OFFICE OF MANAGEMENT AND BUDGET

Budget Outlook for FY 2027

December 17, 2025

Executive Summary

The Budget Office is providing an updated fiscal projection for FY 2027 in advance of the Governor's Recommended Budget submission in January. This projection incorporates key developments from the FY 2026 Enacted Budget, FY 2025 Preliminary Closing Statements, the November Revenue and Caseload Estimating Conferences, and the FY 2026 First Quarter Report. Based on these developments, the Budget Office now projects a FY 2027 deficit of $101.3 million.

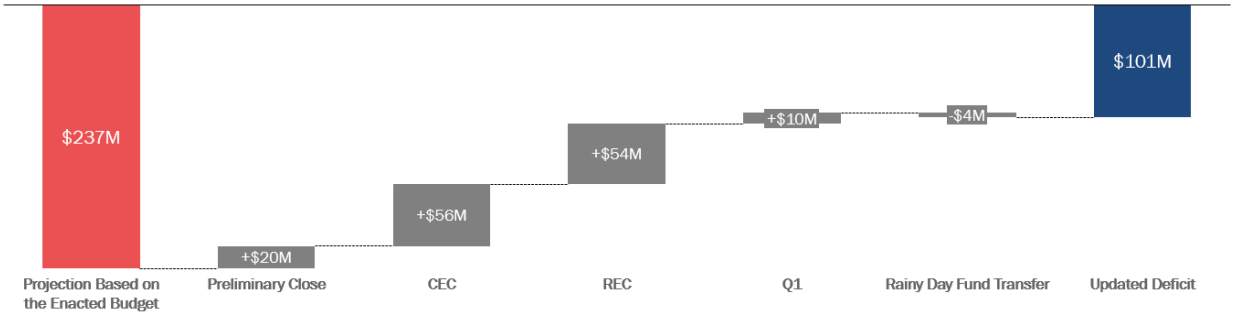
However, this revised deficit projection does not account for several significant cost pressures, including recommended social and human service rate adjustments from the Office of the Health Insurance Commissioner, mandatory program spending impacts from changes to federal law, and additional base budget needs identified in agency reviews. Furthermore, the deficit projection does not include any potential discretionary efforts the State may take to mitigate the impacts of the federal budget reconciliation act (H.R. 1, also known as the One Big Beautiful Bill Act). These items will be incorporated into the deficit forecast through the upcoming budget process as more information becomes available.

Key Updates

- **FY 2026 Enacted Budget**: Based on the FY 2026 Enacted Budget and growth assumptions consistent with the Current Service Level (CSL) budget target, the Budget Office projects an FY 2027 deficit of $237.1 million.
- **FY 2025 Preliminary Close**: The Preliminary Closing Statements reflected a surplus of $250.3 million, which is $20.0 million more than the enacted level of $230.2 million allocated for FY 2026 expenditures.
- **November Caseload Estimating Conference (CEC):** CEC revised caseload estimates downwards, reducing projected expenditures by $56.1 million.
- **November Revenue Estimating Conference (REC):** REC revised revenue upwards by $53.8 million.
- **Budget Office First Quarter Report:** After updating for first quarter spending, agency FY 2026 expenditures are projected to be $10.0 million below enacted levels, provided spending trends remain consistent.
- **Adjustments to Statutory Rainy Day Fund Transfers:** The changes above result in an increased transfer to Budget Reserve and Cash Stabilization Account (also known as the Rainy Day Fund), which results in a $4.2 million increase in the FY 2027 deficit.

Taken together, the preliminary close, CEC, REC, and First Quarter Report updates, and resulting transfers to the Rainy Day Fund reduce the FY 2027 deficit projection from $237.1 million to $101.3 million, as shown in Figure 1.

Figure 1: FY 2027 Projected Deficit



FY 2026 Enacted Budget

The Governor submitted an FY 2026 Recommended Budget to the General Assembly in January 2025 totaling $5.743 billion in general revenue appropriations. The General Assembly subsequently enacted an FY 2026 budget totaling $5.809 billion, an increase of $66.3 million.

The May 2025 Revenue and Caseload Estimating Conferences increased revenues and reduced expenditures by a net $54.1 million. In addition to these additional revenues and savings, the General Assembly took other actions to ensure a FY 2026 balanced budget, including:

- Establishing a Health Services Funding Assessment, at approximately $4 per month per covered life, with a total estimated general revenue impact of $30 million annually.
- Increasing the Real Estate Conveyance Tax on sales under $800,000, for an additional $8.4 million in annual general revenue.
- Creating a new tax on real properties assessed over $1 million that are not owner occupied.
- Expanding the sales and use tax on parking to short-term parking of up to one month, for an increase in general revenue of $3.2 million annually.
- Increasing the motor fuel tax from $0.38 to $0.40, with the proceeds dedicated to the Rhode Island Public Transit Authority (RIPTA). (Note: The motor fuel tax is dedicated to transportation-related functions and therefore does not affect the general revenue deficit.)

The General Assembly did not concur with the Governor's proposals for a Digital Advertising Tax or Cigarette Tax Increase, which were expected to increase general revenue by a total of $24 million annually, among other initiatives.

Accounting for the changes made by the General Assembly to revenues and expenditures in the FY 2026 Enacted Budget and using its own growth projections current as of the date of budget enactment, the Budget Office estimates the FY 2027 deficit to be $237.1 million.

This forecast reflects total FY 2027 general revenue expenditures of $5.975 billion. General revenue expenditures are consistent with the Budget Office (CSL) targets and reflect growth of approximately 3% over the prior year.

This forecast also reflects the Budget Office's general revenue projection of $5.914 billion. Accounting for a statutory transfer to the Rainy Day Fund of $177.4 million, this provides $5.737 billion of general revenue resources available for the FY 2027 budget.

FY 2025 Preliminary Close

The State Controller issued the unaudited FY 2025 Preliminary Closing Statements on October 14, 2025.[1] The close showed a $250.3 million surplus, which is $20.0 million more than budgeted in the FY 2026 Enacted Budget. The additional surplus carries forward to FY 2026 and thereby improves the starting point for FY 2027.

November Caseload Estimating Conference

The CEC, convened on November 4, 2025, reduced caseload expenditures by $56.1 million across medical assistance, cash assistance and services for individuals with developmental disabilities relative to the Enacted Budget and Budget Office CSL assumptions. These reductions included impacts from H.R. 1, which are primarily expected to reduce the Medicaid caseload among the expansion population. Further detail is available in the Caseload Estimating Conference Report.[2]

November Revenue Estimating Conference

The REC, which adopted estimates on November 10, 2025, increased FY 2026 general revenue projections by $29.2 million, from $5.767 billion to $5.796 billion. For FY 2027, the conferees adopted estimates of $5.939 billion[3], an increase of $143.3 million relative to the revised FY 2026 estimate and reflecting year-over-year growth of 2.5%. Relative to Budget Office targets, this represents an increase of $53.8 million in FY 2026 and FY 2027 combined.

Additional information is available in the Revenue Estimating Conference Report.[4]

These estimates recognize the cumulative $71.1 million revenue loss that is expected if the state maintains current law and conforms with the new tax provisions in H.R. 1.[5]

First Quarter Report

Exclusive of reappropriations and caseload adjustments, agency expenditures are projected to be $10.0 million below enacted levels, assuming current expenditure trends hold. The improved outlook is due primarily to lower debt service expenditures. Further information can be found in the First Quarter Report published November 14, 2025.[6]

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[1] FY25 Closing Statements Preliminary Unaudited 10-15-2025.pdf
[2] November 2025 Caseload Estimating Conference
[3] This report also assumes the reenacted of the hospital licensing fee at the prior year level of $232.5 million.
[4] November 2025 Revenue Estimating Conference
[5] DOR HR 1 Report - Final Draft
[6] FY 2026 First Quarter Report

Statutory Rainy Day Fund Transfers

State law requires that funds available for the budget be limited to 97% of available general revenues, including surplus carried forward from the prior year.[7] The remaining 3% is transferred to the Budget Reserve and Cash Stabilization Account (also known as the Rainy Day Fund) until the statutory limit is reached, after which any excess is transferred to the Rhode Island Capital Plan Fund. The adjustments to fund balance, expenditures, and revenues, described above, affect the calculation of the Rainy Day Fund transfer. The net impact is an increase of $4.2 million in transfers to the Rainy Day Fund, resulting in a corresponding increase in the FY 2027 deficit outlook.

Cost Pressures Not Yet Included in the Forecast

After recognizing the $20.0 million increase in opening surplus from the FY 2025 preliminary close and the November updates, Budget Office estimates the projected FY 2027 deficit to be $101.3 million.

However, while the updated outlook shows improvement, several significant cost pressures are expected to affect the FY 2027 budget that are not reflected in the projection. Three significant items, described below, represent a substantial source of upward pressure on the FY 2027 budget and are currently expected to increase the deficit by $55 - $70 million. The impact of these and additional items will be incorporated into future estimates as more information becomes available.

Social and Human Service Program Rate Review: The rate recommendations from the Office of the Health Insurance Commissioner (OHIC) indicate potential significant increases to the rates the State pays to medical and social service providers. Notably, unlike the prior rate review round in 2023, which sought to ensure that Rhode Island rates reflected the estimated cost of service delivery, OHIC's 2025 rate recommendations for FY 2027 – FY 2028 include two years of prospective inflation.

Federal Changes: Federal budget actions, including the passage of H.R. 1, continue to create uncertainty for programs supported by federal funds. While many direct impacts have already been incorporated into caseload and revenue estimates, additional FY 2027 impacts are expected and will need to be evaluated as federal guidance is clarified.

Two significant items are not yet incorporated into the deficit projection:

- Changes to the Supplemental Nutrition Assistance Project (SNAP). Updated federal requirements are expected to increase the State's share of SNAP administrative costs and require additional staffing and system modifications to ensure compliance. Preliminary agency assessments indicate these changes could increase general revenue needs in FY 2027 by an amount on the order of tens of millions, driven by higher administrative cost-sharing, personnel requirements, and related IT and contract needs.

[7] R.I. Gen. Laws § 35-3-20.1

- HealthSource RI (HSRI) operating impact. Federal policy changes affecting marketplace subsidies are expected to reduce HSRI enrollment, leading to a decline in restricted receipt revenues that support marketplace operations. This reduction could require additional general revenue support to maintain core functions and consumer assistance capacity.

Base Budget and Other Adjustments: Agency budget reviews have identified additional expenditures and adjustments required to maintain current services.

Furthermore, any State discretionary responses to mitigate the impacts of H.R. 1 on Rhode Islanders are not included in these projections. In an October 30, 2025, report, the Executive Office of Health and Human Services, Department of Human Services, and HSRI presented numerous options for policymakers to address the expected impacts of H.R. 1 on affected Medicaid and SNAP beneficiaries and health exchange enrollees. The Budget Office continues to work with these agencies in developing these ideas and fiscal impacts as part of the FY 2027 budget development process.

Commentary on Budget Outlook & Conclusion

While the November updates improve the fiscal picture for FY 2027, Rhode Island's structural budget challenges persist. Prior projections indicate expenditure growth averaging 3.7% annually, compared to 2.5% growth in revenues, thereby contributing to a structural deficit.

Economic conditions and federal budget uncertainty present additional risks. Delays in Congressional appropriations, recent federal shutdown activity, and continued review of federal grant programs heighten the possibility of further impacts on State revenues and expenditures.

In addition to the items already noted, other changes in H.R. 1 that are expected to have large impacts to the FY 2028 budget include caps and broader oversight on state-directed payments for Medicaid; limits on healthcare provider assessments and hospital licensing fees; and potential declines in revenues if the State remains coupled to federal tax policy.

The Budget Office is continuing to monitor the impact of H.R. 1 and the broader economic conditions and will include any relevant updates to the outyear forecast in the Governor's FY 2027 Recommended Budget in January 2026.