

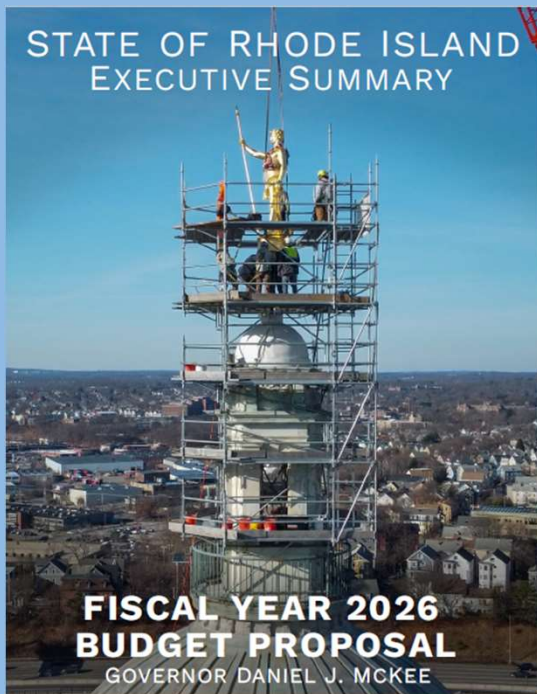


**RHODE  
ISLAND**

# **FY 2026 Budget Overview**

January 16, 2025

Prepared by the Office of Management and Budget (OMB)



“Over the next five years, state revenues are expected to grow 2.5 percent each year thanks to our strategic investments and strong economy. During the same time, state spending is expected to increase at 3.7 percent per year.

My budget provides a roadmap to close an approximately \$250 million deficit without any broad-based tax increases. ... This budget will not just protect Rhode Island’s progress; it will protect the taxpayers of our state.”

- Governor Daniel J. McKee

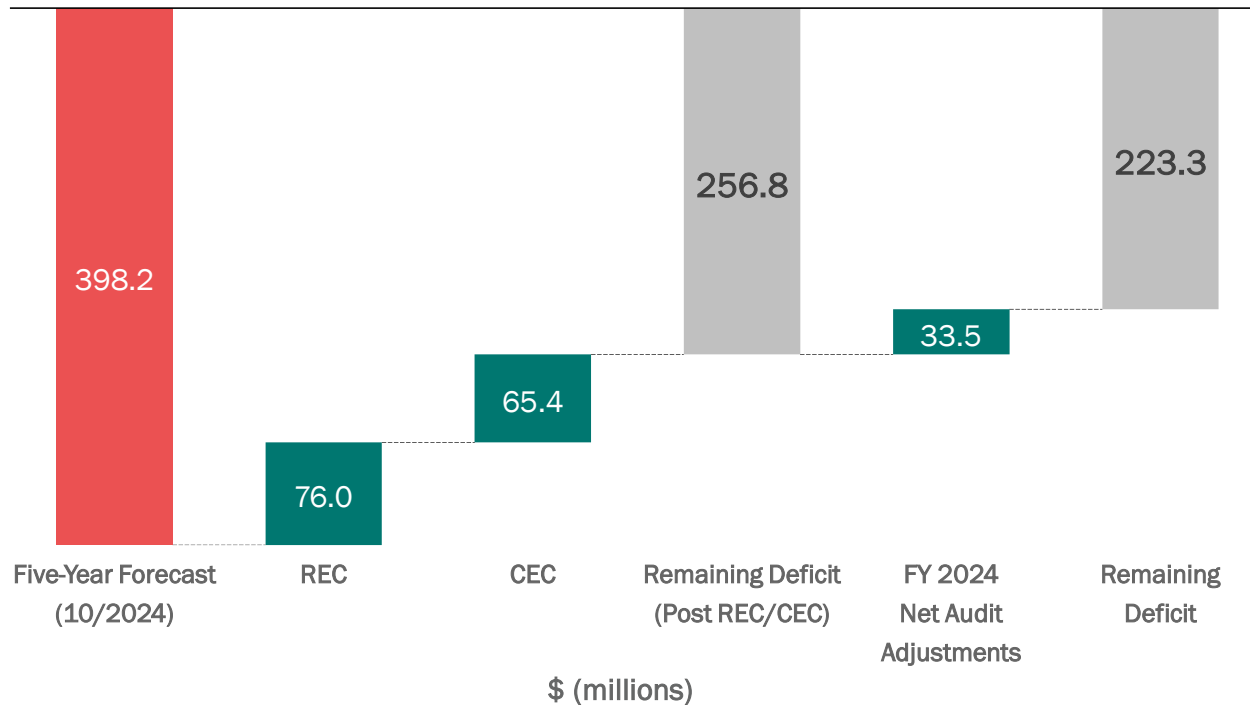
# Fiscal Conditions Impacting FY 2026 Budget

**OMB forecast a significant deficit for FY 2026. The following conditions contributed to this projected deficit:**

- State revenues are expected to grow 2.5% annually over the next five years, while expenditures are expected to increase at 3.7%
  - The primary cost drivers are grants and benefits (i.e., medical and social assistance services), which are expected to grow by 5.3% annually and local aid, which is expected to grow by 3.2% annually. These two areas account for more than two-thirds of the state budget.
- Without further pandemic funding and record surpluses, the State can no longer count on surplus funds to cover the deficit.
- A return to a more normal fiscal environment means that the State must take steps to right-size government and spend within its means.

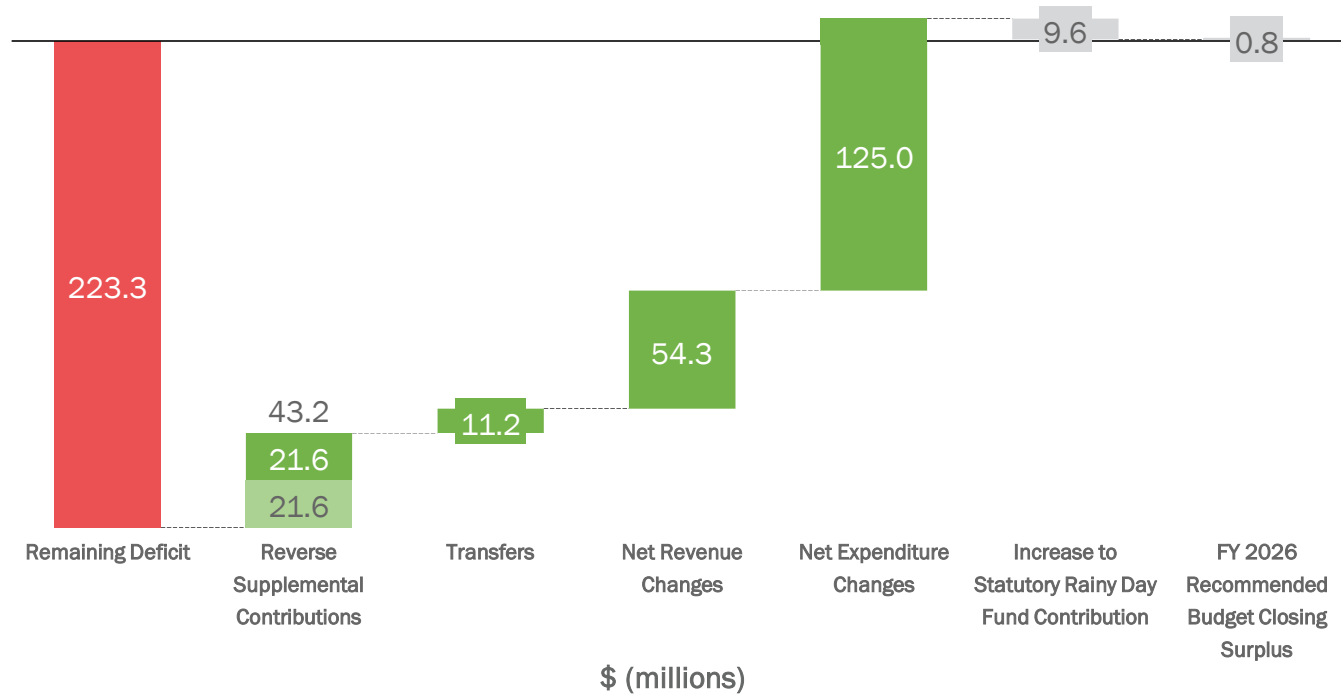
# FY 2026 Deficit Closure Overview: Recent Updates

Following budget enactment and FY 2024 preliminary closing results, the FY 2026 budget deficit projection stood at \$398.2 million. Recent updates reduced this figure downward to \$256.8 million then further to \$223.3 million.



# FY 2026 Deficit Closure Overview

Following budget enactment and FY 2024 preliminary closing results, the FY 2026 budget deficit projection stood at \$398.2 million. Recent updates have reduced this figure to \$223.3 million.



# Controlling Growth

## Selected General Revenue Expenditure Growth Rates:

*FY 2026 Rec. vs. FY 2025 Revised*

Expenditure Category	Growth Rate
Salary/Benefits	4.5%
Higher Ed	4.2%
Education Aid	3.4%
Grants and Benefits	2.8%
Executive Branch Growth (total)	2.5%
Aid to Cities and Towns	0.0%
Contract Professional Services	-4.2%
Operating Supplies and Expenses	-4.7%

- Prior forecast assumed 4.2% statewide growth.
- Governor’s FY 2026 recommendation controls expenditure growth of executive branch agencies to 2.5%.
- Governor’s FY 2026 general revenue growth of 3.0%.

Notes: General revenue, executive branch expenditures only; Local aid excludes property revaluation.

# Objectives Achieved in Closing Deficit

**As the State navigates the large projected deficit, the Governor prioritized fiscal responsibility, maintaining recent investments, and protecting Rhode Island taxpayers.**

- No broad-based tax increases or cuts to critical services.
- Limited new revenue streams support targeted investments in homelessness supports, workforce development, and transportation infrastructure.
- Protect the progress made in recent years through investments in educational outcomes, workforce and the economy, and health care.
- Avoid disruptive cuts, instead focusing on operational efficiencies.

# Continuing Investments in Education and Workforce

---

**RHODE  
ISLAND**



# Rhode to Prosperity Priority Investments

The following investments provide work-based learning opportunities, improve worker skills, and promote higher incomes in Rhode Island households.

Initiative	Description	Funding
Work-Based Learning	Provide 1,000+ additional youth learning opportunities	\$2M new GR (in addition to existing \$4M in Jobs Development Fund)
Real Jobs RI	Train 500 more Rhode Islanders	\$2.3M new JDF – supported by applying JDF employer charge to nonprofits with 500+ employees
Dual and Concurrent Enrollment	Allows high schoolers to take college courses for credit	\$2.9M GR – supported by RI Student Loan Authority
Ready to Build at CCRI	Launch signature pre-apprenticeship pathway to building trades	\$0.8M new GR
Culinary and Hospitality Hub	Build space and install equipment at CCRI Newport Campus to train culinary and hospitality workers	\$0.9M new RICAP

# K-12 Education Funding

The Governor recommends \$43.4 million more in general revenue in K-12 funding. The proposal includes the following:

- The funding formula was calculated using updated enrollment data from October 2024.
- 3 percent was added to the student success factor – currently an additional 40% for students in poverty – for the five local education agencies with the highest poverty concentrations: Central Falls, Newport, Pawtucket, Providence, and Woonsocket.

The proposal includes \$2.5 million in general revenue for Learn365RI grants to assist cities and towns in making education a 365-day per year endeavor. The funds complement \$3.0 million in general revenue in FY 2025.

# Higher Education

The Governor recommends \$10.6 million more in FY 2026 for URI, RIC, and CCRI, of which \$1.7 million will support services related to career readiness, career placement, and internships. Other initiatives include:

## Scholarships

- Includes \$8.3 million (\$1 million more than FY 2025) to fully fund the Rhode Island Promise Scholarship at CCRI, and \$5.5 million (\$2.1 million more than FY 2025) for the Hope Scholarship at RIC.

## Integrated Data System

- Provides \$0.3 million more in restricted receipts for two positions in the Office of Postsecondary Commissioner as part of the effort to form a federated integrated data system across state agencies to evaluate program impacts and determine which ones are most responsible for improved outcomes for Rhode Islanders.

# Small Business and the Economy

---

RHODE  
ISLAND

# Extend R&D Expense Tax Credit Timeline

**The Governor recommends extending the number of years that eligible businesses can use the Research and Development Expense Tax Credit from 7 to 15 to match Massachusetts and Connecticut.**

- The tax credit is applied against the corporate tax for the purchase of buildings and equipment.
- The current, relatively short carryforward means that startups with small tax liabilities are not able to experience noteworthy economic advantages from the incentive.
- A recent report by the Office of Revenue Analysis found that every \$1 invested in the tax credit returned \$3.76 in state revenues.
- Extending the timeline is projected to increase claiming by \$0.9 million in Tax Year 2034 and plateauing at \$3.4 million in Tax Year 2040.
- Coupled with this proposal, the Governor recommends repealing two minimally used research and development deductions: the Research and Development Property Tax Credit and the Research and Development Facilities Deduction.

# Small Business Items

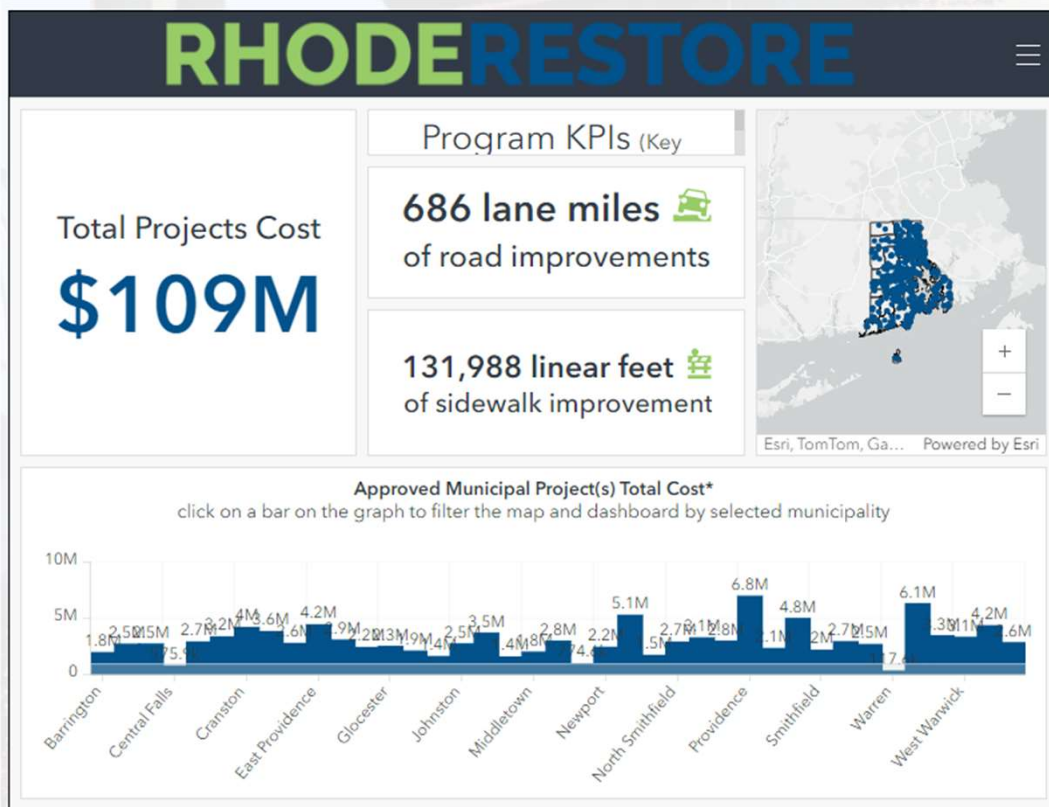
Item	Description
Remove Home Occupation Fees for Remote Workers	Ensures that there are no restrictions or licensing requirements for home-based business activities in which the activity is strictly that of a W-2 employee, full-time contractor, or does not entail any public-facing or outside activity.
Lift Requirement for Holiday Operating License	Removes required license and reduces the number of licenses a retailer must obtain and reduces licensing costs to businesses.
Reforming Certificate of Need Scope and Process	Removes various outpatient services and low-cost alternatives to traditional care (e.g., home health, hospice, outpatient surgical centers) from review, raising the capital expenditure threshold to \$50 million, eliminating reapproval requirement for minor cost increases, adding exemptions for state projects, and limiting post-approval procedural delays by competitors.
Repeal Paint Stewardship Program	Winds down the paint stewardship program and directs the nonprofit administrator of the program to transfer remaining program funds to RI Resource Recovery.

# Transportation

---

**RHODE  
ISLAND**

# Make RhodeRestore a Permanent Program



- The State is distributing \$27 million in SFRF across all 39 cities and towns to build and maintain local transportation infrastructure.
- The Governor recommends investing \$6.5 million more in Fiscal Year 2026 and making this a permanent program to help defray costs for cities and towns.
- The budget proposal also makes it easier for municipalities to secure this funding through the Rhode Island Infrastructure Bank.



# Electric Vehicle and Plug-in Hybrid Registration Fees

With gas tax revenues projected to decline, the State must ensure sufficient transportation funding. The budget proposes new registration fees on electric and plug-in hybrid vehicles since all vehicles impact roads and bridges.

- The budget proposes a new registration fee for electric vehicles, in addition to current fees – \$150 per year for battery electric vehicle (BEV) and \$75 per year plug-in hybrid fee (PHEV) (or \$300 and \$150 for a 2-year renewal).
- Fees are calibrated to the lost revenue from gas tax, as the average driver contributes about \$150 per year in gas tax.
- The fee would be deposited in the Highway Maintenance Account to address transportation infrastructure needs, including RhodeRestore.
- Thirty-nine states charge an additional BEV fee and 32 charge an additional PHEV fee, including Vermont and New Hampshire.

Year	BEV	PHEV	Total
FY26	\$1.4M	\$0.4M	\$1.7M
FY27	\$4.4M	\$0.9M	\$5.3M
FY28	\$7.0M	\$1.0M	\$8.0M
FY29	\$9.9M	\$1.0M	\$10.9M
FY30	\$13.6M	\$1.1M	\$14.7M

# Housing

---

**RHODE  
ISLAND**

# Sustainable Funding for Homelessness

As the state spends down one-time State Fiscal Recovery Funds for homelessness assistance, the Governor proposes two new sustainable funding sources to support people experiencing housing instability.

**Whole-Home Rental Tax** – The 5.0 percent state hotel tax currently applies to hotels, motels, and partial home short-term rentals (i.e., renting a room in a home) – but not whole-home short-term rentals. The Governor again proposes eliminating this exception and applying the 5.0 percent tax to whole-home short-term rentals effective January 1, 2026, with proceeds allocated to homelessness services.

**Real Estate Conveyance Tax** – The State’s real estate conveyance tax has two tiers; properties over \$800K are taxed at 0.92 percent, with revenues supporting the Housing Production Fund. The Governor recommends increasing the conveyance tax on properties over \$800K to 1.25 percent – the same rate as in Connecticut – with additional revenues going to the Housing Resources and Homelessness Fund.

Revenue Source	FY 2026
<b>Existing Sources</b>	
Recurring Sources (HRC, ESG, Title XX)	\$6.3M
Housing Resources/Homelessness Restricted Receipt (one time)	\$5.0M
<b>FY 2026 – New Funding</b>	
Whole Home Short Term Rental – 5% (Total tax: 13%)	\$2.1M
Real Estate Conveyance Tax – to 1.25% for properties over \$800K	\$2.3M
<b>Total Existing &amp; New Sources</b>	<b>\$15.7M</b>

# Health & Wellness

---

RHODE  
ISLAND

# Assault Weapons Ban and Sales Tax Exemption for Safety

**The Governor proposed legislation to ban assault weapons in the 2024 General Assembly session and is prioritizing this initiative by including a ban in his recommended budget.**

- Amendments would ban the future possession, purchase, sale, control, and manufacture of assault weapons, including a variety of semi-automatic guns and high-capacity/detachable magazines.
- Violations of these provisions would be punishable by up to 10 years imprisonment or fines up to \$10,000.
- The ban provides a balanced approach, grandfathering in previously obtained firearms, provided such weapons are registered with the appropriate police department. It further provides narrow exemptions for certain law enforcement and military officers and retirees.
- Additionally, the proposed budget includes a sales tax exemption for gun safety goods, such as lock boxes, safes, and barrel/trigger locks.

# Primary Care Provider Rates and Loan Forgiveness

**The Governor recommends initiatives to make Rhode Island a more competitive state to attract and retain primary care providers and pediatricians.**

- The Governor recommends that the Office of the Health Insurance Commissioner reviews primary care provider rates for its recommendations due in September 2027. The Governor had previously requested that these rates be reviewed as a part of the September 2025 cycle.
- The recommended budget includes \$0.2 million in general revenue, coupled with \$0.2 million in federal match, for the Health Professional Loan Repayment Program. This specific investment offers loan repayment assistance for primary care providers and pediatricians who commit to practicing in Rhode Island's federally designated health professional shortage areas for two years. Awards typically range from \$10,000 to \$40,000.

# Investing for Better Outcomes and Future Savings

## Expanded DCYF Provider Capacity

- The enacted FY 2025 Budget included an additional \$20.6 million to expand services and capacity for DCYF providers. Those investments will allow DCYF to move children from congregate placements to home-based settings and from out-of-state placements to in-state foster care placements. These efforts will lead to better outcomes and save an estimated \$7.0 million in FY 2026.

## Medicaid Prescription Drugs

- With pharmacy costs representing a significant Medicaid cost driver, the FY 2026 budget recommends adding four positions to EOHHS to review the pharmacy program and make recommendations for operational improvements and cost savings. Other states have achieved substantial savings through creating a single preferred drug pricing list and/or statewide pharmacy benefits manager. The effort is expected to save \$3.7 million in FY 2027 and \$8.0 million in FY 2028.

# Other Health and Wellness Items

---

## Senior Services Support

- The budget proposal increases funding from \$1.4 million to \$1.6 million for senior services support to improve the delivery of services, particularly food distribution, transportation, and caregiver support. This funding level equals \$8.19 per senior and represents continued progress towards the Governor's goal of providing \$10.00 per senior in senior services support.

## Cigarette Tax

- The recommended budget increases the per-pack cigarette tax by 50 cents to \$5.00 as part of ongoing efforts to reduce tobacco use. The increased fee is projected to generate an additional \$4.4 million in FY 2026.



# Increasing Efficiencies & Constraining Growth

RHODE  
ISLAND

# Agency Leases Expiring in the Near-Term

The agencies in the table below are well-positioned to transition from costly leases to State-controlled facilities in the next several years.

Agency	Lease SF	Annual Cost	Expiring
Human Rights Commission	2K	\$186K	August 2026
DEM (total amount) / Statewide Planning	120K / 10K	\$2.6M / \$250K	July 2026
Executive Office of Commerce	3K	\$75K	July 2027

\$2.9M in annual lease costs, likely to increase with renegotiation.

# New State Office Building

The Governor recommends purchasing a property using the RI Capital Plan Fund, which avoids interest costs associated with the debt financing, as previously recommended. The acquisition is anticipated to result in net savings after about five years – and conservatively \$2 million annually for operations in years six and beyond.

- Building would house Department of Environmental Management (annual lease savings of \$2.6M+), co-located with Office of Energy Resources to encourage greater cooperation on clean energy and climate change efforts.
- Facility contains a state-of-the-art data center to house the Division of Enterprise Technology Strategy and Services’ servers and avoid a \$10M+ HVAC upgrade to the existing state data center.
- Moving Department of Human Services from Pastore Campus in Cranston avoids near-term capital upgrades.

Five-Year Cost Projections		
	Current Configuration	New Office Building
Operating	\$27M	\$18M
Capital	\$25M	\$34M*
<b>Total</b>	<b>\$53M</b>	<b>\$52M</b>

*\*Inclusive of all costs related to new building, not only acquisition.*

# Create New Unit within Medium Security Facility

With the Minimum Security Facility at one-fourth of its capacity, the budget calls for its closure and creation of a new, separate, and secure unit within unused space in the Medium Security Facility.

	Minimum Security	Medium Security
Average Population*	169	798
Capacity	710	1,186
Occupancy Rate	23.8%	67.3%
Annual Cost per Inmate	\$131,752	\$91,193

*\*As of August 2024*

- The budget assumes partial-year savings in FY 2026 and full-year savings in FY 2027.
- The Rhode Island Capital Plan Budget includes funding to make facility modifications.

# Other Efficiency Initiatives

---

## State Operations

- Reduces costs that do not negatively impact customers, such as removing desk phones of employees who do not use them and cutting back on contract expenses.

## Enhance Enforcement of Benefit Programs

- Funds six positions – four in the Medicaid program and two in the Office of Internal Audit – to detect and combat Medicaid and other programmatic fraud. EOHHS conducts Medicaid program integrity efforts for Medicaid providers, while OMB's Office of Internal Audit is charged with combating Medicaid eligibility fraud.

# Other Items

---

RHODE  
ISLAND

# Other Revenue Efforts

---

## Financial Institutions Data Match

- Allows the Division of Taxation to scale data matching nationwide to match bank accounts to delinquent taxpayers and issued bank levies, which helps the State improve tax collection for the many debtors who live out of state.

## Digital Advertising Tax

- Imposes a new 10.0 percent tax on business revenues derived in Rhode Island from digital advertising for companies with at least \$1 billion in global revenues.

## RhodeWorks Tolling

- Recommends revenue assumptions of approximately \$10.0 million in FY 2026, increasing to \$40.0 million in FY 2027, to account for the anticipated re-implementation of truck tolling.

# Cost Containment – Health and Human Services

## Provider Rates and Operations

- Increases Medicaid rates for nursing homes and hospitals by 2.3 percent to match state revenue growth.
- Ends annual rate adjustment for home care workers, which are now included in OHIC biennial rate review process. Home care workers received an increase in the FY 2025 budget.
- Provides no funding for the Upper Payment Limit to hospitals for inpatient and outpatient services. UPL is intended to bring Medicaid rates more in line with Medicare, but the State Directed Payments initiative begun in FY 2024 invested more than \$110 million into hospitals to address hospital rate disparities.
- Modifies minimum staffing requirements for nursing homes and waives past penalties to address the financial and operating challenges facing the industry.



# Fiscal Outlook

**RHODE  
ISLAND**

# FY 2025 Revised/FY 2026 Budget Balance

	FY 2025 Gov Rev (\$ in millions)	FY 2026 Gov Rec (\$ in millions)
Opening Surplus	326.4	187.4
Adjustments and Reappropriation	34.6	-
Opening Resources Subtotal	<b>360.9</b>	<b>187.4</b>
Enacted/Adopted Revenue	5,556.6	5,682.8
Changes to Revenue	10.6	51.3
Revenue Subtotal	<b>5,567.2</b>	<b>5,734.1</b>
Resources Subtotal	5,928.1	5,921.5
Transfer to Budget Reserve	(176.8)	(177.6)
Total Resources Available	<b>5,751.3</b>	<b>5,743.8</b>
Enacted Expenditures/Recommend	5,594.9	5,743.1
Changes in Expenditures	15.2	-
Expenditure Total	<b>5,610.7</b>	<b>5,743.1</b>
Intrafund Transfers	46.8	-
Surplus/(Deficit)	<b>187.4</b>	<b>0.8</b>

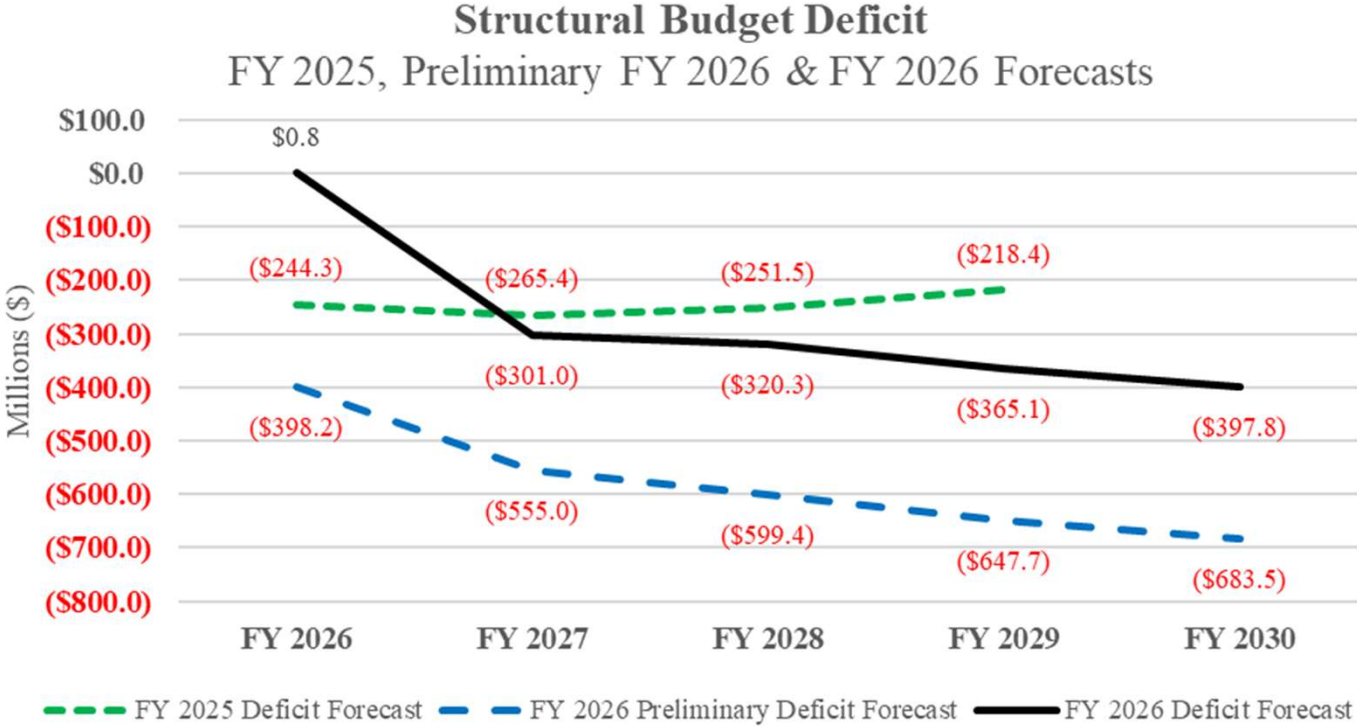
# Enacted and Proposed Expenditures by Source

Sources of Funds	FY 2025 Enacted	FY 2025 Revised	Change from Enacted	FY 2026 Recommended	Change from FY 2025 Enacted
General Revenue	5,594.9	5,610.7	15.8	5,743.1	148.2
Federal Funds	5,066.5	5,660.4	593.8	5,090.2	23.7
Restricted Receipts	463.1	491.0	27.8	446.2	-16.9
Other Funds	2,838.7	3,171.1	332.5	2,936.6	97.9
Total (millions)	\$13,963.2	\$14,933.2	\$970.0	\$14,216.1	\$252.8

- Significant federal funds and other funds revisions in current year reflect carrying forward of ARPA SFRF and CPF, RICAP, and transportation funds.
- FY 2026 Recommended over FY 2025 Revised Revenue growth of 2.5 percent.

# Five-Year Forecast

The chart below shows the budget deficit since the FY 2025 budget:



# Q&A



**RHODE  
ISLAND**