RIPEC

Highlights from the Governor's Proposed Budget for FY 2027:

State Spending Relatively Restrained
Decisions on Taxes, Borrowing, H.R. 1 Response Await General Assembly

January 2026

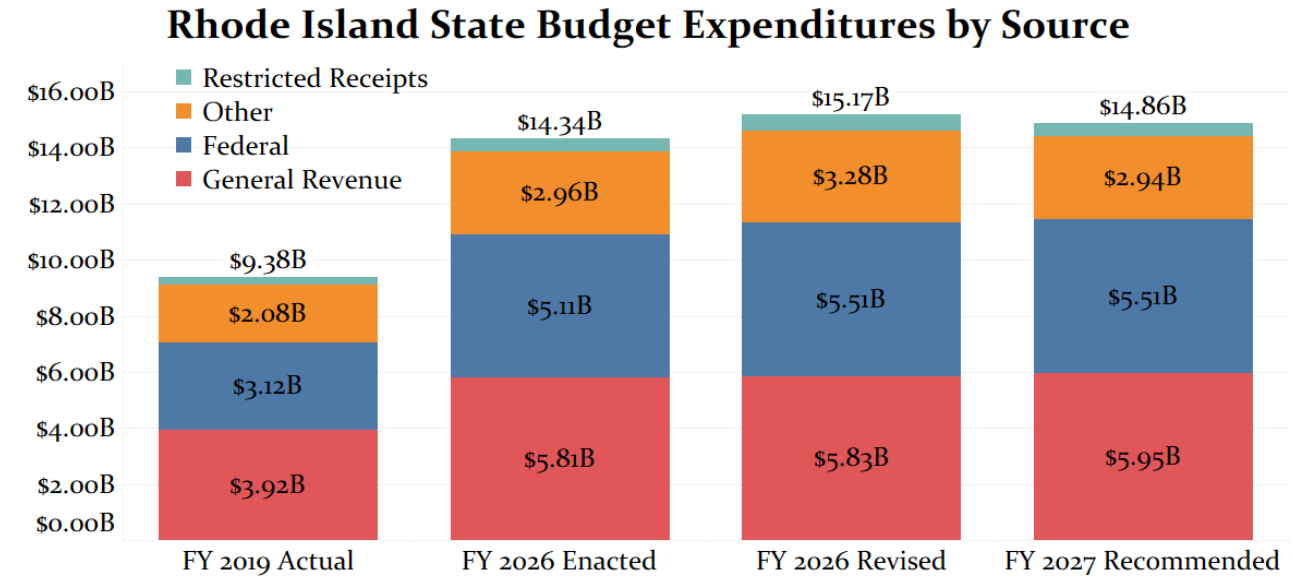
Key Takeaways

- **Spending growth is relatively restrained after a period of extraordinary increases, with total expenditures rising by 3.6 percent and state general revenue spending growing by 2.5 percent. Spending from federal sources jumped 7.8 percent.**
- **A new proposed "millionaire's tax"—at 8.99 percent on individual and business pass-through income over $1.0 million—would rank Rhode Island's top income tax rate as the 8th highest among U.S. states.**
- **Totaling $600 million, the governor's proposed bond referenda would be the largest in the state's history, $200 million more than the next highest bond package approved by voters.**
- **Future projected deficits persist—rising from $237.4 million in FY 2028 to $537.0 million in FY 2031—driven by the use of one-time funds for recurring costs and projected spending outpacing revenues.**
- **Due to projected enrollment declines from eligibility changes in H.R. 1, Medicaid spending would slow considerably in FY 2027, increasing by 2.5 percent in the governor's plan, after projected growth of 8.2 percent in FY 2026.**
- **The impacts of, and response to, H.R. 1 are a large focus of the governor's budget proposal, with expenditures of $45 million for SNAP and Medicaid compliance and benefit maximization, $9.5 million for HealthSourceRI subsidies, and $10 million to hospitals for uncompensated care.**
- **General revenue spending on K-12 education is set to increase by $17.5 million (3.1 percent), but reliance on preliminary enrollment and student poverty counts will likely require substantial revisions to the funding plan once updated numbers become available.**

On January 15, 2026, Rhode Island Governor Daniel J. McKee released his proposed state budget for fiscal year (FY) 2027, which begins on July 1, 2026, along with budget revisions for the current fiscal year, FY 2026. Over the coming months, the Rhode Island General Assembly will review the governor's proposal and enact a final taxing and spending plan. An overview of the budget process can be found here, on page six.

Expenditure Overview

In recent years, the Rhode Island state budget has grown rapidly.[1] Spending growth in the governor's proposed FY 2027 budget is more restrained, with increases in total spending driven in large part by federal aid increases.



Source: R.I OMB.

- The governor's budget proposal for FY 2027 includes:
  - Total spending of $14.86 billion, 3.6 percent greater than the FY 2026 enacted level.
  - General revenue spending of $5.95 billion, 2.5 percent greater than FY 2026 enacted.
  - Federal aid of $5.51 billion, 7.8 percent greater than FY 2026 enacted.
- The governor's revised FY 2026 budget includes total spending that is $831.7 million (5.8 percent) greater than enacted. Nearly half is from increased federal aid.

[1] Unless otherwise cited, all figures in this policy brief are from R.I. OMB, FY 2027 Governor's Budget.

Bond Issues

The governor's FY 2027 budget proposes $600 million in bond referenda to be placed on the ballot for voter approval in November 2026. If approved, the package would be the largest in the state's history, $200 million above the next highest offering.[2]

Proposed 2026 Bond Referenda

Question	Amount	Notes
Higher Education Facilities	$215M	URI integrated health building ($105M), RIC library renovations ($50M), CCRI workforce innovation center ($60M)
Housing and Homeownership	$120M	Increase and preserve affordable housing supply, including $25M to homeownership
Economic Development	$115M	Site development at Quonset Business Park and I-195 District ($70M); targeted industry investments ($45M)
Cultural Economy	$50M	State history center ($45M), preservation grants ($5M)
Career and Technical Education Grants	$50M	Grants for new and existing CTE programs to districts, charters, state schools
Green Economy and Clean Energy	$50M	Resilient Rhody Infrastructure funds ($20M), energy efficiency ($10M), facility improvements ($8M), Narragansett Bay watershed restoration ($7M), brownfields remediation ($3M), local recreation ($1M), marine infrastructure and pier development ($1M)
Total	**$600M**	

Source: R.I. OMB, FY 2027 Budget Executive Summary

Rhode Island's debt burden is relatively high compared to other states—ranking within the top ten in terms of debt service in relation to revenues (ranked 6th) and debt related to personal income (9th).[3] Over the past several years, Rhode Island has been gradually reducing state debt as a percent of personal income.[4] The governor's budget would reverse this progress and result in a projected debt increase in relation to personal income.[5]

[2] Bond referenda of $400 million were approved by voters in both November 2021 and November 2022. In November 2024, voters approved $344 million in bonded debt.
[3] R.I. Public Finance Management Board, Debt Affordability Study, Dec. 4, 2025.
[4] R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted, Capital Overview.
[5] R.I. House Fiscal Advisory Staff, Governor's FY 2027 Budget at First Glance.

Revenues

Proposed Revenue Enhancements

In the FY 2026 enacted budget, the General Assembly avoided broad-based income or sales tax increases but relied on several new revenue initiatives to support increased spending, including new and increased taxes and fees.[6] In contrast, the governor's FY 2027 budget includes a proposal to enact an increase to the state's income tax but relatively few additional proposals.

Governor's Proposed Revenue Enhancements, FY 2027

	Description	Projected Revenue
New or Increased Taxes & Fees		
Millionaire's Tax	3.0% surcharge on the current top individual income tax rate of 5.99% for individual and pass-through business income over $1.0 million, resulting in a new top rate of 8.99%	$67.1M FY 2027; $135.5M FY 2028
Tobacco Taxes	Increase cigarette excise tax from $4.50 to $5.25 per pack; repeal cigarette stamp discount; raise cigar tax cap	$6.6M (cigarettes), $0.8M (stamp discount), $0.6M (cigar tax) FY 2027
Port Fee Increase	Raise cruise ship fee in Newport from $10 to $15; administered by Newport, portion of proceeds allocated to RIPTA	$1.0M FY 2027 (RIPTA)
Other Adjustments		
Research and Development Decoupling (HR. 1)	Federal law allows full expensing of domestic R&D costs (2025; smaller firms retroactive to 2022), reducing state revenue, which is offset by decoupling	$22.6M FY 2026; $22.6M FY 2027
Tax Amnesty Program	Incentivizes delinquent taxpayers to settle outstanding taxes	$26.3M FY 2027
Funds Transfers	Transfers from restricted receipt accounts into the General Fund	$5M Fy 2027 (Marijuana Trust Fund); $2M FY 2027 (RI Infrasturcture Bank); $2.5M (RI Health and Educational Building Corp. FY 2026)

Source: R.I. OMB, FY 2027 Budget Executive Summary

The largest revenue proposal is a new top income tax rate of 8.99 percent that would apply to individual and business pass-through income over $1.0 million. If enacted, Rhode Island would have:

- The 8th highest top income tax rate among U.S. states, up from 15th.

[6] See, RIPEC, Rhode Island's FY 2026 Enacted Budget, Aug. 2025.

- The second highest top rate in New England, after Massachusetts, which applies a 9.0 percent rate at a higher income threshold ($1.1 million).[7]

Tax Reductions and Credits

On the other side of the ledger, the governor's FY 2027 budget includes tax relief proposals for residents, especially the elderly and parents, that would reduce revenue collections.

Governor's Proposed Tax Reductions and Credits, FY 2027

	Description	Projected Revenue Reduction
Income Tax on Social Security	Three-year phaseout of income tax on social security benefits, beginning with the elimination of the age threshold in tax year 2027, followed by increases in the income threshold in tax years 2028 and 2029	$3.0M FY2027; $60.1M FY 2030
Child Tax Credit	Fully refundable child tax credit of $325 per child beginning in tax year 2027, replacing the current dependent deduction	$14.7M FY 2027; $29.7M FY 2028
Gas Tax Reduction	Reversal of the 2¢ per gallon increase enacted in the FY 2026 budget, reducing the tax from 40¢ to 38¢ per gallon	$8.6M FY27 (Restricted transportation funds)

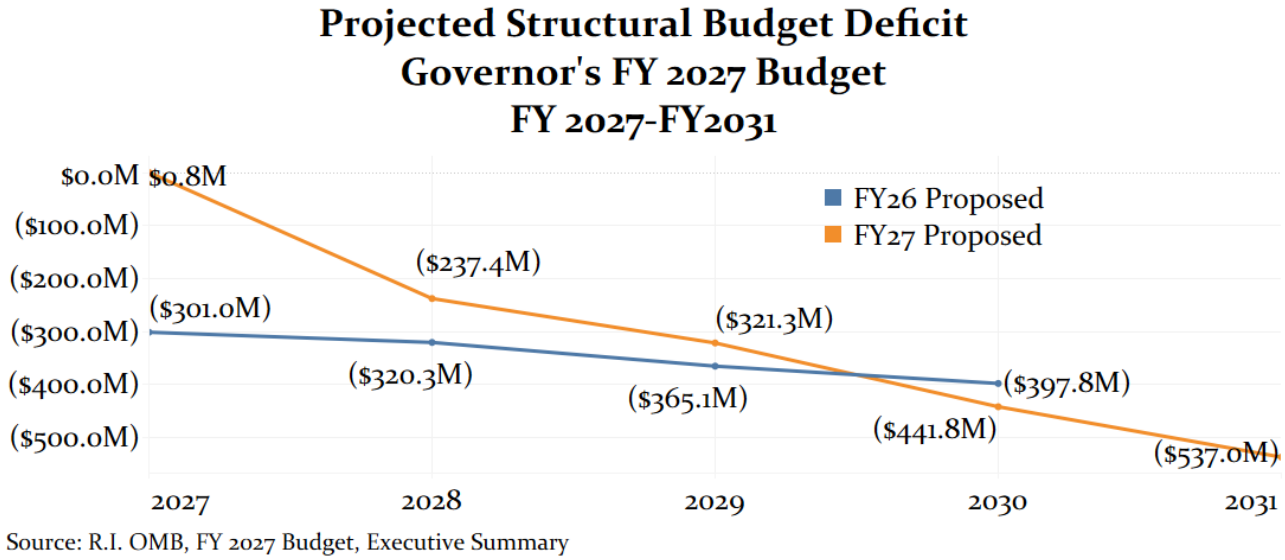
Source: R.I. OMB, FY 2027 Budget Executive Summary

Out-Year Deficits

The governor's budget for FY 2027 is balanced, as required by the Rhode Island State Constitution, but projects growing structural deficits in the outyears:

- The governor's budget results in a surplus of $0.8 million for FY 2027.
- The Office of Management and Budget (OMB) projects a $237.4 million deficit in FY 2028 that grows to $537.0 million in FY 2031.
- Compared to FY 2026, the budget has a smaller deficit in the first two years but larger deficits in later years.

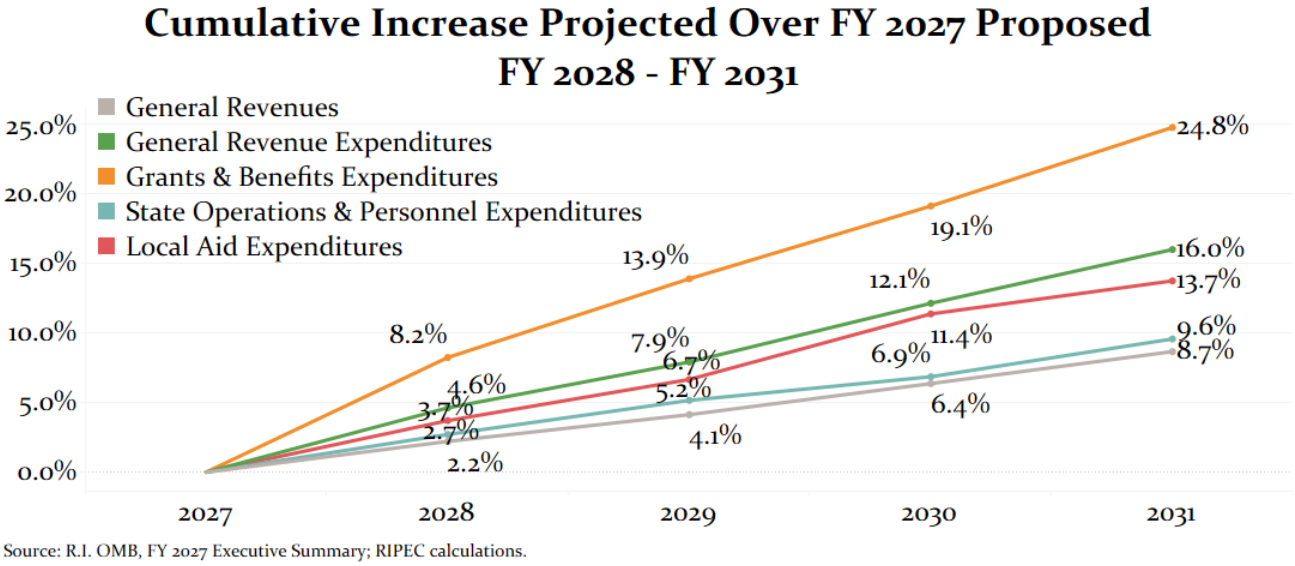
[7] Tax Foundation, 2026 State Tax Competitiveness Index.



Source: R.I. OMB, FY 2027 Budget, Executive Summary

Out-year deficits are attributable to:

- The use of one-time surplus funds for recurring expenditures.[8]
- Spending that is expected to outpace revenues, with general revenue expenditures projected to increase 16.0 percent while general revenues grow only 8.7 percent between 2027 and 2031.
    - Expenditure growth is driven mainly by assistance and grants, primarily by health and human services, expected to rise by 24.8 percent between FY 2027 and FY 2031.
    - State personnel and contract expenditures (9.6 percent) and local aid spending (13.7 percent) are projected to grow somewhat faster than general revenues.



Source: R.I. OMB, FY 2027 Executive Summary; RIPEC calculations.

[8] R.I. House Fiscal Advisory Saff, Governor's FY 2027 Budget at First Glance, pg. 2.

Health and Human Services

In response to federal H.R. 1 mandates, the governor's FY 2027 budget includes several initiatives to maximize SNAP and health insurance coverage for Rhode Islanders, including:

- $19.3 million in general revenues ($45 million total) for IT, personnel, and contract support to ensure benefit maximization and system compliance.
- $9.3 million to cover the state's increased share of SNAP administrative costs.
    - The state could be subject to costs up to $12 million if its SNAP error rates are not improved.
- $9.5 million in new HealthSourceRI subsidies for recipients with incomes under 200 percent of the federal poverty level, effective January 1, 2027.

The budget also introduces regulatory measures and targeted investments:

- Expanded authority for the Office of the Health Insurance Commissioner (OHIC) to set annual cost growth targets and establish requirements for commercial and public payers.
- New transparency mandates for Pharmacy Benefit Managers.
- $3.0 million for the Rhode Island Veterans Home to provide 16 additional beds.
- A $1.0 million increase for the Community Food Bank ($2.0 million total).

Medicaid

The governor's budget increases total general revenue spending on medical assistance to $1.46 billion; a 2.4 percent ($34.3 million) increase over the enacted budget. This total reflects the November Caseload Estimating Conference consensus based on enrollment and cost trends with several notable inputs and adjustments:

- Medicaid enrollment is projected to decline 2.8 percent in FY 2027 due to restrictive H.R. 1 eligibility rules. This continues a four-year downward trend from a 2023 peak of 373,000 to a projected enrollment of 294,000.[9]
- A 4.9 percent increase in the cost of healthcare services offsets the savings generated by declining enrollment.
- $23.2 million in general revenues ($58.8 million total) to implement half of the provider rate increases recommended by OHIC.
- $4.2 million in general revenues ($10.0 million total) to help hospitals offset uncompensated care losses resulting from H.R. 1 mandates.
- $3.7 million in general revenue savings by aligning inflationary adjustments (2.5 percent) for nursing facilities, hospitals, and health centers with state revenue growth.

[9] R.I. EOHHS, November 2025 Caseload Estimating Conference: Medical Assistance Testimony, Oct. 27, 2025.

- $6.3 million in general revenue savings ($20.3 million total) by restricting GLP-1 coverage for the treatment of type 2 diabetes.

Education

K-12

The governor's budget includes an additional $17.5 million in total education aid (3.1 percent increase) over the FY 2026 enacted budget, including:

- Changes to the education funding formula based on calculations using October 2025 enrollment counts that will likely need substantial revisions once March updates are available.[10]
    - Enrollments are down 1.6 percent from the FY 2026 enacted budget and poverty counts are down 13.8 percent.[11]
    - The governor's budget includes a poverty bonus increase from 40.0 percent to 43.0 percent, which adds $14.2 million in spending.
- Additional program spending:
    - Categorical high-cost special education funding is increased by $2.5 million.
    - An additional $2.0 million is provided for Learn365RI, which provides municipal grants for out-of-school time learning programs.
    - The governor also requests a $50.0 million bond to finance the creation and improvement of career and technical education programs.

Higher Education

The governor makes several recommendations in support of higher education including:

- Increased operating support to the three public institutions of higher education (2.5 percent increase in unrestricted funding):
    - $4.2 million for the University of Rhode Island (URI)
    - $2.0 million for Rhode Island College (RIC)
    - $2.0 million for the Community College of Rhode Island (CCRI)
- Making permanent the Hope Scholarship at RIC, including a $1.6 million increase in general revenue for the program ($7.1 million total). [12]

[10] R.I. House Fiscal Advisory Staff, Governor's FY 2027 Budget at First Glance, Jan. 20, 2026.
[11] RIDE, FY 2027 Formula Calculation, Jan. 15, 2026; RIPEC calculations.
[12] Rhode Island College, Hope Scholarship.

- Higher education bonds totaling $215 million, to be used for renovation or construction of an integrated health building at URI ($105 million), RIC's Adams Library ($50 million), and a workforce innovation center at CCRI ($60 million).

Personnel

In the governor's FY 2027 budget, personnel expenditures, including salaries, benefits, and contracted services, total $3.09 billion in all funds and $1.54 billion in general revenues. This represents an increase in spending of approximately six percent.[13]

Increased personnel spending is driven by:

- Phased-in cost-of-living adjustments from 2025 collective bargaining agreements.
- An increase in authorized and filled FTEs (full-time equivalent) positions.
    - The budget authorizes 15,995.8 FTEs, 74.0 more than FY 2026 as enacted and 921.1 more than FY 2020.
    - Filled FTEs rose from 13,490.8 in FY 2022 to 14,268.0 in FY 2025, up 5.8 percent.[14]

Transportation

Rhode Island Public Transit Authority (RIPTA)

The governor's budget uses several different funding sources to close RIPTA's projected $13.8 million deficit for FY 2027:

- A $9.3 million increase in RIPTA's annual share of the Highway Maintenance Account.
- $3.5 million in Rhode Island Capital Plan funds for bus purchases.
- $1.0 million in new cruise operator fees to RIPTA.

Truck Tolls

The governor's FY 2027 budget anticipates $20 million in revenues from a restarted truck toll program. The program was suspended by federal litigation in 2022 and has been allowed to resume since December 2024.

- The FY 2026 enacted budget assumed $10 million from truck tolls, which will not be realized.

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[13] The budget shows a $187.2 million (13.8 percent) increase in personnel spending over FY 2026 as enacted, but this is partly due to a change in accounting practices related to the Department of Behavioral Health, Developmental Disabilities and Hospitals (BHDDH), which accounts for $100.1 million of the increase. The actual proposed increase in personnel expenditures is approximately $87 million. R.I. OMB, FY 2026 Budget Executive Summary; R.I. House Fiscal Advisory Staff, FY 2026 Budget as Enacted, State Government Personnel and Staffing; R.I. OMB; RIPEC calculations.

[14] RIPEC, Rhode Island's FY 2026 Enacted Budget, Aug. 2025.

Infrastructure

The governor's budget includes items related to infrastructure improvements including:

- An increase of $3.5 million ($10.0 million total) from gas tax proceeds for the RhodeRestore program, which provides cities and towns with matching funds for transportation infrastructure projects.
- Approximately $350,000 for 2.0 additional FTEs at the Rhode Island Department of Transportation who will be responsible for improving bridge inspections.

Economic Development

The proposed FY 2027 budget contains several economic development initiatives, including a $115 million bond that would allocate:

- $70 million to site development at the Quonset Development Park and I-195 district.
- $45 million to infrastructure investments in targeted industries, including ocean, defense, life sciences, and data analytics.

New or additional spending on programs includes $1.5 million for a T.F. Green destination marketing program, $1 million for Innovation Vouchers and Network Matching Grants for small businesses, and $1 million for the Main Street RI Streetscape Improvement Fund.

Housing

The governor's budget includes a $120 million bond for housing and community development. The bond proposal includes:

- $25 million to produce housing units intended for homeownership.
- The remaining portion is targeted to increase and preserve the availability of affordable and accessible housing, and to support community revitalization.

The bond is the same dollar amount as the bond approved in November 2024. To date, none of the production funds from that bond have been allocated.[15]

[15] M. McNulty, "In 2024, voters OK'd $120M housing bond; Gov. McKee is seeking another one," *Providence Business News*, Jan. 23, 2026.

Energy

The governor has proposed various energy policy changes projected to provide $1 billion in ratepayer relief over five years, including:

- Reforming the renewable energy standard by expanding allowable sources ($597 million).
- Reducing virtual net metering costs and establishing a grid access fee ($175 million).
- Capping the energy efficiency program and other measures ($105 million).

Cities and Towns

The governor's budget fully funds the largest state aid program—the motor vehicle excise tax phaseout—at $239.6 million but proposes to cap future growth. The governor's FY 2026 budget included the same proposal, which the General Assembly did not adopt, but limited growth to 2.0 percent.[16]

The budget also includes full funding of other aid programs for cities and towns, including:

- The PILOT program for certain tax-exempt properties ($49.2 million).
- The tangible personal property program for exempt tangible property ($25.9 million).
- The Distressed Communities Relief program for high property tax/low resident wealth communities ($14.9 million).

Other Items

The governor is proposing a constitutional amendment to establish a line-item veto.

- Rhode Island is one of only six states without a line-item veto.
- An override would require a two-thirds vote of elected General Assembly members instead of the current threshold of three-fifths of members present and voting required for an appropriations bill.

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