million), improved tax collections through a financial institutions data match program ($5.3 million), and a $0.50 increase in the cigarette excise tax ($4.4 million). R.I. OMB, FY 2026 Budget, Executive Summary.
[16] Ibid.
[17] R.I. OMB, FY 2026 Budget Overview.

governor proposed a 5.0 percent short-term rental tax on homes as well as an increase to the real estate conveyance tax rate—from 0.92 percent to 1.2 percent—on the portion of a property's value exceeding $800,000. These two changes were estimated to annually generate $2.1 million and $2.3 million, respectively.[18]

May Revenue and Caseload Estimating Conferences

The results of Rhode Island's May 2025 Revenue and Caseload Estimating Conferences provided the General Assembly with greater resources to enact a balanced budget than were available to the governor at the time his proposed budget was submitted. Conference principals added $64.8 million in available funds through upward revisions to revenue projections for FY 2025 and FY 2026, partially offset by higher caseload costs. A breakdown of these revenue increases and expenditure adjustments compared to November projections is contained in the Appendix (Figure 21).

Revisions to anticipated revenues were based on testimony from executive branch officials as well as updated economic projections for Rhode Island from Moody's Analytics. The firm forecasted a decline in employment and in-state jobs through 2026, and a reduction in discretionary spending, driven by high living costs—particularly in housing. Compared to the previous November, the May forecast was more optimistic for FY 2025 and FY 2026 across most indicators—including nonfarm employment, personal income, and personal consumption expenditures growth—but these forecasted metrics were revised downward for FY 2027 through FY 2030.[19]

Reflecting the tempered outlook of Moody's forecast, the general revenue growth projections released in May were modest. As shown in Figure 4, the Conference estimated year-over-year increases in general revenues of 3.7 percent for FY 2025 and 1.5 percent for FY 2026. By

Figure 4
May 2025 Estimating Conference
Projected General Revenue Growth
($ Millions)

FY 2024 Final	$	5,418.7
FY 2025 May Estimate	$	5,617.6
Difference	$	198.9
% Difference		3.7%
FY 2025 May Estimate	$	5,617.6
FY 2026 May Estimate*	$	5,702.0
Difference	$	84.4
% Difference		1.5%

* Assumes hospital licensing fee at FY25 level
Source: RI OMB; RIPEC calculations

[18] Ibid.
[19] R.I. OMB, May 2025 Revenue Estimating Conference Report.

contrast, state general revenues grew at an average annual rate of 6.9 percent between FY 2019 and FY 2024, driven by extraordinary year-over-year increases of 9.2 percent in FY 2021 and 17.3 percent in FY 2022.[20]

[20] R.I. OMB, Revenue Estimating Conference Reports; RIPEC calculations.

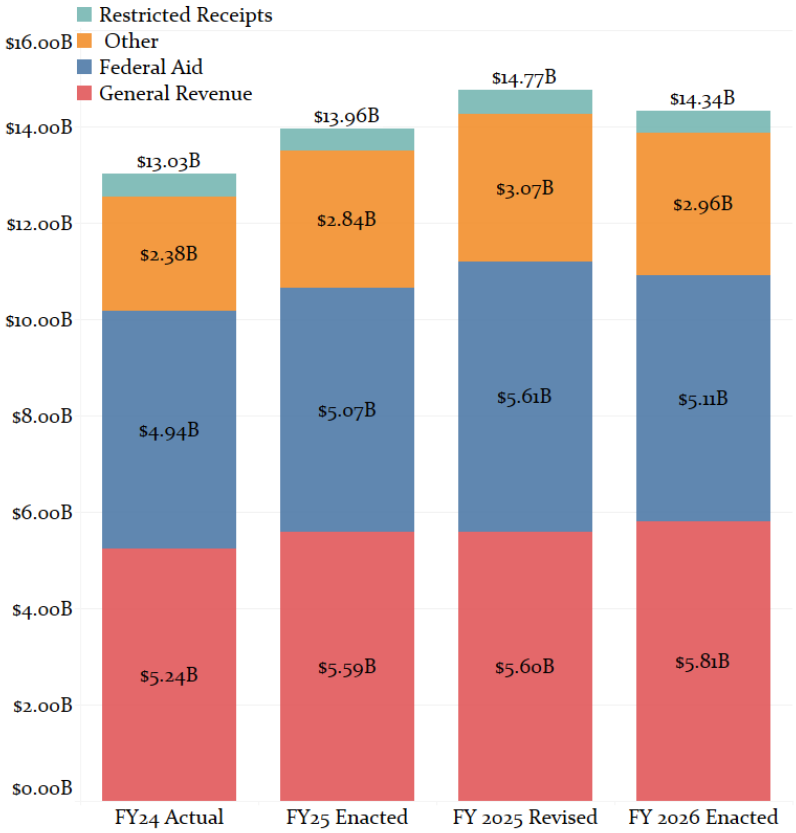
IV. The FY 2026 Enacted Budget: Revenue and Spending Overview

Expenditure Overview and Trends

Expenditures by Source

Depicted in Figure 5, the enacted FY 2026 budget includes total expenditures of $14.34 billion, an increase of $373.2 million (2.7 percent) compared to the FY 2025 budget as enacted. Relative to total spending in FY 2024, this represents a two-year increase of $1.31 billion (10.0 percent).

Figure 5
Rhode Island State Expenditures by Source



Source: R.I. OMB, budget documents

Revisions to the FY 2025 budget raised total expenditures to $14.77 billion, an increase of $804.4 million (5.8 percent) over the original FY 2025 enacted budget and $431.2 million more than the enacted FY 2026 budget. The decline in total spending from FY 2025 (revised) to FY 2026 is primarily due to the expiration of pandemic-era relief funds provided under the American Rescue Plan Act (ARPA). Federal aid spending in FY 2026 totals $5.11 billion, a decrease of $504.2 million (9.0 percent) from the revised FY 2025 level.[21]

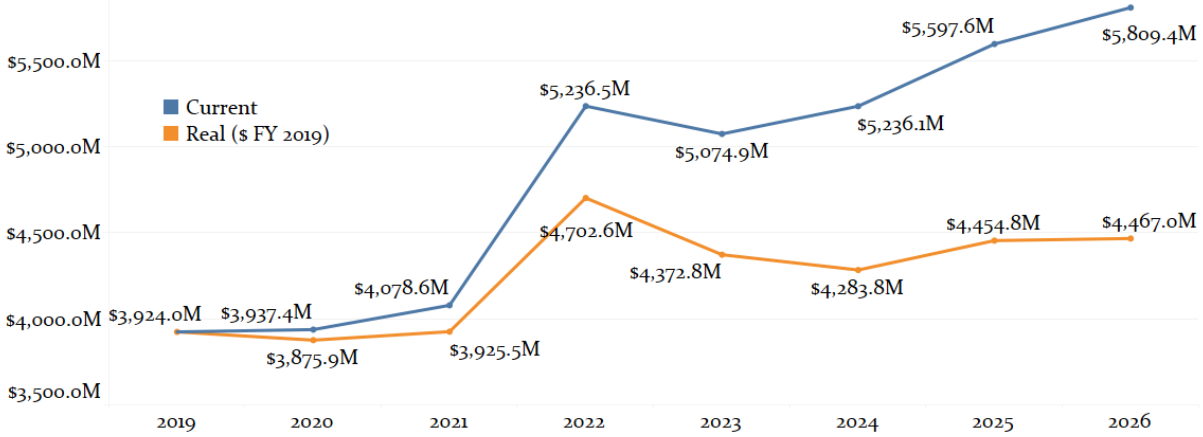
In contrast, Rhode Island state general revenue spending continues to increase in the enacted FY 2026 budget. General revenues rise from $5.59 billion in the FY 2025 enacted budget to $5.81 billion in FY 2026 enacted—a year-over-year increase of $214.5 million (3.8 percent). Compared to actual FY 2024 spending, FY 2026 general revenue expenditures are greater by $573.3 million (10.9 percent) over two years.

[21] Funds were required to be allocated as of December 31, 2024. For more on federal pandemic-era allocations, see: RIPEC, "Rhode Island's FY 2022 Budget Outlook," Jun. 2021; R.I. OMB, FY 2025 Budget Data Visualization.

Expenditure Trends: Inflation-Adjusted General Revenue Expenditures

These recent spending increases outpace inflation and are reflective of an upward trend in real (inflation-adjusted) general revenue spending over the longer term. Enacted general revenue spending for FY 2026 exceeds projected inflation-adjusted levels for FY 2025 by $12.2 million (0.3 percent) and is $183.2 million (4.3 percent) higher than real FY 2024 expenditures. Relative to a pre-pandemic baseline, real general revenue spending in FY 2026 is $543.0 million higher than in FY 2019, reflecting a 13.8 percent increase in inflation-adjusted state spending.[22] Figure 6 shows general revenue expenditures from FY 2019 through FY 2026, expressed in current and inflation-adjusted (FY 2019) dollars.

Figure 6
Rhode Island General Revenue Expenditures
Current and Real ($ FY 2019)
FY 2019 Actual - FY 2026 Enacted



Note: FY 2019-FY 2024 spending reflect actual audited amounts. FY 2025 reflects the budget as revised and FY 2026 reflects the budget as enacted. CPI for FY 2019-FY 2024 reflects the fiscal year average. CPI for FY 2025 and FY 2026 reflect the rates projected at the R.I. May 2025 Revenue Estimating Conference.
Source: R.I. OMB, Budget Visualizations; May 2025 Revenue Estimating Conference; R.I. House Fiscal Advisory Staff, Budget as Enacted; U.S. BLS, CPI Series Report; RIPEC calculations.

Expenditures by Function

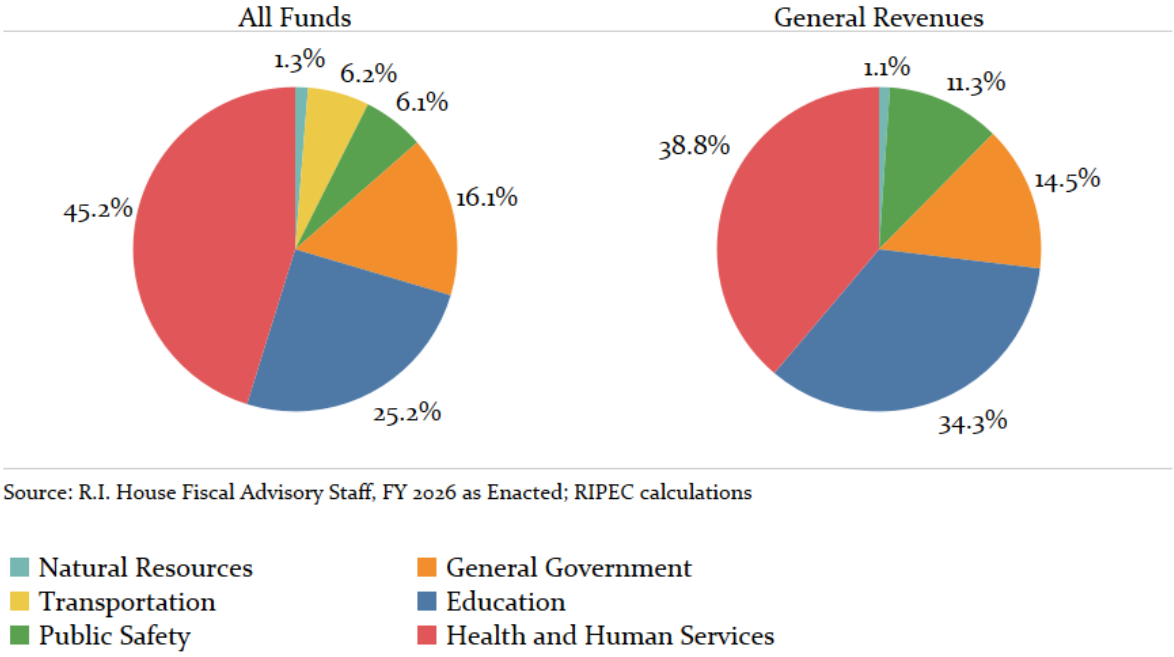
Most state spending is concentrated in two functions: health and human services and education. Health and human services are by far the largest category of all funds expenditures (45.2 percent) and constitute the largest share of general revenue spending (38.8 percent) in the FY 2026 budget. As a proportion of the state budget, this area of spending has steadily grown over time, from 42.3 percent of all funds and 38.0 percent of general revenue spending in FY 2019.[23]

[22] The U.S. consumer price index (CPI) grew by 6.8 percent in FY 2022 and 6.3 percent in FY 2023—both higher than at any point since FY 1981. The trend has since moderated. At the May Revenue Estimating Conference, CPI was projected to increase by 2.8 percent in FY 2025 and 3.5 percent in FY 2026. U.S. Bureau of Labor Statistics, CPI Series Report; RIPEC calculations; R.I. OMB, May 2025 REC Report.
[23] R.I. OMB, FY 2021 Operating Budget, Executive Summary; RIPEC calculations.

Education, which is less reliant on federal funding, accounts for 25.2 percent of all funds and 34.3 percent of general revenue spending. Despite having increased substantially over time, education spending has decreased somewhat as a proportion of the budget.[24] Most education spending is attributable to K–12 education, accounting for 55.3 percent of all funds spending and 83.0 percent of general revenue spending within this function in FY 2026.[25]

Together, health and human services and education make up more than two-thirds of total state spending and nearly three-quarters of general revenue spending in the FY 2026 enacted budget. Figure 7 shows spending by function, in both all funds and general revenue allocations for FY 2026.

Figure 7
All Funds and General Revenue Expenditures by Function
FY 2026 Enacted



Source: R.I. House Fiscal Advisory Staff, FY 2026 as Enacted; RIPEC calculations

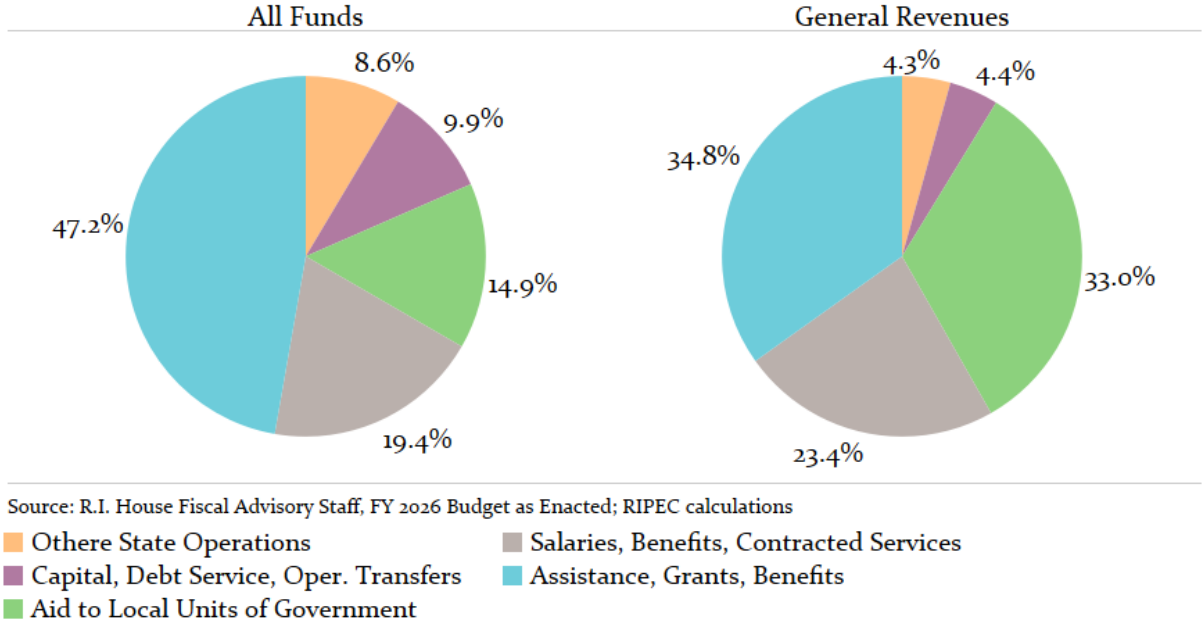
Expenditures by Category

Sliced another way, and depicted in Figure 8, the largest components of Rhode Island state spending in FY 2026 are assistance, grants, and benefit programs, which consist primarily of

[24] In FY 2019, education spending represented 27.7 percent of all funds spending and 36.3 percent of general revenue spending. Ibid. Relative to FY 2026 enacted, general revenue spending on education has increased by 39.9 percent since FY 2019 and by 10.2 percent since FY 2024. R.I. House Fiscal Advisory Staff, FY 2021 Budget as Enacted, Section II: Statewide Overview; FY 2026 Budget as Enacted, Section II: Statewide Overview; RIPEC calculations.
[25] Ibid.

health and human services. Assistance, grants, and benefits account for nearly half (47.2 percent) of all funds spending and over one-third (34.8 percent) of general revenue spending in the FY 2026 enacted budget. This category has been increasing as a share of total spending, growing at a rate that outpaces total spending growth.[26]

Figure 8
All Funds and General Revenue Expenditures by Category
FY 2026 Enacted



The second largest component is local government aid—driven primarily by K–12 education funding.[27] This category represents a smaller portion of all funds spending—14.9 percent in the FY 2026 budget—but it is nearly as large a share of general revenue spending as assistance, grants, and benefits, comprising one-third (33.0 percent) of general revenue expenditures. Local aid also has exerted upward pressure on spending, growing at a relatively high rate overall—though more slowly than the assistance category.[28]

Personnel—including salaries, benefits, and contracted services—also make up a significant share of state spending: 19.4 percent of total expenditures and 23.4 percent of general

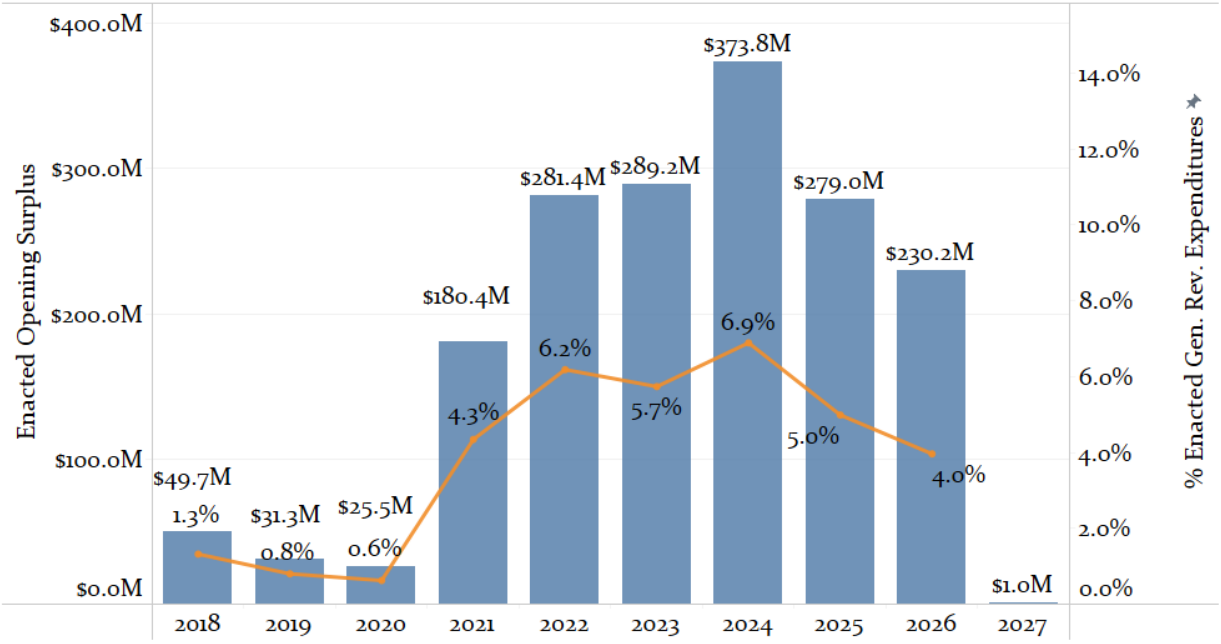
[26] Assistance, grants, and benefits general revenue expenditures increased 57.1 percent between FY 2019 and FY 2026, compared to a 48.0 percent increase in overall general revenue spending. R.I. House Fiscal Advisory Staff, FY 2021 Budget as Enacted, Section II: Statewide Overview; FY 2026 Budget as Enacted, Section II: Statewide Overview; RIPEC calculations.
[27] In the FY 2026 enacted budget, 82.1 percent of total general revenue aid to local governments is attributable to education aid. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted, Section II: Statewide Overview; RIPEC calculations.
[28] Aid to local government general revenue expenditures have grown by 57.1 percent since FY 2019 (compared to a 48.0 percent overall spending increase). Ibid.

revenue expenditures in the FY 2026 enacted budget. Although personnel costs have declined as a share of general revenue spending since FY 2019, they have added pressure in recent years, increasing by 16.1 percent between FY 2024 and FY 2026 as enacted, compared to an increase of 10.9 percent in overall general revenue spending during this period.[29]

General Revenue Surplus Trends

For FY 2026, state budget makers utilized $230.2 million in opening surplus funds to support spending—equivalent to 4.0 percent of enacted general revenue expenditures. As shown in Figure 9, this continues a recent trend in which the General Assembly has relied on larger than typical opening surpluses to support state spending. While the FY 2026 surplus represents a decline from the recent peak in FY 2024, when the enacted opening surplus reached $373.8 million (6.9 percent of enacted general revenue expenditures), it remains well above the surplus levels seen between FY 2018 and FY 2020.

Figure 9
Enacted Opening General Revenue Surplus
Nominal & Percent General Revenues
FY 2018 - FY 2027



Note: For all years, the enacted opening surplus was divided by enacted general revenues to reflect the proportion of the anticipated budget represented by the surplus. These figures differ from audited amounts.
Source: R.I. OMB, Budget Executive Summary; RI House Fiscal Advisory Staff, Summary Tables; RIPEC calculations.

[29] Between FY 2019 and FY 2026, general revenue expenditures for personnel grew by 33.1 percent, compared to a 48.0 percent increase in overall general revenue spending. Ibid.

The $1.0 million opening surplus projected for the start of FY 2027 is likely to increase substantially, given the Revenue Estimating Conference's tendency to underestimate general revenues. Shown in Figure 22 in the Appendix, and controlling for tax and other revenue changes, the November and May estimates in the year preceding a budget's enactment (the first and second of four estimates) underestimated actual audited revenues in all but one year (FY 2020) between FY 2015 and FY 2026. Excluding FY 2021 and FY 2022, for which revenues were historically unprecedented and significantly underestimated relative to other years, the Conference's first estimates were, on average, 2.5 percent below actual audited amounts, and its second estimates were 3.3 percent below, between FY 2015 and FY 2024.

Revenue Highlights

While avoiding broad-based income or sales tax increases, the General Assembly nevertheless relied on several revenue initiatives to support increased expenditures, including the introduction of new fees and taxes, the expansion of existing taxes, increases to current fees, and improvements to enforcement and collections.

The largest new source of general revenue is a health services funding assessment, expected to generate $15 million in FY 2026 and $30 million in FY 2027 through a per-member, per-month fee on health insurance premiums, estimated at $4 per covered life, applied to all covered lives. Additional revenues are expected from measures including extending the tobacco excise tax to nicotine pouches, applying the sales tax to short-term parking, and implementing a new data-matching program to better identify non-compliant taxpayers.

Several new or expanded revenue sources for FY 2026 provide funding for housing and homelessness. These include an increase in the real estate conveyance tax and a new five percent tax on whole-home short-term rentals. A new 0.5 percent tax on the value of non-owner-occupied residential properties over $1.0 million is scheduled to take effect in FY 2027.

To support transportation, including the Rhode Island Public Transit Authority (RIPTA), the General Assembly enacted a new annual fee on electric and hybrid vehicles, increased existing vehicle registration and license fees, and raised the gas tax by two cents per gallon. Of greatest fiscal impact is the assumed reimplementation of the state's truck tolling program, estimated to generate $40 million annually once fully implemented.

Figure 10 details the new revenue items contained in the FY 2026 budget as enacted.

Figure 10
FY 2026 Budget as Enacted - New Revenue Items

Revenue Item	Description	Projected Revenue
General Revenue		
Health Services Funding Assessment	New assessment estimated at $4 per covered life. Per-member, per-month fee applied to all covered lives, including self-insured.	$15M (FY26); $30M (FY27)
OTP Tax on Nicotine Pouches	Extends tax on tobacco products to nicotine pouches, effective Oct 1, 2025.	$7.5M (FY26); $12M (FY27)
Financial Institution Data Matching	New program identifying non-compliant taxpayers.	$5.3M (FY26); $8M (FY27)
Sales Tax on Parking	Expands 7% sales tax to short-term parking of up to one month, effective Oct 1, 2025.	$1.6M (FY26); $3.2M (FY27)
Traffic Fines	Revised traffic violation schedule to increase most fines from $85 to $100.	$0.5M (FY26)
Housing & Homelessness		
Real Estate Conveyance Tax Increase	Increases first and second tier from 0.46% to 0.75% for top effective rate of 1.5%. First tier is all real estate transfers, second tier is residential transfers over $800K, indexed to inflation. Effective Oct. 1, 2025.	General fund: $8.4M (FY26), $11.5M (FY27) — Housing: $5.1M (FY26), $7.2M (FY27) — Municipalities: $10.7M (FY26), $14.7M (FY27)
Hotel Tax on Whole Home Rentals	New tax on whole-home short-term rentals equal to hotel tax of 5%, effective Jan 1, 2026. Revenues split between housing & homelessness, municipalities and tourism districts.	$2.1M (FY26); $4.7M (FY27)
Non-Owner Occupied Tax	New 0.5% tax on non-owner-occupied residential property over $1M, indexed to inflation. Effective Jul. 1, 2026. Revenues for Low Income Housing Tax Credit Program.	No estimate. Effective FY27.
Transportation		
Truck Tolling Reimplementation	Assumed reimplementation of truck tolling program.	$10M (FY26); $40M (FY27)
Electric, Hybrid Vehicle Registration Fee; License, Vehicle Registration Fee Increase	New annual registration fee for electric ($200), plug-in hybrid ($100), and hybrid ($50) vehicles. Increase existing license and motor vehicle registration fees. Effective Jan 1, 2026. Deposited into Highway Maintenance Account.	$6.7M (FY26); $16M (FY27)
Gas Tax Increase	Increase from $0.39 to $0.41 per gallon. Additional 2 cents dedicated to RI Public Transit Authority.	$8.7M (FY26)

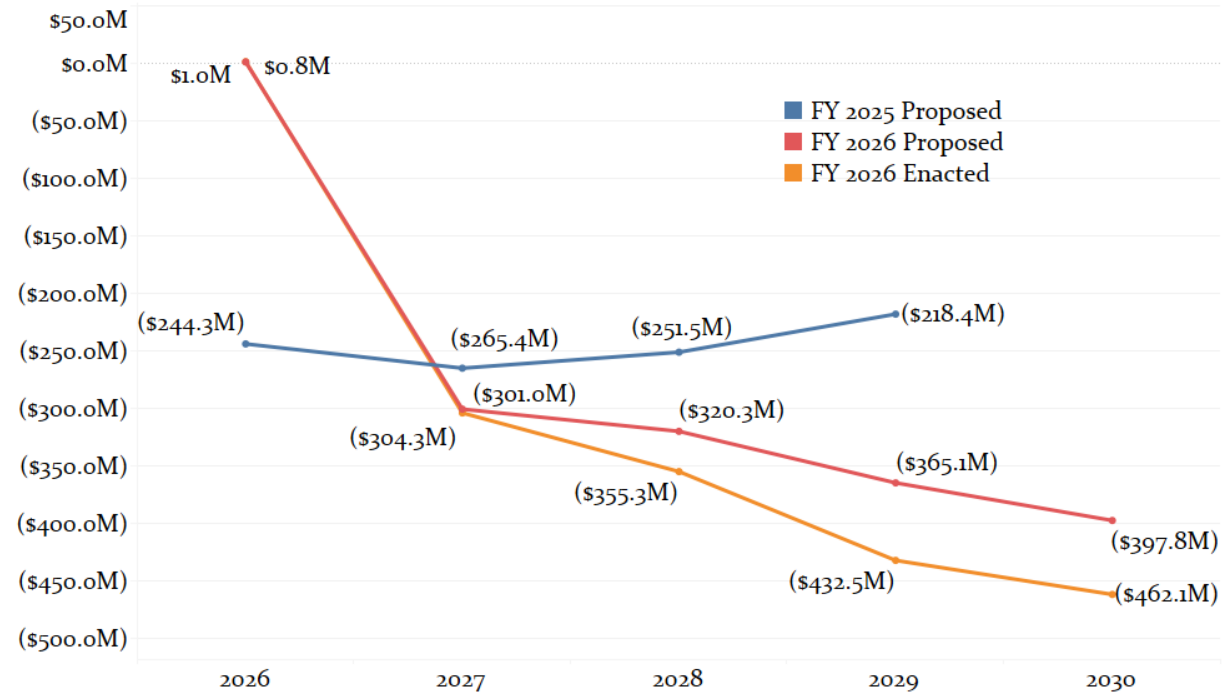
Source: R.I. House Fiscal Advisory Staff; FY 2026 Budget as Enacted

Structural Budget Deficit

Despite these new revenues, the state is projected to face a budget deficit in FY 2027 that exceeds the FY 2026 deficit projected at the time the governor's budget was submitted, and this deficit is expected to grow significantly over time. Figure 11 shows the Rhode Island House Fiscal Advisory Staff's estimated structural budget deficit for the next four fiscal years—beginning with a projected deficit of $304.3 million in FY 2027 and increasing to a

deficit of $462.1 million in FY 2030—as compared to estimates from the state budget office accompanying the governor's proposed budgets for FY 2025 and for FY 2026. These estimates do not include any impact from the federal One Big Beautiful Bill Act (OBBBA), further discussed in Section VII of this report.

Figure 11
Rhode Island Structural Budget Deficit Forecast



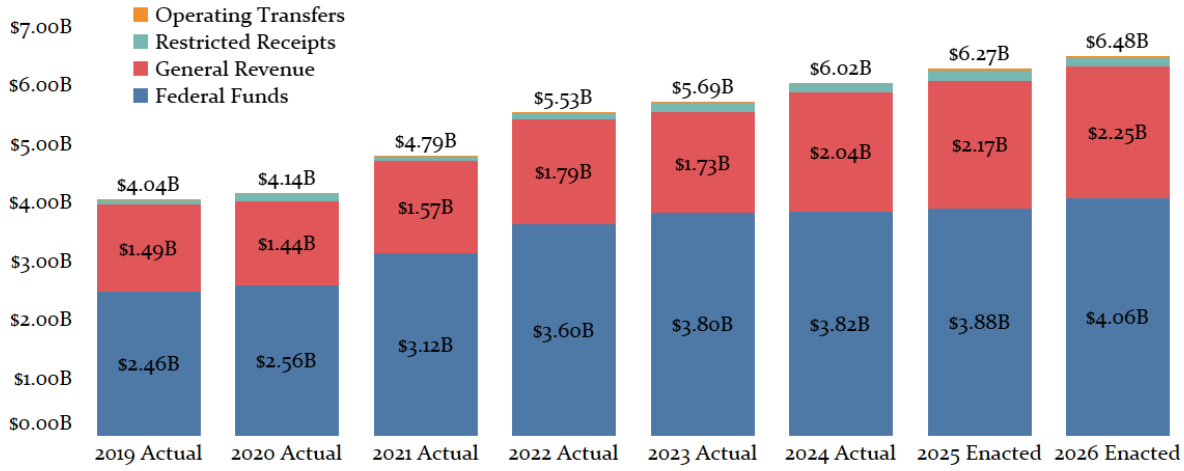
Source: R.I. OMB, FY 2026 Executive Summary; R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted

V. The FY 2026 Enacted Budget: Key Expenditure Issues

Health and Human Services

At the center of Rhode Island's state budgetary challenges is its health and human services spending—the largest component of the state budget and one that is growing faster than state revenues. The health and human services function of Rhode Island state government includes a wide range of services delivered through five separate departments: the Executive Office of Health and Human Services (EOHHS); the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH); the Department of Children, Youth, and Families (DCYF); the Department of Health; and the Department of Human Services.[30] Health and human service expenditures represent 45.2 percent of total expenditures and 38.8 percent of state general revenue expenditures in the FY 2026 enacted budget.[31]

Figure 12
Health and Human Services Spending by Source of Funds
FY 2019 - FY 2026



Source: R.I. OMB; R.I. House Fiscal Advisory Staff

Spending on health and human services is funded primarily through a combination of federal sources and state general revenues, and expenditures from both sources have expanded rapidly over the past several years. As depicted in Figure 12, total expenditures for health and human services increased 60.4 percent between FY 2019 and FY 2026, from $4.04 billion to $6.48 billion. Federal aid grew from $2.46 billion to $4.06 billion (65.0 percent) during this period, while state general revenue spending increased from $1.49 billion to $2.25 billion (51.1 percent). This represents an average annual growth rate of 7.3 percent, exceeding

[30] These departments are collectively responsible for delivering medical assistance, services for at-risk children, economic support, and medical provider regulation, among many other functions.
[31] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Summary Tables; RIPEC calculations.

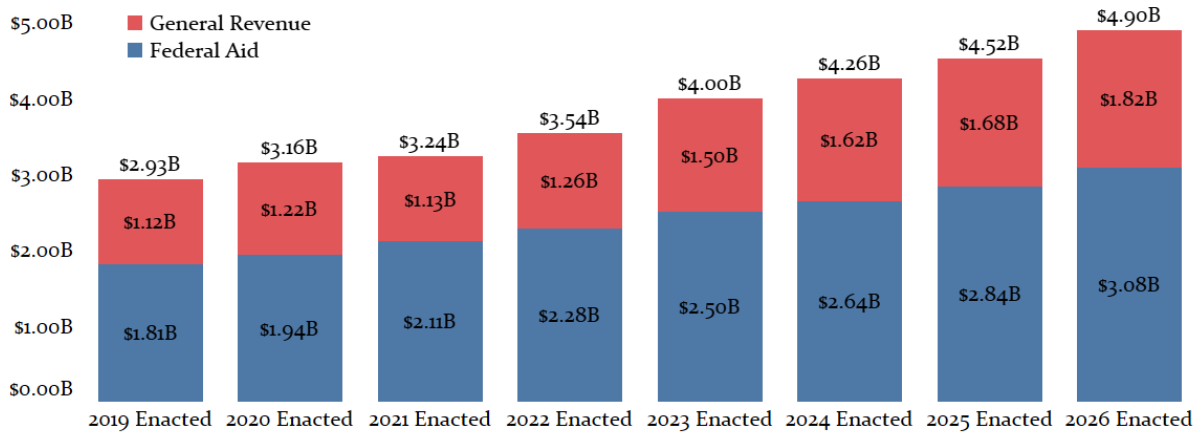
the average annual growth rate in total general revenue spending (6.9 percent) during this period.[32]

Medicaid

The Rhode Island Medical Assistance Program, commonly known as Medicaid, is the primary driver of state spending increases in health and human services. For FY 2026, Medicaid spending is projected to make up 75.6 percent of total health and human services expenditures.[33] Jointly funded by the state and federal government, appropriations for the Medicaid program total $4.90 billion for FY 2026, with the larger share ($3.08 billion) coming from federal funds, and the remainder ($1.82 billion) from state general revenues.[34]

Figure 13 depicts the expansion in total Medicaid spending from $2.93 billion in FY 2019 to $4.90 billion in the FY 2026 enacted budget—an increase of 67.1 percent in seven years (9.6 percent average annual increase). The federal aid component of Medicaid funding has grown from $1.81 billion in FY 2019 to $3.08 billion in FY 2026, a 10.0 percent average annual increase. General revenue spending on Medicaid increased at a slightly slower average annual rate (9.0 percent) than the federal increase but still grew much faster than the average annual rate of general revenue spending (6.9 percent) and more than twice the average inflation rate (4.3 percent) during this period.[35]

Figure 13
Medicaid Spending by Source of Funds
FY 2019 - FY 2026



Source: R.I. House Fiscal Advisory Staff

[32] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted; RIPEC calculations.
[33] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Summary Tables; RIPEC calculations.
[34] For FY 2026, the federal government's share is 57.2 percent, with the state responsible for the remaining 42.8 percent. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Medicaid.
[35] U.S. Bureau of Labor Statistics, CPI Series Report; R.I. House Fiscal Advisory Staff, FY 2025 Budget as Enacted; RIPEC calculations.

Drivers of Medicaid Spending

Medicaid spending increases in Rhode Island from FY 2019 to FY 2026 have been influenced by two distinct drivers. The first was a temporary surge in enrollment and funding due to pandemic-era rules that concluded in FY 2024. More recently, rising costs have been driven by the demand to increase historically low reimbursement rates for providers.

Impact of Pandemic Era Rules

From FY 2020 through FY 2024, Medicaid funding was affected by two significant developments connected with the pandemic. The first relates to share of federal funding—called the federal medical assistance percentage (FMAP)—which increased by 6.2 percentage points for services provided beginning January 1, 2020, until the public health emergency was determined to have ended in May 2023.[36] The second development is that states could not disenroll any Medicaid beneficiary regardless of qualifying status as a condition of receiving the enhanced FMAP. As a result, Medicaid enrollments in Rhode Island increased sharply during this period, from 308,362 in FY 2019 to a high of 373,376 in FY 2024 (21.1 percent increase). When this period ended, enrollments similarly declined dramatically to a low of 306,606 in December 2024.[37]

Pressure to Raise Reimbursement Rates

The conclusion of the pandemic's enrollment and funding rules has not ended the demand for greater Medicaid expenditures. Instead, the focus has shifted from managing a temporary enrollment surge to addressing the long-standing issue of low reimbursement rates for providers. While there are exceptions, in Rhode Island and throughout the country, Medicaid reimbursement rates are generally well below Medicare rates, which themselves are typically lower than commercial rates.[38] A national analysis of Medicaid fee-for-service rates found that Rhode Island's Medicaid-to-Medicare fee index was at or near the bottom of the country across all five categories studied, ranking last in hospital and emergency visits, obstetric care, and other services, and 48th overall.[39]

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[36] The FMAP was phased down over this period. From FY 2020 to FY 2024, Rhode Island's average enhanced FMAP was 59.2 percent. Its average regular rate for the same period would have been 54.1 percent. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Medicaid.

[37] According to the most recent available data, enrollments have rebounded somewhat to 313,035 in Jun. 2025. R.I. EOHHS, Medicaid Renewals Data Dashboard, Accessed Aug. 1, 2025.

[38] The Commonwealth Fund, "How Differences in Medicaid, Medicare, and Commercial Health Insurance Payment Rates Impact Access, Health Equity, and Cost," Aug. 17, 2022.

[39] Medicaid fee-for-service payments constitute a small portion of Rhode Island's overall Medicaid expenditures and interstate comparisons of these rates are inherently challenging. MCOs account for most Medicaid enrollees (88 percent) and the greater proportion of spending (68 percent), with fee-for-service programs accounting for the remainder. EOHHS, Medicaid Expenditure Report: SFY 2023. The five categories studied are all services, hospital and emergency visits, office visits, obstetric care, and other. Rhode Island ranked last in the country in hospital and emergency visits, obstetric care, and other services, and ranked 37th in office visits (14th lowest). The study ranked Rhode Island last in overall Medicaid-to-

Low Medicaid reimbursement rates are widely cited as a major factor in Rhode Island's healthcare delivery challenges, including shortages of primary care physicians, hospital staffing, nursing home capacity, and limited access to dental, behavioral, and early intervention services.[40] The Office of the Health Insurance Commissioner's December 2023 report identified low Medicaid rates as a key driver of this primary care physician shortage.[41] This concern was underscored by the recent announcement of Anchor Medical's closure in Providence, leaving 25,000 patients without a primary care physician. The practice attributed its closure to high physician turnover and the inability to attract new doctors due to inadequate reimbursement rates.[42]

FY 2026 Medicaid Spending: Governor's Proposal vs. Enacted Budget

The governor's FY 2026 proposed budget included a significant spending commitment to Medicaid, proposing $4.84 billion in total expenditures, reflecting a 7.0 percent ($315.4 million) increase over the FY 2025 enacted budget. General revenue expenditures for Medicaid also increased by $80.5 million (4.8 percent) to $1.77 billion in the governor's budget proposal. [43]

The final FY 2026 enacted budget further increased total Medicaid appropriations by $62.5 million over the governor's proposal to $4.90 billion, an 8.4 percent ($377.9 million) jump over the enacted FY 2025 budget. The general revenue share for Medicaid in the enacted FY 2026 budget totals $1.82 billion, marking a similar 8.0 percent ($134.1 million) increase over FY 2025. While this 8.0 percent growth for general revenue showed a slight deceleration from

Medicare physician fee index. Laura Kopec, Avani Pugazhendhi, and Stephen Zuckerman, "Updated Medicaid-To-Medicare Fee Index: Medicaid Physician Fees Still Lag Behind Medicare Physician Fees," *Health Affairs*, 44:5, 2025.

[40] Patrick Anderson, "What's the solution to RI's hospital staffing crisis?" *Providence Journal*, Dec. 24, 2021; G. Wayne Miller, "RI's low Medicaid reimbursements endanger dental care and other services for the needy," *Providence Journal*, Jan. 1, 2022; Tamara Sacharczyk, "Shortage of primary care doctors affects Rhode Islanders," *WJAR*, Oct. 20, 2022; Ellen Liberman, "Crisis of Care: Inside Rhode Island's Health Care Staffing Shortage," *Rhode Island Monthly*, Jan. 20, 2023; Sam Wood, "Nursing homes not hopeful relief coming from state leaders," *Providence Business News*, Jun. 2, 2023; Amy Russo, "'How did this happen?' Primary care shortage keeps hitting Rhode Island hard," *Providence Journal*, Dec. 7, 2023; Amy Stulick, "Closing the Medicaid Gap is Just the First Step, as Nursing Homes Fight for Predictable Reimbursement," *Skilled Nursing News*, Dec. 15, 2023; Jonny Williams, "How to strengthen primary care in Rhode Island? Start with this action plan," *Rhode Island Current*, Dec. 18, 2023; Steph Machado, "R.I. health insurer raising Early Intervention rates as hundreds of infants and toddlers wait for services," *Boston Globe*, Dec. 19, 2023.

[41] OHIC, "Primary Care in Rhode Island," Dec. 2023. Projections indicate an 11 percent increase in primary care physicians is needed by 2030, with improved rates crucial for recruitment and retention. AAMC, "Rhode Island Physician Workforce Profile," Dec. 2020. This study ranks Rhode Island fifth highest in the country for active primary care physicians per capita but 14th highest for proportion of primary care physicians who are older than 60 (32.0 percent). The relative age of Rhode Island's population of primary care doctors could help explain the incongruity between doctors and reported difficulties of finding primary care physicians. Robert Graham Center, "Rhode Island: Projecting Primary Care Physician Workforce."

[42] Alexa Gagosz, "'It's a disaster': Anchor Medical closure leaves 25,000 patients in R.I. scrambling for new primary care doctors," *Boston Globe*, Apr. 8, 2025.

[43] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Summary Tables; RIPEC calculations.

the previous six-year average (8.5 percent), it was more than twice the overall general revenue spending growth (3.8 percent) in the FY 2026 budget.[44]

Medicaid increases in the FY 2026 enacted budget were directed toward boosting reimbursement rates for primary care providers, nursing home staff, and hospitals (including direct payments). The budget commits an additional $45.2 million in all funds, including $14.9 million in general revenue, to bolster primary care in the state. This includes a total of $26.4 million ($8.3 million in general revenue) to raise Medicaid primary care rates to 100.0 percent of Medicare rates, and $10.5 million ($4.0 million in general revenue) to increase reimbursement rates for federally qualified health care centers.[45] For hospitals, payments were increased by $37.8 million, including $16.2 million in general revenues, in excess of the governor's proposed budget.[46] The FY 2026 budget also allocates $12.0 million in all funds, including $5.0 million in general revenue, to support a 3.0 percent reimbursement rate increase for nursing facilities.[47]

K-12 Education

Funding for K-12 education accounts for a significant portion of Rhode Island's budget, representing over one-quarter (28.6 percent) of general revenue and 14.0 percent of total spending in the FY 2026 enacted budget.[48] This funding has increased substantially in recent years. Fueled partly by generous pandemic-era Elementary and Secondary Education Relief (ESSER) funding, total spending for public K-12 schools grew from $1.44 billion in FY 2019 to $2.00 billion in FY 2025—a 39.5 percent increase ($566.7 million) over this six-year period.

While ESSER funds significantly boosted overall K-12 spending, state general revenue expenditures also rose substantially; general revenue spending for K-12 education grew by

[44] Ibid.

[45] The total amount includes $8.3 million in all funds ($2.9 million in general revenue) for Medicaid costs associated with administering a new assessment on health insurance providers. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted.

[46] This decision effectively rejected the governor's proposals to limit annual hospital rate increases and eliminate upper payment limit reimbursements. In its initial constrained budget request, EOHHS sought savings by eliminating inpatient and outpatient hospital rate increases. The governor, however, proposed a modest 2.3 percent rate increase for FY 2026, generating savings of $5.3 million in all funds (including $1.7 million in general revenues). This proposal would have reduced the typical rate increases, which ranged from 2.9 percent for managed care payments to 3.4 percent for fee-for-service. The governor also proposed eliminating supplemental Upper Payment Limit (UPL) reimbursements for inpatient and outpatient hospital services—adjustments designed to boost resources for community hospitals by paying a rate equal to what Medicaid would pay for Medicare for the same services—for $18.3 million in savings, including $6.7 million in general revenue. R.I. House Fiscal Advisory Staff, FY 2026 Budget Analysis.

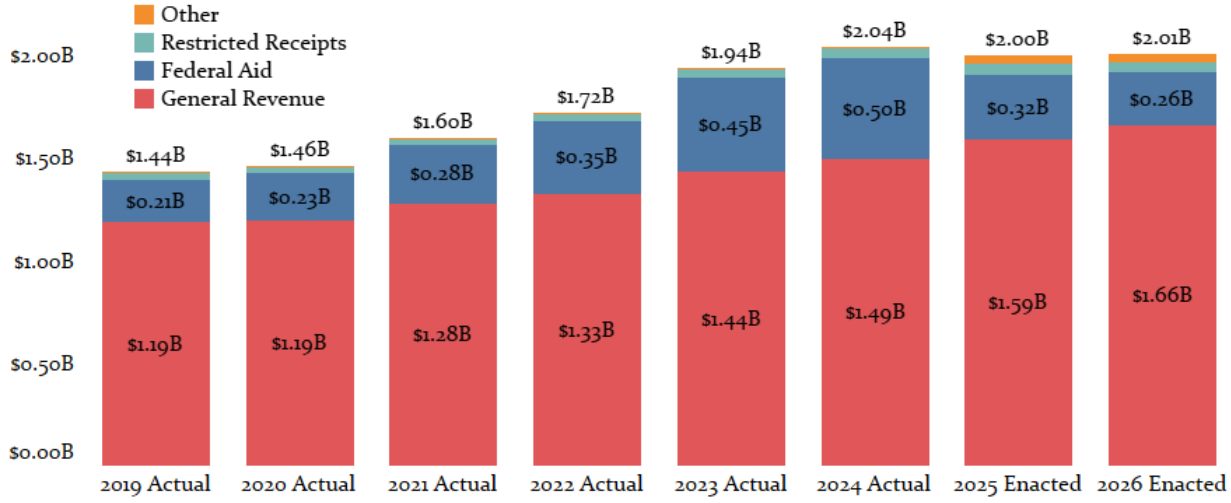
[47] This increase is in addition to the governor's recommended 2.3 percent increase effective October 1, 2025. In total, the General Assembly provided $44.5 million above the governor's recommended budget for long-term care. The Assembly also made several adjustments to minimum staffing requirements in nursing homes. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted.

[48] R.I. OMB, FY 2026 Budget Data Visualization; FY 2025 Budget Data Visualization; FY 2024 Budget Data Visualization. Spending on K-12 education includes funding formula aid, categorical funding, set-aside funds, teacher retirement, construction aid, and School Building Authority Funds. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Education.

$402.3 million from FY 2019 to FY 2025, a 33.9 percent increase, or an average annual increase of 5.7 percent. The FY 2026 enacted budget marks the first budget since FY 2022 unsupported by ESSER funds. As a result, overall K-12 education spending in the FY 2026 budget reflects a decline of $81.5 million (3.9 percent) relative to the height of pandemic-era spending in FY 2024.

The FY 2026 enacted budget continues the trend of robust general revenue spending on K-12 education, increasing by $69.1 million, or 4.4 percent, over the FY 2025 enacted budget. This growth outpaces the overall increase in general revenue appropriations (3.8 percent). Figure 14 illustrates the growth and sources of K-12 education spending from FY 2019 through the FY 2026 enacted budget.

Figure 14
K-12 Education Spending by Source of Funds
FY 2019 - FY 2026



Source: R.I. OMB; R.I. House Fiscal Advisory Staff

The growth in general revenue spending on K-12 education since 2019 has occurred despite a 5.4 percent decline in student enrollment between FY 2019 and FY 2026, resulting in an even greater rate of expenditure growth when measured on a per-pupil basis—a trend that has continued into FY 2026. As detailed in Figure 15, state general revenue spending per pupil rose from $8,338 in FY 2019 to $12,330 in FY 2026, representing an average annual increase of 6.8 percent. In FY 2026, student enrollment declined by 0.8 percent and per-pupil spending increased from $11,709 to $12,320 (5.3 percent)—significantly outpacing the year-over-year rate of overall general revenue spending (3.8 percent).

Figure 15
State General Revenue Spending on K-12 Education
FY 2019 - FY 2026

Fiscal Year	General Revenue Spending	% General Revenue Increase	Resident Average Daily Membership	General Revenue Spending Per Pupil	% Per Pupil Increase
2019	$ 1,186,515,425		142,306	$ 8,338	
2020	$ 1,195,622,855	0.8%	142,452	$ 8,393	0.7%
2021	$ 1,282,432,293	7.3%	142,665	$ 8,989	7.1%
2022	$ 1,328,151,986	3.6%	138,617	$ 9,616	7.0%
2023	$ 1,436,665,796	7.6%	138,123	$ 10,434	8.5%
2024	$ 1,493,846,918	3.8%	137,191	$ 10,907	4.5%
2025	$ 1,588,830,390	6.0%	135,689	$ 11,709	7.4%
2026	$ 1,659,208,810	4.4%	134,568	$ 12,330	5.3%
Seven-Year Annual Average		**5.7%**			**6.8%**

Note: FY 2019 - FY 2024 represent actual figures, FY 2025 and FY 2026 are enacted figures
Source: House Fiscal Advisory Staff; RIDE Funding Formula Calculations; RIPEC calculations

Concentrated Poverty

Rhode Island's K-12 education funding formula includes a student success factor, providing a 40.0 percent bonus for each student identified in poverty, above the core instructional amount—which represents the base level of funding per student.[49]

The governor's proposed FY 2026 budget sought to enhance this factor to 43.0 percent for communities with high concentrations of students in poverty. Defined as districts with at least 60.0 percent of students in poverty, five communities qualified for this increase: Central Falls, Newport, Pawtucket, Providence, and Woonsocket.[50] Under the governor's proposal, this enhancement would have resulted in a collective year-over-year increase in state education aid to these districts of $7.1 million. Individually, three districts would have received more aid while the remaining two would have seen year-over-year decreases.[51] Without the governor's enhancement to the student success factor, these districts would

[49] The Core Instructional Amount is calculated by first determining the average cost of core services for seven categories of expenses across four states: Connecticut, Massachusetts, New Hampshire, and Rhode Island. Core service categories include items like instruction, staff, and student support, but do not include all mandated and necessary costs, such as transportation or food services. Kenneth K. Wong, "The Design of the Rhode Island School Funding Formula: Toward a Coherent System of Allocating State Aid to Public Schools," Aug. 2011.

[50] R.I. OMB, FY 2026 Budget Proposal: Executive Summary.

[51] Pawtucket ($0.6 million), Providence ($3.7 million), and Woonsocket ($3.8 million) saw increases in aid under the governor's original FY 2026 budget proposal based on October 2024 enrollments. In contrast, Central Falls saw a decrease of $0.5 million, and Newport saw a decrease of $0.4 million. RIDE, FY 2026: Governor Recommended Aid; FY 2025: Enacted Aid; RIPEC calculations.

have experienced a cumulative net loss of $756,720, with only one district receiving increased aid year-over-year. These relatively small increases in state aid to the five urban districts resulted largely from an October enrollment count that showed a steep 11.0 percent year-over-year decrease in the number of students in poverty statewide.[52]

However, March 2025 enrollment data identified an additional 5,186 students in poverty across all school districts, including 2,810 more students in poverty from the five high-poverty concentration districts, relative to the October counts. Using these updated enrollments, the governor's proposed student success factor enhancement for the five urban districts would have resulted in an additional $24.2 million in total aid for these districts over the enacted FY 2025 budget, $17.0 million more than under his proposal using October enrollment data.

Rejecting the governor's proposed enhancement for high-poverty concentration districts, the General Assembly chose to fund the formula under current law. As a result, these five districts received a total of $15.3 million in increased aid year-over-year, which is $8.9 million less than the governor's proposed enhanced success factor funding (based on the updated March enrollment data) would have provided, but $8.2 million more than under the governor's proposed budget (based on October 2024 enrollment data).[53]

October vs. March Enrollments

Relying on initial October enrollment projections has led to significant adjustments in Rhode Island's state education funding for the past two fiscal years.[54] Updated March counts in both FY 2025 and FY 2026 revealed discrepancies, particularly concerning students identified in poverty, requiring substantial financial adjustments for local education agencies (LEAs) and for the budget overall.[55]

[52] Ibid.

[53] Under the governor's proposal, Central Falls ($1.0 million), Pawtucket ($3.0 million), Providence ($14.6 million), and Woonsocket ($5.9 million) would see aid increases. Newport would receive less than FY 2025 ($0.3 million). The same districts benefit under current law but less than under the governor's proposal: Central Falls ($0.4 million), Pawtucket ($1.3 million), Providence ($9.7 million), and Woonsocket ($4.3 million). Newport receives $0.5 million less than the governor's proposal. RIDE, FY 2026: March Student Data Update; FY 2025: Enacted Aid. RIPEC calculations.

[54] The governor's proposed FY 2026 budget used enrollment data from October 2024, and his FY 2025 budget used October 2023 data, but his FY 2024 budget used March 2022 data. This is allowed under general law, which requires that the Rhode Island Department of Education (RIDE) provide an estimate of the foundation aid cost based on the most recently available data. RIDE is also required to update figures based on October 1 average daily membership by December 1. R.I. Gen. Laws § 16-7.2-3. The state budget officer in consultation with RIDE submits these estimates to the governor, which are considered when crafting the budget. R.I. Gen. Laws § 35-3-4**.** In practice, the governor's budget has used either March or October enrollment data. R.I. House Fiscal Advisory Staff, Education: FY 2024 Budget Analysis; Education: FY 2025 Budget Analysis; Education: FY 2026 Budget Analysis.

[55] LEAs include traditional school districts, charter public schools, and state schools.

For FY 2025, updated March 2024 enrollment figures, revealed an additional 1,147 students (a 0.9 percent difference) when compared to the previous October count and 1,539 more students identified as being in poverty (a 2.7 percent difference). These revised student counts prompted a necessary adjustment in state aid, resulting in a $13.8 million increase beyond the governor's original proposal for all LEAs.[56]

While October enrollment counts were largely accurate in the aggregate for FY 2026, updated figures revealed more significant issues with respect to individual districts.[57] There were substantial undercounts in communities like Central Falls and Providence with high reliance on state funding, requiring approximately $1.0 million in additional aid over the governor's proposed budget.[58] Of greater significance was the substantial undercounting of 5,931 students in poverty (an 11.0 percent difference), resulting in a large funding gap of $24.6 million for all LEAs using the governor's proposed enhanced success factor funding approach and March 2025 enrollment.[59]

Governor's FY 2026 Budget Proposal and the Urban Core

The allocation of state education aid among school districts has shifted significantly in recent years. During the ten-year phase-in of the funding formula (FY 2012-2021), Rhode Island's five urban core districts—Central Falls, Pawtucket, Providence, West Warwick, and Woonsocket—received 59.3 percent of all new state aid.[60] In contrast, from FY 2021 to FY 2025, these districts received a notably smaller share, roughly half (50.9 percent), of all new funding. Figure 16 illustrates the share of additional funding received by urban core districts over these two periods.[61]

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[56] The governor's FY 2025 budget also included a cap on the core instructional amount and an increase in the factor for multilingual learners, which were rejected by the General Assembly. R.I. House Fiscal Advisory Staff, FY 2025 Budget as Enacted: Education.

[57] October 2024 figures overcounted student enrollment by 309 students (0.2 percent difference) relative to March 2025. RIDE, FY 2026: March Student Data Update; RIPEC calculations.

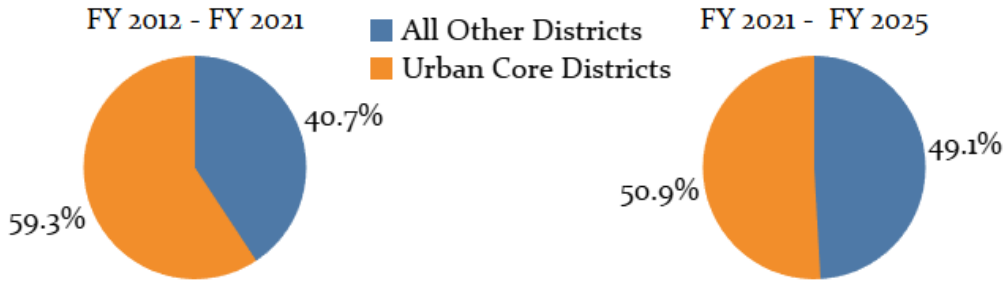
[58] March enrollment data from traditional school districts revealed 419 more students in Providence and 80 more students in Central Falls, requiring $5.7 million in additional funding for those two districts alone over the governor's proposal. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Education; FY 2026 Budget Analysis: Education; RIPEC calculations.

[59] RIDE, FY 2026 Governor Recommended Aid; FY 2026 March Student Data Update; RIPEC calculations.

[60] RIPEC employs a grouping of these five districts described as the urban core because they have the state's five lowest levels of property wealth per student, and they rank among the top six communities for highest proportion of students in poverty. In contrast, the governor's proposed enhancement included only communities with a poverty concentration over 60.0 percent, which qualified Newport (64.3 percent) but not West Warwick (49.0 percent). RIPEC includes West Warwick due to its combination of high poverty concentration and low property share ratio—a measure of property wealth per student (75.7 percent). Newport, in contrast, is tied as the wealthiest community in terms of property wealth. RIPEC, Rhode Island's Education Funding Formula Revised, Jul. 2023; R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Education.

[61] From FY 2021 to FY 2025, urban core districts experienced substantial enrollment losses, accounting for 51.1 percent of total enrollment decline. However, their share of the total student population only saw a slight decrease in this period, from 33.6 percent to 32.2 percent. In FY 2026, urban core districts' contribution to the total enrollment decline dropped to 20.3 percent, and their share of the total student population increased to 32.4 percent. Enrollment is a key factor of the education funding formula but is only one component determining funding levels. R.I. House Fiscal Advisory Staff, FY 2021

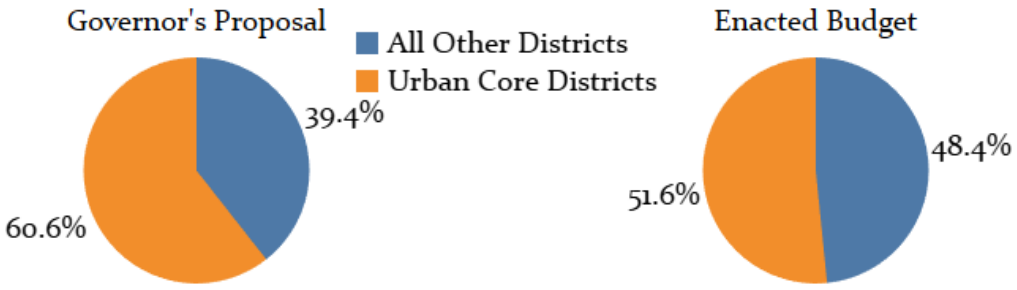
Figure 16
Share of State Aid to Districts
Increase in Urban Core Districts vs. All Other Districts
FY 2012-2021 vs. FY 2021-2025



Note: Urban Core includes Central Falls, Pawtucket, Providence, West Warwick, and Woonsocket
Source: RIDE, Funding Formula Calculations; RIPEC calculations

The governor's proposal to enhance the funding bonus for communities with high concentrations of students in poverty would have restored urban districts to a greater share of new funding; using updated March enrollment counts, the governor's proposal would have directed 60.6 percent of all new funding to urban core districts.[62] Without this change, the budget adopted by the General Assembly provides for urban core districts to receive just over half (51.6 percent) of all new funding, similar to the reduced share of new funding of the last several years. Figure 17 depicts the share of additional funding received by the urban core as proposed by the governor in his FY 2026 budget (incorporating updated enrollment counts) and the share of new funding under the FY 2026 enacted budget.

Figure 17
Share of State Aid to Districts
Increase in Urban Core Districts vs. All Other Districts, FY 2026



Note: Urban Core includes Central Falls, Pawtucket, Providence, West Warwick, and Woonsocket
Source: RIDE, Funding Formula Calculations; RIPEC calculations

Budget as Enacted: Special Reports; FY 2025 Budget as Enacted: Education; FY 2026 Budget as Enacted: Education; RIPEC calculations.

[62] Using October enrollment counts, the governor's budget proposal allocated only 39.7 percent of the district aid increase to urban core districts, due to significant undercounts of students in poverty and total enrollment in Providence and Central Falls. R.I. House Fiscal Advisory Staff, FY 2026 Budget Analysis: Education; RIPEC calculations.

An analysis of state aid that focuses exclusively on traditional district schools in the urban core does not fully account for students from these communities who attend other LEAs, including charter, state, or other district schools. Students from urban core communities make up approximately 70 percent of all students attending charter and state schools, so any state aid increases to these schools disproportionally benefit urban core students not attending traditional district schools.[63] In the FY 2026 enacted budget, charter and state schools received $19.3 million in increased aid (an 8.3 percent increase) over the FY 2025 enacted level. Charter and state schools also experienced a 2.8 percent increase in student enrollments (445 students) year over year, in contrast to a 0.8 percent enrollment decline (1,121 students) in traditional districts.[64]

Transportation

Transportation represents only 6.2 percent of total state spending in the FY 2026 budget, but Rhode Island nevertheless faces significant short- and long-term challenges and uncertainties in the financing of transportation: gas tax revenues are expected to decline, the terms and timing of restarting the state's tolling are yet to be determined, funding gaps remain for the replacement of the Washington Bridge, and RIPTA is facing large operating deficits for FY 2026 and beyond.[65] The General Assembly took steps toward addressing each of these issues in the FY 2026 enacted budget, but as described below, challenges remain.

Gas Tax

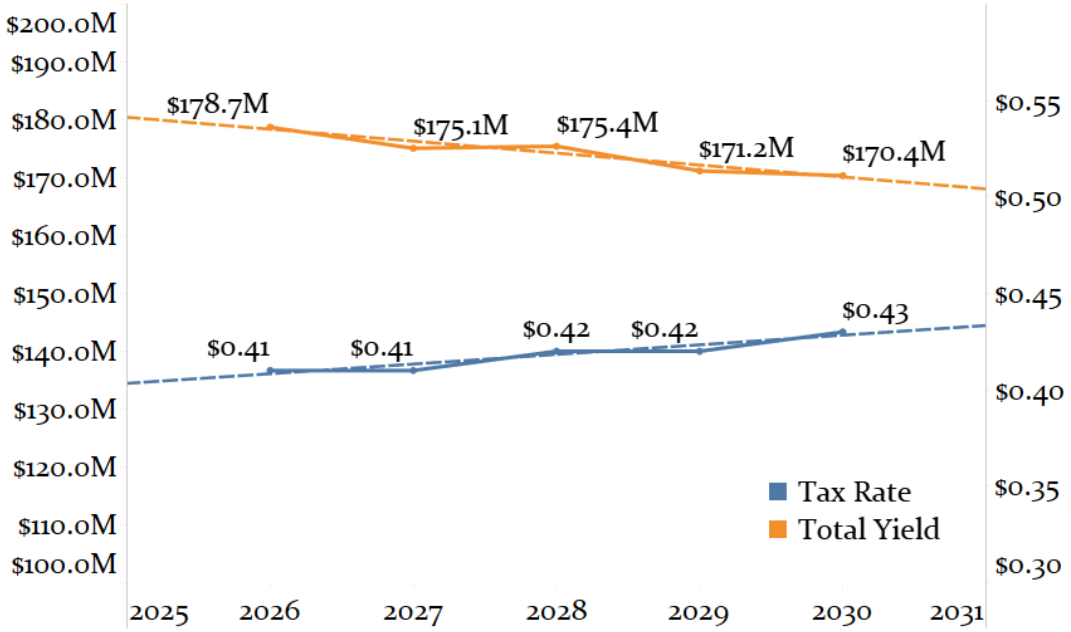
The largest state source of funding for transportation is the gas tax. Nearly all of the proceeds of the gas tax are allocated to the state's transportation agencies: the Rhode Island Department of Transportation (RIDOT) (24.25 cents), RIPTA (9.75 cents), and the Rhode Island Turnpike and Bridge Authority (3.5 cents).[66] The FY 2026 enacted budget includes an increase in the gas tax from 39 to 41 cents a gallon, effective July 1, 2025, with this increase dedicated to RIPTA to help address some of the Authority's operating shortfall, increasing the agency's share to 11.75 cents per gallon.[67]

Despite this tax increase, gas tax revenues are projected to decline over time. As depicted in Figure 18, the gas tax is projected to yield $4.4 million per penny in FY 2026 for a total of $178.7 million in revenues on a tax of 41 cents per gallon. The gas tax per penny yield is expected to decline year-over-year to $3.9 million in FY 2030. Overall, annual revenues from

[63] RIDE, Student Membership by LEA of Instruction and by Municipality; RIPEC calculations.
[64] RIDE, FY 2026 Enacted Aid; FY 2025 Enacted Aid; FY 2026 Formula Calculation; FY 2025 Formula Calculation.
[65] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation; RIPEC calculations.
[66] The Department of Human Services (1 cent) and the Underground Storage Tank (0.5 cents) receive small portions of the state gas tax as well. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation.
[67] Ibid.

the gas tax are expected to fall from $178.7 million in FY 2026 to $170.4 million in FY 2030 (4.7 percent decline), despite scheduled tax rate increases in FY 2028 and FY 2030.[68]

Figure 18
Gas Tax Rate vs. Gas Tax Total Yield
FY 2026 - FY 2030



Note: These calculations are based on changes to the gas tax in the FY 2026 enacted budget. FY 2026 through FY 2030 are projected numbers
Source: R.I. Office of Revenue Analysis; R.I. House Fiscal Advisory Staff; RIPEC calculations

The projected decline in gas tax revenues is due primarily to improving fuel efficiency, rising gas prices, and the growing popularity of hybrid and electric vehicles—driven in part by state policies and programs that encourage their adoption.[69]

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[68] R.I. Office of Revenue Analysis, Gas Tax Projections, Nov. 26, 2024. The General Assembly also changed how gas tax increases are indexed to inflation, moving from a one-year to a two-year inflation value. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation; RIPEC calculations.

[69] Bill Kramer, "The Gas Tax is Failing to Fund Transportation Infrastructure," Multistate, Sept. 2023; National Conference of State Legislatures, "Road Worries: Sagging Gas Tax, Rising Traffic Safety Woes," Apr. 2023; Jennifer Ricciuti, "Impact of Lost Gas Tax Revenues Due to Sale of Electric Vehicles: Analysis and Recommendations for the 50 States," Analytics Capstones, 2020; Ulrik Boesen, "Gas Tax Revenue to Decline as Traffic Drops 38 percent," Tax Foundation, Mar. 2020; Tong Zhang and Paul Burke, "The effect of fuel prices on traffic flows," Transportation Research: Policy and Practice, Nov. 2020. The approximate number of electric cars in Rhode Island increased from just 300 in 2016 to 6,400 in 2023. Plug-in hybrids have also seen large growth in this period, from approximately 600 to 5,100, and the number of hybrid cars jumped from about 11,000 in 2016 to 22,100 in 2023. U.S. Department of Energy, Alternative Fuels Data Center. In 2021, the General Assembly enacted the Act on Climate, which included the Advanced Clean Cars II and Advanced Clean Trucks programs. These program standards require that 43.0 percent of cars and trucks be zero-emission by 2026, with a final goal that all new cars sold in Rhode Island be zero-emission by 2035. R.I. Department of Environmental Management, Advanced Clean Cars II (ACCII) & Advanced Clean Trucks (ACT). To further incentivize the move to environmentally cleaner vehicles, the 2021 Assembly adopted a tax rebate for new battery and fuel cell electric vehicles and plug-in hybrids (of up to $1,500 and $1,000, respectively), as well as for used electric and hybrid vehicles (up to $1,000 and $750, respectively). R.I. Department of Transportation, Drive EV.

Electric Vehicle and Registration Fees

To partially offset gas tax revenue decreases, the FY 2026 enacted budget creates new annual registration fees for three classes of vehicles: battery electric ($200), plug-in hybrid ($100), and hybrid electric ($50).[70] These fees are anticipated to generate $3.6 million for FY 2026 in additional revenues, to be dedicated to the Highway Maintenance Account.[71] Thirty-nine other states currently require registration fees for electric vehicles and 32 other states assess a fee for either plug-in hybrid or hybrid vehicles.[72]

The FY 2026 enacted budget also includes an increase in the current surcharge on licenses and most vehicle registrations from $30 to $40, the first since 2016. The increase is expected to generate an additional $3.1 million to be deposited in the Highway Maintenance Account.[73]

Toll Revenue

The FY 2026 enacted budget also includes revenues from restarting the state's truck toll program, consistent with the governor's proposed budget. Signed into law in 2016, Rhode Island's RhodeWorks program authorized tolling on large commercial trucks.[74] These tolls took in significant revenues, reaching an apex of $38.4 million in FY 2022, before the U.S. District Court ruled the program unconstitutional and thereby suspended it in September 2022.[75]

However, in December 2024, the U.S. Court of Appeals for the First Circuit overturned the lower court decision, and ruled that the toll program could move forward, except for the daily caps on tolls. The FY 2026 capital budget includes $10.0 million in toll revenues for FY 2026 and $40.0 million annually in future fiscal years. The specifics and timing of restarting the toll program have yet to be announced.[76]

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[70] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation.
[71] In his FY 2026 budget, the governor proposed lower fees for battery electric ($150) and plug-in hybrid vehicles ($75) and did not include a registration fee for plug-in hybrids. Ibid.
[72] NCSL, Special Registration Fees for Electric and Hybrid Vehicles, Feb. 25, 2025.
[73] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation.
[74] This created a maximum $40 toll for trucks making a border-to-border trip through Interstate 95. The state contracted Kapsch TrafficCom to design, build, operate, and maintain an electric tolling system over ten years. The total cost of the contract was $68.9 million, including $41.8 million for building the gantries and $27.1 million for operation and maintenance of the program. At the time of the U.S. District Court's ruling in September 2022, twelve of the thirteen gantries were operational; thus, the operations and maintenance clause of the contract was not executed. In March 2024, the R.I. Department of Transportation entered a $5.2 million settlement with the tolling vendor for outstanding payments for work and claims-related expenses. R.I. House Fiscal Advisory Staff, FY 2026 Budget Analysis: Transportation.
[75] This caused revenues to fall precipitously in FY 2023 ($7.7 million). The FY 2024 budget included a $70.0 million backfill for the missing toll revenue in both FY 2023 and FY 2024. Additional transfers from the Rhode Island Capital Plan Fund helped cover the required state match in FY 2025. R.I. House Fiscal Advisory Staff, FY 2025 Budget as Enacted: Transportation; FY 2026 Budget Analysis: Transportation.
[76] Ibid.

Washington Bridge

The westbound span of the Washington Bridge—which services up to 70,000 vehicles per day along I-195 between Providence and East Providence—was abruptly shut down in December 2023 after the discovery of two failed tie-rods which put the bridge in danger of collapse. After three months of study and analysis, a report issued in March 2024 called for a full replacement of the westbound span. Preliminary cost estimates for the design and replacement were between $250 and $300 million. In March 2024, RIDOT increased the total project costs to $455.2 million, based on increased costs for demolition of the existing bridge.[77] In June 2026, revised cost estimates were released showing an increase in total costs to $572.1 million. Assuming the typical 80/20 federal/state share of funding for state transportation projects, the state's expected matching contribution under this new estimate would be $114.4 million.

To help finance the cost of replacing the bridge, Rhode Island has received two separate federal grants: a $125.4 million National Infrastructure Project Assistance (MEGA) grant and a grant of $95.6 million from the Infrastructure for Rebuilding America program. In total, these grants represent $221.0 million in federal aid above and beyond the state's federal transportation funding allocation. The FY 2025 enacted budget provided pay-go funding for the state share of funding to replace the bridge, including $45.0 million from Rhode Island Capital Plan funds, $35.0 million from State Fiscal Recovery Funds, and $3.6 million from Department of Transportation sources.[78] The FY 2026 enacted budget includes $22.0 million in FY 2027 from Rhode Island Capital Plan funds to increase the state match to $105.6 million.[79] This leaves a remaining gap in state funding of $8.8 million based on current project cost estimates.[80]

RIPTA

The COVID-19 pandemic had a profoundly negative effect on RIPTA, which has continued to face steep financial challenges in its aftermath. The agency experienced a marked decline in ridership, resulting in a significant drop-off in revenues that has only partially rebounded in recent years.[81] However, these revenue losses were offset by $128.7 million in federal pandemic recovery funds received by RIPTA over five fiscal years, ending with an allocation

[77] Preliminary cost estimates for the design and replacement of the bridge were between $250 and $300 million. In March 2024, RIDOT increased the total project costs to $455.2 million, with a state share of $83.6 million. Ibid.
[78] Ibid.
[79] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: Transportation.
[80] RIPEC calculations.
[81] RIPTA experienced average monthly losses of $3.6 million at the height of the pandemic in FY 2020 and continued to register average monthly losses of $2.9 million and $1.5 million in FY 2021 and FY 2022, respectively. RIPTA, "Transit Turnaround: The Road to and From RIPTA's Fiscal Cliff," RIPTA Board of Directors Meeting Presentation, May 17, 2023; "Annual Financial Plan: FY 2025-2030," Jul. 1, 2023.

of $13.4 million in FY 2025.[82] With pandemic recovery funds no longer available, RIPTA is facing a structural deficit in FY 2026 of $32.6 million, with projected deficits increasing annually and topping $50 million in FY 2029 and FY 2030.[83]

To address this deficit in FY 2025, the enacted budget included $15.0 million in federal pandemic relief funding to RIPTA and directed the Agency to produce an efficiency study—including a review of all operations including ridership and administration—to be submitted by March 1, 2025. The report was ultimately submitted on July 31, 2025, about a month after the FY 2026 budget was enacted.[84]

Additional funds were directed to RIPTA in the FY 2026 enacted budget—though not enough to solve the agency's projected deficit. The governor's FY 2026 budget proposal provided no additional funding, but the General Assembly appropriated $14.6 million in additional revenues to RIPTA by increasing the gas tax by 2 cents ($8.7 million) and enhancing the Authority's share of proceeds the Highway Maintenance Account from 5.0 to 10.0 percent ($5.9 million).[85] With these revenue increases, RIPTA still faces an $18.0 million operating deficit for FY 2026. RIPTA has identified roughly $8 million in cost savings, but the agency has estimated that the remaining approximate $10 million shortfall will necessitate up to 90 layoffs and a 20 percent reduction in service.[86]

Personnel

Personnel expenditures represent a significant cost to the state, constituting one-quarter (23.4 percent) of total general revenue expenditures and 19.4 percent of total spending in the FY 2026 enacted budget. Spending on personnel consists primarily of state employee salaries and benefits; of $1.36 billion in general revenue spending on personnel in FY 2026, salaries ($764.6 million) and benefits ($471.4 million) combined make up 91.0 percent, with the remainder ($121.6 million) expended on contracted services.[87]

The FY 2026 enacted budget includes a large jump of $65.3 million—4.9 percent—in general revenue spending on personnel relative to the FY 2025 enacted budget, exceeding the increase of 3.8 percent in overall general revenue spending. This reflects the second straight year of relatively high spending in this category; general revenue spending on personnel has grown by 16.1 percent since FY 2024, compared to a 10.9 percent increase in total general

[82] R.I. House Fiscal Advisory Staff, Rhode Island Public Transit Authority, Staff Presentation to the House Finance Subcommittee on Environment/Transportation, Mar. 11, 2025.
[83] Ibid.
[84] Rhode Island Public Transit Authority, Operational Efficiency Study, Jul. 31, 2025.
[85] Ibid.
[86] Nancy Lavin, "Five losses from Rhode Island's 2025 legislative session," Rhode Island Current, Jun. 27, 2025.
[87] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: FY 2026 Statewide Overview, State Government Personnel and Staffing.

revenue expenditures over the same period. Over the longer term, however, general revenue spending on personnel has lagged overall state spending, growing at an annual average rate of 5.3 percent between FY 2019 and FY 2026, compared to a 6.9 percent average annual increase in total general revenue expenditures over this period.

Collective Bargaining Agreements

The year-over-year expansion in general revenue spending is driven primarily by increases in employee salaries and benefits resulting from new collective bargaining agreements finalized about two months after the FY 2025 budget was enacted. These agreements—between the Department of Administration and one union as well as a coalition of bargaining units that collectively represent most state personnel—included salary cost-of-living adjustments (COLA) retroactive to the beginning of FY 2025 and cumulative over three years, with increases of 5.0 percent for FY 2025, 4.0 percent for FY 2026, and 3.0 percent for FY 2027.[88] In October 2024, OMB estimated that salary and benefit increases attributable to the COLAs would require additional general revenue spending on personnel of $45.9 million for FY 2025 and $84.6 million for FY 2026.[89]

In addition to the cost of these adjustments for finalized bargaining agreements, a portion of the FY 2026 increase in personnel expenditures supported agreements expected to be concluded with the unions not included in this initial set—covering employees at the Department of Corrections, Department of Public Safety, and the Department of Education. The governor's proposed budget included $19.0 million in FY 2026 reserved for these collective bargaining agreements that had not yet been finalized.[90] However, these reserves did not fully cover the cost, and the enacted budget includes $11.6 million more than recommended from general revenues to make up the difference.[91]

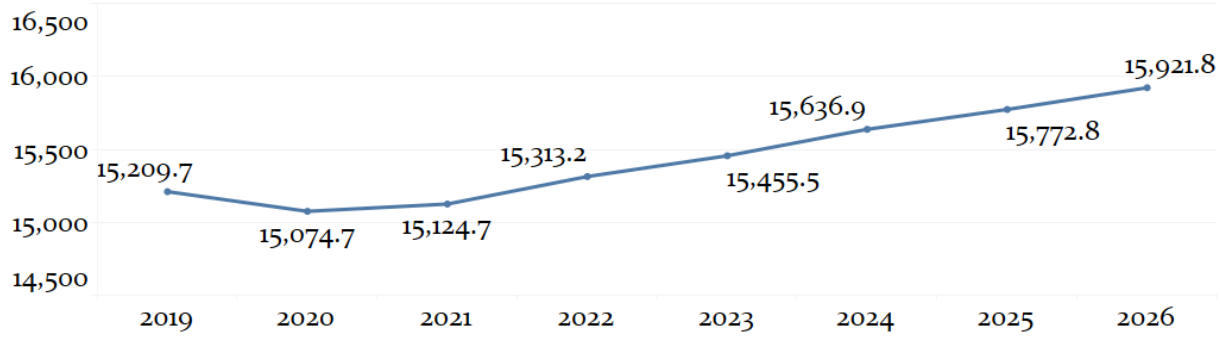
FTE Increases

Increased personnel expenditures in the FY 2026 enacted budget also reflect continued growth in the number of authorized state employees. The General Assembly authorized 15,921.8 full-time equivalent (FTE) positions for FY 2026, including 544.8 higher education positions dedicated for research or supported by other third-party funds. This authorization represents 149.0 positions (0.9 percent) more than the FY 2025 enacted level, including 100.0 new positions at the University of Rhode Island, 25.0 of which are limited to third-party

[88] R.I. OMB, Budget as Enacted Report: Fiscal Year 2025, Oct. 24, 2024.
[89] Ibid.
[90] R.I. Senate Fiscal Office, Governor's FY 2026 and FY 2025 Supplemental Budget.
[91] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted: State Government Personnel and Staffing.

sources.[92] Since FY 2019, the number of authorized FTEs has grown by 712.1, or 4.7 percent. Figure 19 shows the growth of authorized FTEs between FY 2019 and FY 2026.

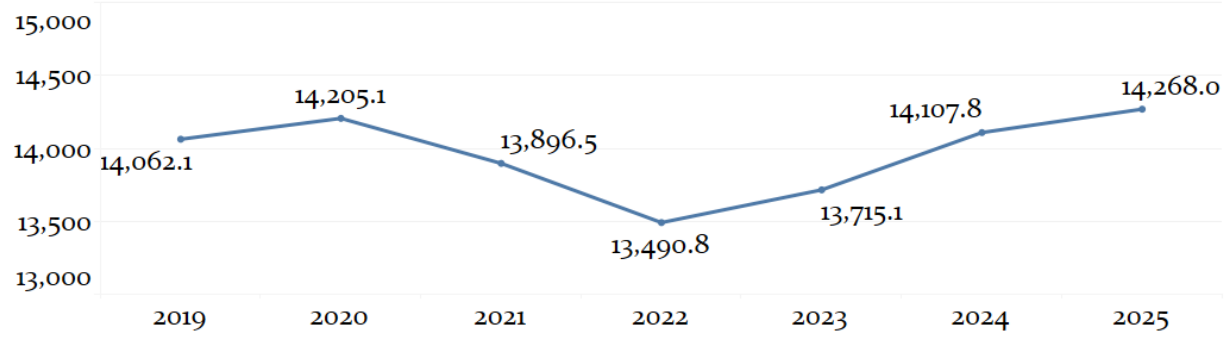
Figure 19
Rhode Island Authorized FTEs
FY 2019 Enacted - FY 2026 Enacted



Source: R.I. House Fiscal Adviosry Staff, Budget as Enacted Reports, Personnel and Staffing.

The number of filled FTEs has also been growing, though not at the same rate or to the same extent as authorized FTEs. The average number of filled FTEs in Rhode Island fell sharply from 14,205.1 in FY 2020 to 13,490.8 in FY 2022 due to pandemic-related staffing declines and a voluntary retirement incentive program.[93] Since then, average filled FTEs have increased year over year. In FY 2025, the state averaged 14,268.0 filled FTEs, with an average of 1,504.8 vacancies—an increase of 777.2 average filled FTEs (5.8 percent) over three years and a year-over-year gain of 160.2 FTEs (1.1 percent). Compared to FY 2019, however, the average number of filled FTEs had increased by only 62.9, or 0.4 percent, with FY 2025 marking the first year in which average filled FTEs exceeded pre-pandemic levels. Figure 20 depicts average filled FTEs between FY 2019 and FY 2025.

Figure 20
Rhode Island Average Filled FTEs
FY 2019 - FY 2025



Source: R.I. House Fiscal Adviosry Staff, Budget as Enacted Reports, Personnel and Staffing.

[92] Ibid.
[93] Ibid.

VI. Program Evaluation and Oversight

During times of constrained revenue growth and projected budget deficits, best practices include the use of reliable information by state policymakers to divert scarce resources from programs without demonstrated effectiveness.[94] Increasingly, states have turned to evidence-based policymaking to reduce spending, strengthen innovative programs, and improve accountability. States that use evidence-based policymaking assess the effectiveness of their programs by systematically using reliable data to monitor policy outcomes, implementing oversight to ensure that programs are effective, using data to monitor policy outcomes, and evaluating whether programs warrant continued funding.[95]

Enhanced Tools in the FY 2026 Enacted Budget

Rhode Island's FY 2026 enacted budget includes several provisions intended to improve program integrity and effectiveness. Approving a recommendation by the governor, the General Assembly included in the budget enhanced powers for the Office of Internal Audit and a change in name to the Office of Internal Audit and Program Integrity.[96] The Office was already authorized to conduct audits of any state department, agency, or private entity that receives state funding or grants, and also to evaluate the efficiency of operations and internal controls to prevent waste, fraud, abuse, or mismanagement of funds.[97] As part of the reorganization in the budget, the powers of the Office were expanded to include enhanced subpoena powers and the ability to investigate individuals who may have committed fraud to obtain assistance, as well as to recover federal and state funds that may have been misappropriated.[98] The FY 2026 enacted budget includes a total increase of $1.2 million, including $0.7 million from general revenues, for 2.0 FTE positions to carry out the increased responsibilities of the reconstituted Office.[99]

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[94] NCSL, "Using Data and Evidence to Make Strategic Budget Decisions: 6 Key Questions," Sept. 14, 2023; "The ABCs of Evidence-Informed Policymaking," Sept. 2024.

[95] Pew Charitable Trust, "Evidence-Based Policymaking: A Guide for Effective Government," Nov. 13, 2014; "A Guide to Evidence-Based Budget Development," Jul. 6, 2016.

[96] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted. The Office of Internal Audit sits within the Department of Administration. The Office produces annual reports that summarize its activities. In 2016, the General Assembly consolidated the functions of the Office to increase efficiency and decrease waste and fraud. R.I. House Fiscal Advisory Staff, Department of Administration, Staff Presentation to the House Finance Subcommittee on General Government, Mar. 25, 2025.

[97] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted.

[98] Ibid.

[99] As part of a statewide program integrity initiative, 4.0 FTEs were added to the program integrity program at EOHHS. R.I. OMB. The enacted budget also includes $8.9 million ($2.2 million in general revenues) allocated to Equifax for its Work Number income verification product, a service that enables the state to access an additional data source to determine eligibility for medical assistance and other Department of Human Services programs. While the program's implementation was delayed until FY 2026 with no new budgeted cost savings associated for that year, EOHHS initially included $24.5 million ($6.5 million in general revenue) for it in its FY 2025 budget request. The enacted budget also projects $6.9 million in all funds savings ($2.9 million in general revenues) from anticipated payment recoveries due to discovered waste, fraud, and abuse within Medicaid programs. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted.

The FY 2026 enacted budget also authorizes the Division of Taxation to implement a Financial Institutions Data Matching Program to identify financial accounts for non-compliant taxpayers to aid in the collection of state tax liability. This initiative is estimated to increase revenues by $5.3 million in FY 2026.[100]

Evidence-Based Policymaking in Rhode Island's Budget

While the FY 2026 enacted budget includes the provisions outlined above to improve the integrity and effectiveness of certain state programs, it does not otherwise advance evaluation and accountability with respect to state programs more broadly.

Rhode Island already uses elements of evidence-based policymaking throughout its budget process, with OMB setting budget targets for agencies, requiring decision packages for significant spending changes, and using evaluation scores for program effectiveness.[101] Detailed information on program evaluations is included within Department and Agency budget requests. While these are public documents, they are not readily available online and must be obtained through a request made to the Office of Management and Budget (OMB). It is unclear how these evaluations are utilized in the budgeting process.[102]

Similarly, despite a statutory requirement for agencies to include performance measures in their budget requests, the actual utilization of these measures in state budgeting decisions is unclear. While OMB's Performance Management Unit is tasked with maintaining and updating these measures, much of their work is internally facing and public reporting on program effectiveness has been minimal.[103] This limited public data makes it challenging for the public to evaluate how effectively tax dollars are being utilized for programs administered by state departments and agencies.

[100] Ibid.
[101] R.I. OMB, FY 2026 Annual Budget Instructions, Aug. 2024.
[102] R.I. OMB.
[103] Performance measures are required by R.I. Gen. Laws § 35-3-24.1, designed to increase transparency and accountability for government operations and provide insight into program efficiency and effectiveness, with each measure having a target for comparison to actual performance. OMB's operations include a Performance Management Unit that has grown to 4.0 FTE positions with an annual budget of approximately $700,000, responsible for maintaining and updating performance measures across state government agencies. The Unit has produced five publicly available reports since 2022. R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted; R.I. OMB, Performance Management, accessed Aug. 12, 2025.

VII. Federal Funding Changes

Potential changes in federal funding complicated the Rhode Island state budget process for FY 2026. As early as May 2025, legislative leaders warned a special session might be necessary in the fall due to the uncertainty surrounding the availability of federal funding.[104] House Speaker Joseph Shekarchi echoed this concern when the House passed the FY 2026 appropriations act in June, citing potential federal cuts to Medicaid or the Supplemental Nutrition Assistance Program (SNAP) as key risks.[105]

Four days after Rhode Island's FY 2026 appropriations act was enacted, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. OBBBA extends the 2017 Tax Cuts and Jobs Act (TCJA) and makes major tax changes for individuals and businesses, along with significant revisions to Medicaid and SNAP. In the wake of the bill's passage, legislative leaders have indicated a special session is now unlikely, as most of the federal changes will not take effect for several years.[106]

Rhode Island's Reliance on Federal Funding

Rhode Island's state budget is heavily dependent on federal funding. For the enacted FY 2026 budget, federal aid totals $5.11 billion, which constitutes 35.6 percent of all expenditures—approaching the amount of $5.81 billion in state general revenue expenditures. According to the most recent comparative data from FY 2024, federal funds made up 40.0 percent of Rhode Island's total expenditures that year, well above the 34.2 percent national average, and ranking 13th nationally and highest in New England [107] Rhode Island's relative reliance on federal funding is even higher when measured on a per capita basis: at $5,101 per resident, Rhode Island's federal support was 64.1 percent greater than the national average of $3,108 in FY 2024, ranking fourth highest nationally and first in New England.[108]

[104] Edward Fitzpatrick, "R.I. legislators may call for a special session this fall amid federal funding cuts, uncertainty," *Boston Globe*, May 13, 2025.
[105] *R.I. PBS*, Rhode Island House Passes $14.3B Budget Amid D.C. Uncertainty and GOP Pushback, Jun. 18, 2025; Patrick Anderson, "House passes $14.3B state budget with tax on vacation homes, money for doctors," *Providence Journal*, Jun. 21, 2025.
[106] Nancy Lavin, Federal Budget Leaves a Big, Beautiful Question Mark Over Rhode Island, *Rhode Island PBS*, Jul. 18, 2025.
[107] NASBO, 2024 State Expenditure Report; RIPEC calculations. The share of state spending funded by federal aid in other New England states was: New Hampshire (38.9 percent), Maine (36.9 percent), Vermont (36.0 percent), Massachusetts (30.1 percent), and Connecticut (23.6 percent).
[108] Per capita federal funding in the other New England states was: Connecticut ($2,905), Maine ($3,474), Massachusetts ($3,583), New Hampshire ($2,362), and Vermont ($4,639). NASBO, 2024 State Expenditure Report; U.S. Census Bureau, Annual Estimates of the Resident Population for the United States; RIPEC calculations. Calculations are based on 2023 population estimates.

The One Big Beautiful Bill Act

The most significant component of OBBBA is the extension of TCJA, which was set to expire at the end of 2025. Because this extension maintains existing law, it has no direct impact on the Rhode Island state budget. However, OBBBA also includes several new tax law changes for individuals and businesses, including:

- $6,000 bonus deduction for Americans aged 65 and over
- Increase in the deduction limit for state and local taxes from $10,000 to $40,000
- Deduction of up to $25,000 for tip income
- Deduction of up to $12,500 for overtime pay
- Deduction of up to $10,000 for annual interest on new auto loans[109]

Like most states, Rhode Island's personal income tax follows the federal system by using federal adjusted gross income (AGI) as its starting point.[110] As such, OBBBA tax changes that affect federal AGI will automatically affect state tax liability and revenues, unless Rhode Island makes statutory adjustments. Conversely, other OBBBA tax changes that do not affect AGI will only change state tax liability and revenues if Rhode Island enacts new statutory changes to incorporate them into the state tax code.[111]

To offset the cost of the tax cuts, OBBBA includes expenditure reductions, primarily in Medicaid. Most Medicaid savings come from a new requirement for enrollees to complete at least 80 hours of work, job training, or community service per month, with exceptions for the disabled, elderly, and parents of young children. The Congressional Budget Office (CBO) estimates these changes, along with those affecting Affordable Care Act (ACA) marketplace coverage, will cause roughly 15 million people nationwide to lose health coverage by 2034. The legislation also mandates more frequent eligibility checks and allows for deductibles and cost sharing by recipients. Additionally, OBBBA restricts state fees on healthcare providers used to fund Medicaid.[112]

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[109] Kate Dore, "Trump's 'big beautiful bill' includes these key tax changes for 2025—what they mean for you," *CNBC*, Jul. 20, 2025.

[110] R.I. Division of Taxation, Personal Income Tax.

[111] Tax Policy Center, Urban Institute & Brookings Institution, "How do state individual income taxes conform with federal income taxes?," Updated Jan. 2024.

[112]There were 71.4 million people covered by Medicaid in January of 2025, and 21.4 million people covered under ACA marketplaces in 2024. Drew Desilver, "What the data says about Medicaid," Pew Research Center, Jun. 24, 2025; Jennifer Tolbert, et al., "A Look at ACA Coverage through the Marketplaces and Medicaid Expansion Ahead of Potential Policy Changes," KFF, Jan. 15, 2025 July Tsirkin, Frank Thorp, and Sahil Kapur, "Here's what's in the Senate's version of the 'big, beautiful bill'," *NBC News*, Jun. 30, 2025; Anil Shankar, "One Big Beautiful Bill: Slashed Budgets Will Disrupt the Medicaid Program," *The National Law Review*, Jul. 17, 2025: Center on Budget and Policy Priorities, "By the Numbers: Republican Reconciliation LawWill Take Health Coverage Away From Millions of People and Raise Families' Costs," Updated Jul. 25, 2025.

To a lesser degree than Medicaid, OBBBA also realizes expenditure savings through significant changes to the SNAP program. The legislation raises the working age for most recipients by ten years, from 54 to 64, and now makes parents with children older than 14 subject to work requirements. The CBO estimates these new rules will cause about 3.2 million adults to lose SNAP benefits in a typical month. While the federal government has historically paid for SNAP benefits and states have had the responsibility of managing the program, OBBBA now requires states to assume more of the administrative costs and penalizes states for erroneous payments.[113]

Budget Provisions Pertaining to Federal Uncertainty

Rhode Island's FY 2026 enacted budget includes provisions that authorize the Department of Revenue to make immediate adjustments to the state's tax code. The purpose of these provisions is to preserve the state's tax base by accounting for any income, deductions, or allowances that are now treated differently under OBBBA. The bill grants to the Department the power to promulgate emergency rules and regulations to allow officials to quickly address any changes to IRS forms or regulations that take effect during the current tax year or within six months of the beginning of the next tax year.[114]

The FY 2026 budget also includes specific measures to prepare for potential reductions in federal funding, including dedicated working groups to analyze and respond to shifts in federal funding and federal tax changes. EOHHS was instructed to establish a working group to review federal changes to Medicaid programs and develop options for federal funding changes affecting state Medicaid services. The Department of Revenue was similarly directed to convene a group to analyze federal tax actions and formulate administrative or legislative options for federal funding changes impacting state revenues. Both advisory groups must submit reports—including findings, recommendations, and compliance options—by October 31, 2025.[115]

As part of the FY 2026 Appropriations Act, the General Assembly also directed OMB to monitor federal grants, assess the impacts of funding reductions or terminations, and require agency reports detailing affected programs and staffing. OMB's responsibilities also include developing administrative or legislative proposals to address federal funding changes. A report from OMB, containing findings, recommendations, and options for state compliance with federal changes is mandated by October 31, 2025.[116]

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[113]About 42 million Americans, living in 22 million households, use SNAP. Julia Moskin, "What Are SNAP Benefits, and How Will They Change?" *New York Times*, Updated Jul. 17, 2025; Center on Budget and Policy Priorities, " By the Numbers: House Republican Reconciliation Bill Takes Food Assistance Away From Millions of People," Updated Jun. 6, 2025.
[114] 2025 -- H 5076 Substitute A as Amended.
[115] Ibid.
[116] Ibid.

VIII. RIPEC Comments

After a period of extraordinary expansion of state revenues and expenditures, Rhode Island more recently has faced slowing revenues but has maintained a relatively high rate of spending increases. Despite large projected deficits, fiscal austerity has been deferred as both the governor and General Assembly have relied on large prior year budget surpluses and, in the enacted FY 2026 budget, significant increases to taxes and fees, to finance greater spending. With a constrained revenue outlook and spending in key areas exceeding revenues, projected future deficits persist and are expected to grow.

The dramatic jump in spending over the past several years was driven in large part by the growth in federal aid, but also by robust growth in expenditures from state general revenues. The FY 2026 enacted budget continues this trend, with total spending increasing by $1.31 billion (10.0 percent) since FY 2024, and general revenue expenditures growing by $573.3 million (10.9 percent) over the same two-year period. Enacted general revenue spending for FY 2026 is $214.5 million (3.8 percent) greater than the FY 2025 enacted level.

During this period, the state experienced extraordinarily large general revenue surpluses, which were used primarily for one-time investments until FY 2025. That year, surplus funds were used to pay for recurring expenditures, leading to large projected outyear deficits. Also relying on surplus funds, the governor's proposed FY 2026 budget solved the deficit through expenditure reductions and, to a lesser degree, through revenue changes. While the governor's budget included substantial spending increases for health and human services and K-12 education, it included little in the way of new spending initiatives and increased general revenue expenditures by only $148.1 million (2.6 percent) over the FY 2025 enacted level.

Similar to the playbook for the FY 2025 budget, the General Assembly approved substantial increases in expenditures for FY 2026 over the governor's proposed budget, relying on projected increases in surplus revenues at the May Revenue Estimating Conference. However, unlike in FY 2025, the Assembly also enacted several new taxes and fees, as well as increases to existing taxes and fees, to raise revenues. With these expanded revenues, the General Assembly increased general revenue expenditures by $214.5 million (3.8 percent) over the FY 2025 enacted level—$66.3 million more than the governor's proposed budget.

The robust expansion of spending in the FY 2026 enacted budget is driven primarily by a sizable increase in expenditures for health and human services, and particularly for Medicaid. Total Medicaid spending in Rhode Island's state budget has increased from $2.93 billion in FY 2019 to $4.90 billion in the FY 2026 enacted budget—a 9.6 percent average annual increase. Despite a dramatic decline in Medicaid enrollees, the FY 2026 enacted

budget increased total Medicaid expenditures by $377.9 million (8.4 percent) over the FY 2025 enacted level.

Though the increase was not as substantial as for health and human services, K-12 education also received a significant boost in general revenue spending in the FY 2026 enacted budget. FY 2025 marked the last year of availability for pandemic-era ESSER funds, and as a result, total K-12 education spending declined by $82.8 million in the FY 2026 enacted budget relative to FY 2025. However, general revenue spending on K-12 increased by $69.1 million, or 4.3 percent, over the FY 2025 enacted budget, outpacing an overall rate of growth in general revenue expenditures (3.8 percent), despite continuing declines in student enrollment.

Transportation financing has been a pressing issue, and in response the General Assembly expanded dedicated revenues in the FY 2026 budget for transportation, including RIPTA. These include the assumed reinstitution of truck tolls, an increase in the gas tax, and new registration fees for electric and hybrid vehicles. However, funding issues remain. In the short term, RIPTA is still facing a large projected deficit despite receiving $14.6 million in new revenues in the FY 2026 budget. Longer term, the state is still heavily reliant on the gas tax, a declining source of revenues.

Collective bargaining agreements finalized in FY 2025 drove substantial increases in spending on personnel. The FY 2026 enacted budget includes a large jump of $65.3 million—4.9 percent—in general revenue spending on personnel relative to the FY 2025 enacted budget. This reflects the second straight year of relatively high spending increases in this category, driven by continued growth in the number of authorized state employees and filled FTEs, as well as agreed upon salary and benefit increases.

Given more constrained revenue growth and projected budget deficits, the FY 2026 enacted budget includes provisions to improve the integrity and effectiveness of certain state programs. However, detailed information pertaining to program evaluations is not readily available, and it is unclear how these evaluations are utilized in the budgeting process. Similarly, despite a statutory requirement for agencies to include performance measures in their budget requests, the actual utilization of these measures in state budgeting decisions is unclear.

Finally, the FY 2026 budget was enacted during a period of uncertainty over federal funding. Four days after Rhode Island's FY 2026 budget was enacted, President Trump signed OBBBA into law, extending TCJA and making major tax changes for individuals and businesses, along with significant revisions to Medicaid and SNAP. Relative to other states, Rhode Island's state budget relies heavily on federal funding, and the General Assembly included

specific measures in the FY 2026 budget to prepare for the tax changes and for potential reductions in federal funding.

Given these findings, RIPEC makes the following recommendations:

Rhode Island state policymakers should curtail spending growth and bring expenditures in line with available revenues. State general revenues are expected to increase by only 1.5 percent from FY 2025 to FY 2026, yet general revenue appropriations grew by 3.8 percent, as one-time surplus funds were again used for recurring spending—leading to a large projected deficit for FY 2027. The state needs to live within its means by addressing spending growth, particularly in the areas of health and human services and K-12 education.

Policymakers should avoid tax increases that would undermine Rhode Island's economic competitiveness and jeopardize growth in state tax revenues. The governor and General Assembly avoided an increase in the individual income tax that would have hurt Rhode Island's tax competitiveness and risked driving higher income individuals and small businesses out of state—undermining long-term revenue growth.[117] However, the FY 2026 enacted budget did include several tax and fee changes, including a health insurance premium tax that will impose a substantial cost burden on Rhode Island employers. While there will be continuing pressure to raise revenues, state policymakers should avoid tax increases that would hurt the state's economy and hinder the growth of state tax revenues.

Policymakers should focus on controlling the growing cost of health and human services, including the cost of Medicaid. The largest part of the state budget, health and human services, and particularly Medicaid, have seen enormous spending increases over the last several years, including in the FY 2026 enacted budget. Given that federal resources for Medicaid will be constrained, state policymakers should turn their focus to addressing health care costs, including through better transparency and data reporting as to the drivers of spending.

Policymakers should pursue comprehensive reform of school funding to make state spending on K-12 education more sustainable and equitable and require meaningful local contributions. General revenue spending on K-12 education in the FY 2026 enacted budget grew at a rate faster than overall general revenue spending, yet the funding fails to deliver more equitable support for urban communities. At the same time, local aid increases have been lagging both state contributions and inflation.[118] The state has long been in need

[117] See: RIPEC, "Taxing Top Earners: The Potential Effects of a Proposed Income Tax Hike in Rhode Island," Apr. 2025.
[118] For analysis on the lagging local share, see: RIPEC, "Rhode Island's State and Local Tax Shift," Mar. 2025.

of comprehensive reform of school funding to better target state funding to urban core communities and to require more meaningful local spending commitments.

State policymakers should seek to constrain the growth in spending on personnel. The FY 2026 enacted budget included a large jump in spending on personnel, driven by salary cost-of-living adjustments, as well as a continuing expansion in the number of authorized and filled FTEs. Policymakers should focus on constraining growth in this area in future budgets.

Especially considering current fiscal constraints, state policymakers should focus on more transparent and accountable evaluation of the effectiveness of state programs. While the FY 2026 enacted budget included a few provisions to improve the integrity and effectiveness of certain state programs, it did not otherwise advance the evaluation and accountability of state programs more broadly to determine whether they are effective and warrant continued state funding.

Appendix

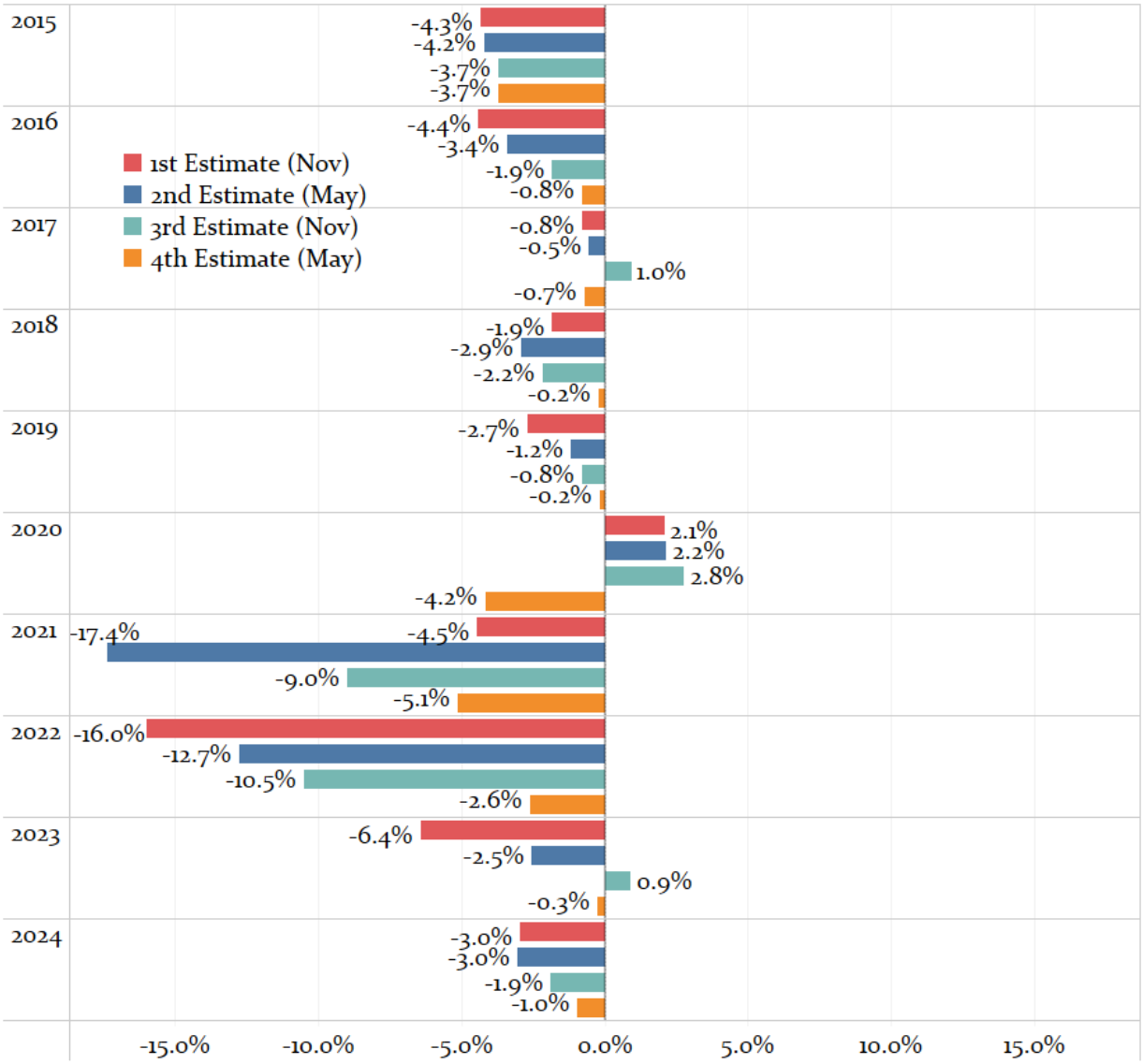
Figure 21
May 2025 Revenue and Caseload Estimating Conference
Changes in Available Revenues Compared to Governor's Budget
($ Millions)

		FY 2025	FY 2026	Total
A	Revenue Estimate Change Nov-May	$ 61.0	$ 19.2	$ 80.2
B	Assumed in Gov. Budget	$ (5.9)	$ 0.1	$ (5.8)
A + B = C	*Subtotal*	*$ 55.1*	*$ 19.3*	*$ 74.4*
D	Caseload Estimate Change Nov-May	$ 11.8	$ 1.0	$ 12.8
E	Assumed in Gov. Budget	$ (2.6)	$ (2.9)	$ (5.5)
D + E = F	*Subtotal*	*$ 9.2*	*$ 1.8*	*$ 7.4*
G	Rainy Day Fund Increased Contribution	$ 1.7	$ 0.6	$ 2.2
C - F - G	**Increase Compared to Gov. Budget**	**$ 44.3**	**$ 20.5**	**$ 64.8**

Note: Totals may not sum due to rounding

Recreated from R.I. House Fiscal Advisory Staff Presentation, "Budget Status," May 14, 2025

Figure 22
General Revenue Estimates
Percent Difference From Audited
FY 2015 - FY 2024



Note: The first and second estimate are made before a budget has been enacted, and therefore do not include legal and policy changes that affect revenues positively or negatively. RIPEC's analysis adjusts for revenue adjustments. It also adjusts for the hospital licenscing fee revenues in the first and second estimate.

Source: R.I. OMB, Revenue Estimating Reports; NASBO, Fiscal Survey of the States; RIPEC calculations

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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