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# **FY 2025 Budget Overview**

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January 18, 2024

Prepared by the Office of Management and Budget (OMB)



“While my administration had to close a modest deficit, we must stay the course in making progress toward our Rhode Island 2030 goals. We will do this through the effective implementation of existing programs and making prudent, targeted investments that raise incomes for all families, increase educational attainment for all children, and improve health outcomes for all Rhode Islanders.”

- Governor Daniel J. McKee

**FY 2025 Proposed Budget: \$13.68B**

# Fiscal Conditions Impacting FY 2025 Budget

The budget proposal continues priority investments in education, housing, economic development, and health in a fiscally responsible manner.

## Fiscal Responsibility

- The Administration recognized that one-time federal stimulus funds and record surpluses were temporary, and FY 2025 represents a return pre-pandemic budgeting.

## Steady Revenue Growth

- The November Revenue Estimating Conference projects a 2.6% (\$135.8M) increase in general revenues from FY 2024 to FY 2025.

## Stability During Uncertain Times

- Amid concerns around the supply chain and inflation as the world emerged from the COVID-19 pandemic, Rhode Island has avoided a recession and prioritized investing one-time, pandemic-era funding toward one-time projects that do not result in ongoing costs.

# Ballot Initiatives

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# Debt Capacity

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- \$343.6M of state-supported debt is coming off the books in the next two years:
  - \$170.1M of principal in FY 2025; and
  - \$173.5M of principal in FY 2026.
- The average ballot amount since 2002, adjusted for inflation, is \$341.6M.
- The Public Finance Management Board calculated in its December 2023 Debt Affordability Study that the 2024 debt capacity figure is \$1.453B.
  - This represents the maximum amount that can be issued before exceeding debt affordability limits.
  - Issuing this much debt would add an additional \$90M to debt service each year.

# Ballot Initiatives

The recommended FY 2025 budget recommends including four initiatives – totaling \$345M in general obligation bonds – on the November ballot to make long-term, infrastructure improvements.

#1

### Higher Education Facilities (\$135M)

Provides \$80M for the URI Biomedical Sciences Building and \$55M for the RIC Cybersecurity Building.

#2

### Housing and Community Opportunity (\$100M)

Increases affordable and middle-income housing production and infrastructure, supports community revitalization, and promotes home ownership.

#3

### State Archives and History Center (\$60M)

Establishes a modern, permanent state archives and history center to display historical documents central to the state’s and country’s founding.

#4

### Green Economy (\$50M)

Invests in state and local infrastructure, including the Port of Davisville, Newport Cliff Walk, and local recreational facilities, among others.



# Higher Education Facilities

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## URI Biomedical Sciences Building (\$80M)

Includes laboratory space to advance cutting-edge discovery, educate tomorrow's workforce, and accelerate the life sciences industry. The project builds on the creation of the State's Life Sciences Hub that will fund and incubate Rhode Island-based life sciences companies that promote economic and workforce development and position Rhode Island to compete nationally and internationally.

## RIC Cybersecurity Building (\$55M)

Repairs and restores Whipple Hall to support the Institute for Cybersecurity and Emerging Technologies that is preparing students and professionals with the technical and business skills associated with cybersecurity, artificial intelligence, and other emerging technologies.

# Housing and Community Opportunity

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## Housing and Community Opportunity (\$100M)

Builds on the \$300M+ in State Fiscal Recovery Funds investment being implemented by the Department of Housing and Rhode Island Housing. Bond funds would promote affordable housing and homeownership:

- Development of affordable and middle-income housing.
- Production of for-sale homes (homeownership units).
- Enhanced housing development pipeline through infrastructure improvements and site acquisition.
- Community revitalization to address blighted properties with mixed-use development.



# State Archive and History Center & Green Economy

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## State Archive and History Center (\$60M)

Establishes a modern, permanent state archive and history center to store and display historical documents central to both the state's and country's founding. Rhode Island is the only state that houses its archives in leased office space.

## Green Economy (\$50M)

- Port of Davisville Infrastructure at Quonset (\$20M)
- Municipal Resiliency (\$10M)
- Newport Cliff Walk (\$8M)
- Brownfields Remediation and Economic Development (\$5M)
- Local Recreation Projects (\$5M)
- Climate Resiliency and Public Access Projects (\$2M)

# FY 2025 Operating Budget

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# FY 2025 Budget Position

The State faced a modest deficit in FY 2025 after years of record surpluses. The table below shows the fiscal position at the start of the budget process.

Additional Resources	Amount
General Revenue Growth from November Revenue Estimating Conference (2.6%)	\$135.8M

Budget Cost Drivers	Amount
Medicaid & Health and Human Services Growth	\$115.0M
OHIC Rate Review	\$88.1M
RIPTA Deficit	\$18.1M
Additional Agency Requests	\$146.4M
<b>Total</b>	<b>\$367.6M</b>

Despite the budget cost drivers, the Administration closed the deficit without any broad-based tax increases and continued making targeted investments to drive Rhode Island forward.

# Education

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# Pre-K through 12 Education Funding

The Governor recommends a year-over-year \$63.7M increase in education funding.

Investment Category	Increase Over FY 2024
Funding Formula Aid	\$19.2M
Multilingual Learner Categorical	\$16.6M
English Language Arts/Math Coaching	\$15.0M
Adding 35 Pre-K Classrooms	\$7.1M
Learn365RI	\$5.0M*
Transitioning Reduced-Price Meals to Free Meals	\$0.8M
<b>Total Education Aid Increase</b>	<b>\$63.7M</b>

\*\$3.0M in general revenue and \$2.0M in SFRF

- To improve student outcomes, the budget proposes increasing funding for Multilingual Learners to 25% of the per-student amount (now 15%), as well as coaching services to local education agencies with the most acute academic needs.
- The budget funds 35 new Pre-K classrooms for the 2024-25 school year for a total of 3,000 seats and pays the costs of reduced-price meals for all qualifying students.
- To fund these investments, the budget caps inflation growth of the Core Instruction Amount (CIA) to average inflation over the past five years (3.87% in FY 2025), resulting in a CIA of \$12,335, an increase of \$459 per student. The proposal uses October enrollment data (instead of March data) to account for statewide enrollment losses.

# Ongoing Investments from Prior Budgets

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## Enrollment Transition Support

Districts experiencing enrollment declines receive additional support to allow them to adjust to lower aid levels. After an enrollment reduction, districts receive 40% of lost per-student funding in the first year and 25% in the next year, fully phasing out the funding in the third year.

## Community Learning Centers Municipal Grant

Through the Capital Projects Fund under the American Rescue Plan Act, providing \$81.7M toward the construction or renovation of multipurpose community facilities devoted to improving education and student performance, providing workforce training, and helping residents monitor their physical and mental health.

## Out-of-School Time Education Providers

Invested \$4.0M each from Governor's Emergency Education Relief (GEER) and SFRF toward grants to community organizations to expand access to out-of-school education services.



# Higher Education

The Governor recommends increasing the unrestricted state appropriation to the State’s three institutions of higher education by \$7.0M and investing \$434.6M in Rhode Island Capital Plan Funds (RICAP) over five years.

**Rhode Island College**

**Increases aid by \$1.9M**

- ✓ Invests \$3.4M to continue the Hope Scholarship for juniors and seniors at RIC.

**University of Rhode Island**

**Increases aid by \$3.4M**

- ✓ Provides \$20.0M in RICAP to implement a permanent water filtration solution to reduce PFAS concentrations in URI’s water supply.

**Community College of Rhode Island**

**Increases aid by \$1.7M**

- ✓ Invests \$7.9M to continue the Rhode Island Promise Scholarship for recently graduated high school seniors to enroll at CCRI.

Additionally, the Governor proposes \$135.0M for higher education capital improvements on the November 2024 ballot – \$80.0M for a URI Biomedical Sciences building and \$55.0M for a RIC Cybersecurity Center.

# Ongoing Investments from Prior Budget

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## Fresh Start Scholarship

Provided \$5.0M in SFRF in FY 2024 to CCRI aimed at re-enrolling Rhode Islanders who earned some credits at CCRI but stopped before earning a degree.

## RI Reconnect

Provided \$8.0M in SFRF in FY 2024 to connect Rhode Islanders whose academic progress was disrupted during the pandemic with targeted coaching and wraparound services.

## Unrestricted State Appropriation

Across FY 2023 and FY 2024 combined, increased the unrestricted state appropriation for URI (\$16.3M, 18.3%), RIC (\$6.1M, 10.1%), and CCRI (\$4.7M, 8.7%).

# Health and Human Services

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# Medicaid Rate Review

**The proposal phases in recommended rates from the Office of the Health Insurance Commissioner's (OHIC) review of social and human services programs, with an additional \$51.7M in funding in FY 2025.**

- The full implementation of the OHIC's recommended updates to social and human services rates would cost \$220.0M (\$88.1M in general revenue and \$131.9M in federal funds). According to OHIC, some rates have not been updated in a decade or longer.
- The proposal phases in the rate increases over three years and evenly implements all provider rate categories (e.g., behavioral health services, children's services, and long-term services and supports) – adding \$20.4M in general revenue and \$51.7M all funds in FY 2025.
  - The only exception is Early Intervention, for which the Governor recommends funding the entire recommended rate increase in FY 2025 (more information on next slide)
- Rate increases would take effect on October 1, 2024.

# Early Intervention

**Early Intervention (EI) promotes the development of infants and toddlers who have a developmental disability or delay. One of the goals is to provide support to families so their children can develop to their fullest potential.**

- During the pandemic, all nine EI providers in Rhode Island struggled to accept referrals due to staffing shortages.
- In the first round of SFRF appropriations, \$11.0M was made available to EI providers in stabilization grants and performance payments for meeting certain benchmarks, such as recovering referrals to their pre-pandemic levels.
- With the SFRF appropriation fully expended, providing the entire OHIC-proposed EI rate increase effective October 1, 2024, is aimed at further supporting this critical program.
- The Governor proposes investing \$1.7M in general revenue and \$2.2M in federal funds to fund the rate increase.

# Certified Community Behavioral Health Clinics

The Governor's budget includes a total of \$79.7M for CCBHCs – a new approach to delivering coordinated behavioral health services.

- CCBHCs provide a comprehensive array of mental health and substance use services – coordinating with other health providers (primary care physicians, hospitals, etc.) to improve outcomes and reduce the use of emergency departments.
- BHDDH is in the process of certifying 10 CCBHCs, which are distributed across the state to ensure access.
- The Governor proposes investing \$29.1M in general revenue and \$79.7M in all funds to establish new CCBHC rates and support operations.



# Health System Investments

Overall, the Governor’s FY 2025 budget includes \$135.2 million in rate increases for health and social service providers.

The budget includes \$51.1M in general revenue to enhance provider rates and to support the establishment of CCBHCs.

That investment leverages an additional \$84.1M in federal Medicaid match, resulting in a total of \$135.2M in funding to health and social service providers.

	General Revenue	Federal Funds	Rate Total
OHIC-Recommended Rate Review (three-year timeline)	\$20.4M	\$31.3M	\$51.7M
Early Intervention (100% implementation)	\$1.7M	\$2.2M	\$3.8M
CCBHCs	\$29.1M	\$50.6M	\$79.7M
<b>Total</b>	<b>\$51.1M</b>	<b>\$84.1M</b>	<b>\$135.2M</b>

The Governor has also requested that the General Assembly expedite the OHIC—recommended rates to two years if additional funds are available after the May Revenue Estimating Conference.

# Summer Food Program

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**Summer Electronic Benefit Transfer (EBT) is a new federal program that provides families with \$40 per eligible child per month while school is out of session.**

- To participate, Rhode Island must invest approximately \$0.4M to cover half of the administrative costs. Doing so means Rhode Island families stand to receive an estimated \$10.2M in benefits starting this summer.
- Eligible families will receive the benefits on pre-loaded cards.
- Together with the Governor's recommendation for a state subsidy for students eligible for reduced-price breakfast and lunch to receive both meals for free, these proposals increase food security among those in greatest need.

# Anti-Smoking and Vaping Initiatives

## Preventing Youth Vaping

- In 2022, the State settled litigation with JUUL Labs Inc. for a total of \$6.2M over 10 years. The Governor recommends using the FY 2025 allocation (\$0.6M) to implement school-based vaping intervention programs to encourage students to quit using tobacco and nicotine products, including e-cigarettes. The award would also fund enforcement efforts of vaping products.

## Taxing E-cigarettes

- Treats e-cigarettes like “other tobacco products,” subject to an 80% wholesale tax. E-cigarettes are already taxed under the sales-and-use tax. MA and CT both apply tobacco taxes to vaping products.

## Increasing Cigarette Tax

- Increases the per-pack tax from \$4.25 to \$4.50 starting September 2024.

# Additional Investments

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## Nursing Home Support

- Provides an additional \$10.0M in SFRF to nursing facilities from July through September 2024 until new rates take effect on October 1, 2024. The nursing facilities previously received \$30.0M in SFRF.

## Rlte Share

- Provides staffing and operational support to expand use of Rlte Share – the State’s health premium assistance program that helps thousands of Rhode Islanders pay for the employee cost of employer-sponsored health insurance.

## Senior Centers

- Provides an additional \$200K for senior centers – for a total of \$1.4M – to improve the delivery of services, including food distribution, transportation, and caregiver support.

# Ongoing Investments from Prior Budgets

The State appropriated a significant portion of its SFRF to invest in children's services, healthcare facilities, and other health services.

- Stabilizing **pediatric primary care providers** and improving access to care (\$15M).
- Supporting **Early Intervention providers** to rapidly reopen referrals (\$11M).
- Providing retention payments to **child care workers** and grants to individuals becoming **family providers** (\$38M).
- Supporting **hospitals, nursing homes, health centers, and public health clinics** (\$81.5M).
- Assisting **community-based behavioral health and social services providers** comply with new federal Certified Community Behavioral Health Clinic standards (\$30M).



# Raising Incomes, Small Business, and the Economy

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# Tax Relief

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## Retirement Income

- Raises the exemption for taxable retirement income from \$20,000 to \$50,000.

## Corporate Minimum Tax

- Cuts the corporate minimum tax from \$400 to \$350.

## Unemployment Insurance

- Allows transfer for unobligated SFRF to the UI Trust Fund.

## Net Operating Loss Carryforward

- The federal government and many states allow businesses to carry forward operating losses to offset future profits and reduce tax liabilities, which can benefit new businesses that operate without a profit for multiple years. The Governor recommends extending Rhode Island's current, five-year carryforward to 20 years starting with tax year 2025 losses.

# Elimination of Nuisance Fees

Nuisance Fees		
Item	Budget Impact	Agency
Estate Tax Filing Fee Elimination	\$0	DOR
Liquor Manufacturers Duplicate Fee Relief	\$6,000	DBR
Real Estate Nuisance Fee Elimination	\$20,000	DBR
State Fire Marshal - Tent Fee Relief	\$9,375	DBR
Vessel Discharge Decal Elimination	\$2,000	DEM
Sales and Use Tax Exemption Fee	\$7,000	DOR
<b>Total</b>	<b>\$44,375</b>	

# Additional Small Business Support

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## Destination Marketing

- Builds on prior investments to advertise Rhode Island as a destination for tourism and business travel (\$1.4M).

## Minority Business Recruitment and Certification

- Invests \$0.5M for the Division of Equity, Diversity, and Inclusion to expand efforts to register and certify minority and women business enterprises to maximize their participation in state procurements.

## Main Street RI Streetscape

- Provides \$1.0M in grants to municipalities and economic development agencies to revitalize main streets and business districts.

# Investments from Prior Budgets

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- Supporting **small businesses** and **industries hit hard by the pandemic** through the provision of direct grants and technical assistance (\$45M).
- Providing targeted workforce development, jobs training, and supportive services through **Real Jobs Rhode Island** to place individuals in sustainable jobs and on resilient career paths (\$30M).
- Contributing to the **Unemployment Insurance Trust Fund** to reduce the tax burden on small businesses (\$100M).
- Providing operating support to the **Convention Center** for long-term, infrastructure improvements (\$10M).

# Transportation and the Environment

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# Transportation and Environment Investments

## E-Bike Rebates

- The Erika Niedowski Memorial Electric Bicycle rebate incentivizes the purchase of zero-emission electric bicycles through rebates. The budget proposal provides \$500,000 to continue the program that makes these vehicles more affordable and accessible to Rhode Islanders.

## Litter-Free Rhody

- Launched in 2023 to encourage community involvement in removing trash and litter from state parks, beaches, and management areas, the budget proposal adds 10 groundskeeper positions at RIDOT and provides for an anti-litter media campaign.

## Municipal Roads

- Adds \$5.0M in SFRF to fund municipal road, sidewalk, and bridge projects, which should leverage at least \$10.0M in municipal matching funds.



# Investments from Prior Budgets

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- Unlocking **Infrastructure Investment and Jobs Act transportation funds** through state matching funds.
- Funding **municipal road, sidewalk, and bridge projects** (\$20M).
- Providing rebates for the installation of **high-efficiency heat pumps** to make the technology more accessible and affordable (\$25M).
- Making infrastructure improvements at the **Port of Davisville** to accommodate existing customers and the offshore wind industry (\$65M).

# SFRF Projects

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# Implementation of American Rescue Plan Act Programs

The McKee administration is executing approximately **\$700M** across **62 State Fiscal Recovery Fund projects** approved by the General Assembly and signed by the Governor within the past two years. \$445.5M has been spent as of Nov. 2023.

01

\$269.4M in Housing Production and Homelessness Supports

05

\$60.3M for Children, Families, and Education

02

\$119M in Climate Investments

06

\$47.5M in Behavioral Health Investments

03

\$81.4M for Public Health

07

\$35.4M for Public Infrastructure and Technology

04

\$73.4M Economic and Workforce Development

08

\$7.7M for Aid to Small Business and Impacted Industries

# Reprogramming State Fiscal Recovery Funds

The Governor recommends reprogramming these funds in the FY 2025 budget process – primarily into existing SFRF projects – to ensure timely implementation.

SFRF Project Reprogrammed to	Recommended
Department of Corrections Operating	\$20.0M
Health Care Facilities: Nursing Homes	\$10.0M
RIPTA Operating	\$10.0M
Municipal Roads Program	\$5.0M
Community Learning Center Support Grant	\$2.0M
Placemaking Grants	\$2.0M
9-8-8 Hotline	\$1.9M
Public Health Response Warehouse Support	\$0.8M
<b>Total</b>	<b>\$51.7M</b>

# Fiscal Outlook

# FY 2024 Revised/FY 2025 Budget Balance

	FY 2024 Gov Rev (\$ in millions)	FY 2025 Gov Rec (\$ in millions)
Opening Surplus	412.3	195.9
Adjustments and Reappropriation	59.9	-
<b>Opening Resources Subtotal</b>	<b>472.1</b>	<b>195.9</b>
Enacted/Adopted Revenue	5,318.4	5,454.2
Changes to Revenue	4.8	21.1
<b>Revenue Subtotal</b>	<b>5,323.2</b>	<b>5,475.3</b>
Resources Subtotal	5,795.3	5,671.1
Transfer to Budget Reserve	(172.1)	(170.1)
<b>Total Resources Available</b>	<b>5,623.3</b>	<b>5,501.0</b>
Enacted Expenditures/CSL	5,425.1	5,497.9
Changes in Expenditures	(46.2)	2.2
<b>Expenditure Total</b>	<b>5,378.9</b>	<b>5,500.1</b>
Intrafund Transfers	(48.5)	-
<b>Surplus/(Deficit)</b>	<b>195.9</b>	<b>0.9</b>

## *FY 2024 Revised and FY 2025 Recommended*

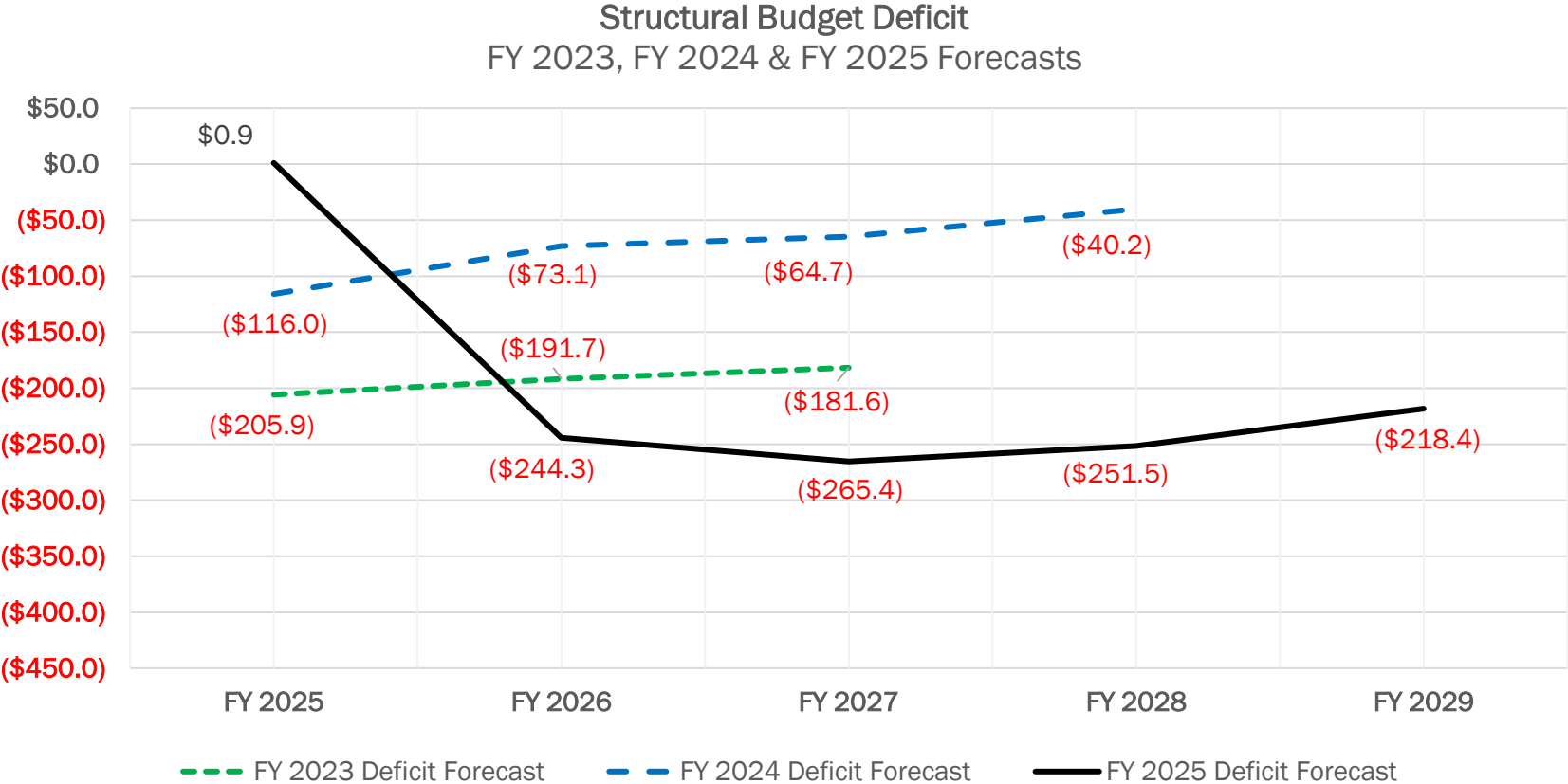
- **FY 2024 Opening Surplus Adjustments:** Net increase of \$59.9 million reflects reappropriations and prior year FEMA charges.

# Enacted and Proposed Expenditures by Source

Sources of Funds	FY 2024 Enacted	FY 2024 Revised	Change from Enacted	FY 2025 Recommended	Change from FY 2024 Enacted
General Revenue	\$5,425.1	\$5,378.9	\$(46.2)	\$5,500.1	\$74.9
Federal Funds	5,643.0	5,793.7	150.7	4,929.2	(713.8)
Restricted Receipts	392.1	443.0	50.9	450.9	58.7
Other Funds	2,550.6	2,793.4	242.9	2,795.9	245.3
Total (millions)	\$14,010.8	\$14,409.1	\$398.2	\$13,676.1	\$(334.8)

# Five-Year Forecast

The chart below shows the budget deficit since the FY 2023 budget, with the out-year deficits deepening in the FY 2025 budget.





# Potential FY 2025 Investments

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**If the May Revenue and Caseload Estimating Conferences indicate an improved fiscal outlook, the Governor recommends exploring the following initiatives:**

- Providing sales tax relief
- Reducing the time to implement the Medicaid rate increases from three years to two years
- Supplementing the targeted educational investments to improve outcomes in this budget proposal
- Establishing a sustainable funding source to support homelessness initiatives
- Investing in electric vehicle rebates

# Q&A

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