



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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MEMORANDUM

To: The Honorable Daniel J. McKee, Governor
Jonathan Womer, Director of Administration

From: Joseph Codega Jr., Budget Officer *John M. Codega Jr.*

Date: February 13, 2026

Subject: FY 2026 Second Quarter Report

Executive Summary

Overview

The Budget Office anticipates a FY 2026 year-end general revenue fund balance of \$64.9 million, exceeding the enacted surplus by \$63.9 million. Because this report is issued shortly after the Governor's FY 2026 Revised Budget submission of January 15, 2026, the estimates presented herein largely reflect that submission and do not indicate material changes in fiscal conditions since the First Quarter Report.

The Governor's FY 2026 Revised Budget projects a surplus of \$96.2 million¹; however, \$31.3 million of that amount reflects proposed revenue actions contingent upon approval by the General Assembly and therefore are not incorporated into this report. Excluding those proposals results in the \$64.9 million surplus projected herein.

¹ [Governor's Recommended Budget, FY 2027 Executive Summary Appendix A, A-1](#)

Budget Office FY 2026 Second Quarter Report

Statutory Basis for Reporting

RIGL § 35-1-15 states that the Director of Administration shall “direct the State Budget Officer to project on a quarterly basis the anticipated year-end balance assuming current trends continue, and the typical cyclical expenditure patterns prevail over the course of the year. A consolidated quarterly report incorporating the current status and projection shall be released to the public within forty-five days of the end of each quarter.” This report demonstrates compliance with this section of the General Laws.

Projected Surplus (Table 1)

The Second Quarter Report for FY 2026 projects an estimated surplus of \$64.9 million.

Table 1 shows the components of the projected surplus, including the FY 2025 preliminary closing statement, reappropriations, and projected revenues and expenditures.

FY 2025 Draft Audited Closing

The State Controller issued the preliminary unaudited FY 2025 closing statements on October 14, 2025. The preliminary close reflected a \$250.3 million surplus, \$20.0 million more than the \$230.2 million projected in the FY 2025 Enacted Budget.² This was included in the First Quarter Report.

Prior to the submission of the Governor’s FY 2026 Revised and FY 2027 Budgets, the Budget Officer was informed by the State Controller and the Office of the Auditor General of updates to the preliminary closing statements. These changes revised the FY 2025 general revenue closing surplus to \$241.6 million, or \$11.4 million more than the Enacted Budget. This report reflects those changes.

Reappropriations

In total, \$38.8 million of unspent general revenue appropriations from FY 2025 have been carried forward to FY 2026, as shown in Tables 1 and 2. This includes:

- \$10.8 million in unspent and unencumbered balances for the General Assembly³
- \$1.8 million in unspent and unencumbered balances for the Judiciary⁴
- \$6.7 million of discretionary reappropriations approved by the Governor⁵
- \$19.4 million authorized via Article 13 of the FY 2026 Appropriations Act⁶

² [FY25 Closing Statements Preliminary Unaudited 10-14-2025.pdf \(ri.gov\)](#)

³ Pursuant to RIGL § 35-3-15 (a)

⁴ Pursuant to RIGL § 35-3-15 (a)

⁵ [Recommended Reappropriations to FY26_FINAL MEMO.pdf](#)

⁶ [2026 Appropriations Act](#)

Projected Revenues and Expenditures

Annual expenditures are based on agency spending through the second quarter of FY 2026 (July 1 through December 31, 2025) and are compared to the general revenue estimates adopted at the November 2025 Revenue Estimating Conference.

The \$5.796 billion in revenue shown in Table 1 matches the figure adopted at the November 2025 Revenue Estimating Conference. The \$5.825 billion in projected expenditures is based on agency spending through the second quarter of FY 2026 and matches the expenditures in the Governor's Revised Budget. Both revenue and expenditure changes relative to the enacted budget are described in more detail below.

Changes Relative to Governor's Revised Budget

The Governor's FY 2026 Revised Budget contains several revenue changes in FY 2026 that require General Assembly approval. These changes are not included in the projections in this report. They are:

- \$22.6 million: General revenues expected from permanently decoupling from the provision in federal bill H.R. 1 that allows businesses to fully deduct costs related to research and development in the year they were incurred. Before Congress passed H.R. 1, these expenses were required to be amortized over five years.
- \$5.0 million: Transfer from the Marijuana Trust Fund restricted receipt account to general revenue.
- \$2.5 million: Transfer from excess reserves at the Rhode Island Health and Educational Building Corporation to general revenue.
- \$2.0 million: Transfer from excess reserves at the Rhode Island Infrastructure Bank to general revenue.

After including the net \$813,000 impact on the statutory transfer to the Rainy Day Fund, these changes account for the \$31.3 million difference between the Governor's FY 2026 Revised Budget surplus of \$96.2 million and the \$64.9 million surplus shown in Table 1.

Revenue Changes (Table 3)

Table 3 displays the FY 2026 revenue estimates adopted at the November Revenue Estimating Conference (by category), as compared to those contained in the enacted budget. Consensus estimates as adopted by the Conferees total \$5.796 billion, an increase of \$29.2 million relative to the enacted projection of \$5.767 billion.

Expenditure Changes (Table 2)

Projected general revenue expenditures for FY 2026 are approximately \$15.6 million above enacted appropriations. This figure consists of three major components:

- 1) Reappropriations totaling \$38.8 million, as described above;
- 2) A decrease of \$9.1 million within the various programs subject to the November 2025 Caseload Estimating Conference; and
- 3) A net decrease in other agency spending totaling \$14.1 million.

Please refer to Table 2 for projected expenditure changes by agency/department.

Given the timing of this second quarter report (less than one month following the Governor's Revised Budget submission), these expenditure estimates are consistent with the Governor's submission.

Other Risks, Commentary, and Discussion

H.R. 1 and Other Federal Impacts

As discussed in the First Quarter Report, enactment of federal bill H.R. 1 is estimated to have significant budgetary impacts in FY 2026 and beyond. The FY 2026 impacts are incorporated in this report in both expenditures and revenues. Please see the Governor's Recommended Budget for further details on the fiscal impacts of H.R. 1.⁷

COVID-19 Stimulus Funds: SFRF and CPF

Rhode Island received over \$1.2 billion in federal COVID-19 stimulus funds, including \$1.13 billion in State Fiscal Recovery Funds (SFRF) and \$112.3 million in Capital Project Funds (CPF). These funds can and have been used to:

- Respond to the COVID-19 public health emergency
- Address the pandemic's negative economic impacts on households, small businesses, impacted industries, and nonprofits
- Support services to disproportionately impacted communities
- Invest in water, sewer, and broadband infrastructure
- Replace lost public sector revenue

As of December 31, 2025, the State has spent \$1.03 billion in SFRF and \$28.4 million in CPF. The federal government requires that the remaining funds be expended by December 31, 2026. To that end, the Pandemic Recovery Office will work closely with the Budget Office to ensure funds are expended for eligible uses by that date.

⁷ [FY 2027 Executive Summary](#), pages B-11 and B-12.

FEMA Reimbursement

During the COVID-19 pandemic, the State received reimbursement from the federal government for COVID-related emergency expenses. Despite a strong track record of reimbursement, the State assessed in FY 2025 that there was a risk that audit findings or adjustments could result in federal authorities reversing or rejecting reimbursement expenses. In recognition of that risk, the FY 2025 enacted budget contained \$5 million in FEMA contingency reserves.

All pending FEMA reimbursements were substantially complete as of FY 2024. As of this report, there is a remaining balance of \$2.3 million in contingency reserves to cover any future claims. With reimbursements largely resolved and risk continuing to decline, the Budget Office will continue to work with the Office of Accounts and Control to determine the appropriate reserve level.

Agency Fiscal Oversight

The projected FY 2026 closing surplus contained within this report demonstrates the importance of continued fiscal discipline and oversight. The Office of Management and Budget will continue to vigilantly monitor discretionary spending and hiring at those agencies projecting a closing deficit in this report, pursuant to RIGL §35-3-24 and the Department of Administration's OMB Budgetary Control Policy.

Following the identification of a substantive projected deficit in the first quarter of FY 2026, the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals as well as the Executive Office of Health and Human Services remain subject to enhanced oversight.

If you have any questions concerning this Second Quarter Report, please feel free to contact me.

cc: The Honorable Marvin L. Abney, Chairman, House Finance Committee
The Honorable Louis P. DiPalma, Chairman, Senate Finance Committee
Sharon Reynolds Ferland, House Fiscal Advisor
Stephen Whitney, Senate Fiscal Advisor

Table 1 - FY 2026 General Revenue Budget Surplus

	FY 2024 Audited	FY 2025 Final Enacted	FY 2025 Draft Audited	FY 2026 Enacted	FY 2026 Second Quarter
Surplus					
Opening Surplus	\$412,262,973	\$326,355,037	\$326,355,037	\$230,213,058	\$241,634,407
Adjustment to Opening Surplus- FEMA	23,811,475	-	703,083	-	-
Adjustment to Opening Surplus- Other	-	-	-	-	-
Reappropriated Surplus	45,152,130	34,569,423	34,569,423	-	38,796,839
Subtotal	\$481,226,578	\$360,924,460	\$361,627,543	\$230,213,058	\$280,431,246
General Taxes	\$4,377,950,240	\$4,568,200,000	\$4,569,545,995	\$4,695,177,193	\$4,695,177,193
REC Changes to the Enacted Estimates					20,122,807
Subtotal	\$4,377,950,240	\$4,568,200,000	\$4,569,545,995	\$4,695,177,193	\$4,715,300,000
Departmental Revenues	\$552,303,254	\$556,975,831	\$541,202,692	\$574,268,879	\$574,268,879
REC Changes to the Enacted Estimates					631,121
Subtotal	\$552,303,254	\$556,975,831	\$541,202,692	\$574,268,879	\$574,900,000
Other Sources					
Other Miscellaneous	\$38,439,513	\$34,400,000	\$33,395,825	\$27,337,022	\$27,337,022
REC Changes to the Enacted Estimates					(2,037,022)
Lottery	\$426,419,555	\$431,100,000	\$433,594,991	\$441,000,000	\$441,000,000
REC Changes to the Enacted Estimates					10,300,000
Unclaimed Property	\$23,591,279	\$33,600,000	\$34,272,938	\$28,800,000	\$28,800,000
REC Changes to the Enacted Estimates					200,000
Subtotal	\$488,450,347	\$499,100,000	\$501,263,754	\$497,137,022	\$505,600,000
Total Revenues	\$5,418,703,841	\$5,624,275,831	\$5,612,012,441	\$5,766,583,094	\$5,795,800,000
Transfer to Budget Reserve and Cash Stabilization					
Account	(\$175,124,919)	(\$178,518,926)	(\$178,800,524)	(\$179,903,885)	(\$181,123,032)
Total Available	\$5,724,805,500	\$5,806,681,365	\$5,794,839,460	\$5,816,892,267	\$5,895,108,214
Actual/Enacted Expenditures	\$5,236,111,578	\$5,597,598,073	\$5,535,537,980	\$5,809,363,121	\$5,809,363,121
Reappropriations (from prior year)					38,796,839
Nov Caseload Est. Conference Changes					(9,054,567)
Other Changes in Expenditures					(14,094,483)
Total Expenditures	\$5,236,111,578	\$5,597,598,073	\$5,535,537,980	\$5,809,363,121	\$5,825,010,910
Intrafund Transfers from/to Restricted Accounts	(91,000,000)	(520,212)	(520,212)	(6,500,000)	(5,203,200)
Transfer to Supplemental State Budget Reserve	(21,649,978)	-	-	-	-
Transfer to Employees' Retirement System	(21,649,978)	-	-	-	-
Pause of RIGL 35-6-1(e)	6,530,494	21,649,978	21,649,978	-	-
Total Ending Balances	\$360,924,460	\$230,213,058	\$280,431,246	\$1,029,146	\$64,894,104
Reappropriations (to following year)	(34,569,423)		(38,796,839)		-
Free Surplus	\$326,355,037	\$230,213,058	\$241,634,407	\$1,029,146	\$64,894,104

* FY 2025 Final Audited Closing Statements are unpublished as of February 13, 2026. "Draft Audited" figures represent most accurate data available as of the date of second quarter report release, but remain subject to further revision.

Table 2 - Summary of Changes to FY 2026 Enacted General Revenue Expenditure Budget

	FY 2026 Enacted Budget	Reappropriation	Caseload Estimating Conference Changes	Other Projected Changes	Total Projected Changes	FY 2026 Projected Expenditures	Change From Enacted (Surplus)/Deficit	Governor's Supplemental Budget	Balance to Governor's Supplemental (Surplus)/Deficit
General Government									
Administration	249,311,650	1,840,091	-	(16,821,200)	(14,981,109)	234,330,541	(16,821,200)	234,330,541	-
Business Regulation	25,769,781	-	-	(123,231)	(123,231)	25,646,550	(123,231)	25,646,550	-
Labor and Training	18,179,242	645,780	-	52,219	697,999	18,877,241	52,219	18,877,241	-
Department of Revenue	413,452,869	750,000	-	266,365	1,016,365	414,469,234	266,365	414,469,234	-
Legislature	58,734,623	10,774,553	-	(2,348,574)	8,425,979	67,160,602	(2,348,574)	67,160,602	-
Lieutenant Governor	1,519,219	-	-	13,043	13,043	1,532,262	13,043	1,532,262	-
Secretary of State	12,861,732	-	-	(12,850)	(12,850)	12,848,882	(12,850)	12,848,882	-
General Treasurer	4,600,223	880,899	-	(93,858)	787,041	5,387,264	(93,858)	5,387,264	-
Board of Elections	4,474,931	500,000	-	6,347	506,347	4,981,278	6,347	4,981,278	-
Rhode Island Ethics Commission	2,419,632	98,871	-	(58,088)	40,783	2,460,415	(58,088)	2,460,415	-
Governor's Office	9,334,918	-	-	34,593	34,593	9,369,511	34,593	9,369,511	-
Commission for Human Rights	2,249,158	-	-	36,699	36,699	2,285,857	36,699	2,285,857	-
Executive Office of Commerce	33,532,824	-	-	16,871	16,871	33,549,695	16,871	33,549,695	-
Executive Office of Housing	6,464,465	-	-	1,189,660	1,189,660	7,654,125	1,189,660	7,654,125	-
Office of Energy Resources	-	275,313	-	-	275,313	275,313	-	275,313	-
Public Utilities Commission	-	-	-	-	-	-	-	-	-
Ri Cannabis Control Commission	-	-	-	-	-	-	-	-	-
Subtotal - General Government	842,905,267	15,765,507	-	(17,842,004)	(2,076,497)	840,828,770	(17,842,004)	840,828,770	-
Human Services									
Office of Health & Human Services	1,490,421,244	-	(13,671,726)	486,522	(13,185,204)	1,477,236,040	(13,185,204)	1,477,236,040	-
Children, Youth, and Families	262,775,058	-	-	(19,575)	(19,575)	262,755,483	(19,575)	262,755,483	-
Health	40,825,075	866,422	-	273,026	1,139,448	41,964,523	273,026	41,964,523	-
Human Services	136,022,692	-	(200,994)	(2,712,673)	(2,712,673)	137,181,005	(2,913,667)	137,181,005	-
Behavioral Healthcare, Developmental Disabilities & Hosp.	318,778,838	939,038	4,818,153	2,536,590	8,293,781	327,072,619	7,354,743	327,072,619	-
Office of the Child Advocate	2,264,613	-	-	(79,603)	(79,603)	2,185,010	(79,603)	2,185,010	-
Comm. on Deaf & Hard of Hearing	786,233	-	-	(18,570)	(18,570)	767,663	(18,570)	767,663	-
Governor's Commission on Disabilities	1,386,032	615,533	-	299,119	914,652	2,300,684	299,119	2,300,684	-
Office of the Mental Health Advocate	1,117,164	-	-	(184,723)	(184,723)	932,441	(184,723)	932,441	-
Subtotal - Human Services	2,254,376,949	6,492,973	(9,054,567)	580,113	(1,981,481)	2,252,395,468	(8,474,454)	2,252,395,468	-
Education									
Elementary and Secondary	1,659,208,810	4,804,916	-	(3,506,364)	1,298,552	1,660,507,362	(3,506,364)	1,660,507,362	-
Office of the Postsecondary Commissioner	33,322,291	-	-	28,338	28,338	33,350,629	28,338	33,350,629	-
University of Rhode Island	148,637,923	-	-	3,159,843	3,159,843	151,797,766	3,159,843	151,797,766	-
Rhode Island College	80,448,058	-	-	701,353	701,353	81,149,411	701,353	81,149,411	-
Community College of Rhode Island	64,838,244	-	-	549,855	549,855	65,388,099	549,855	65,388,099	-
Ri Council on the Arts	2,414,685	-	-	1,443	1,443	2,416,128	1,443	2,416,128	-
Ri Atomic Energy Commission	1,278,282	-	-	3,909	3,909	1,282,191	3,909	1,282,191	-
Historical Preservation & Heritage Comm	1,969,751	-	-	47,282	47,282	2,017,033	47,282	2,017,033	-
Subtotal - Education	1,992,118,044	4,804,916	-	985,659	5,790,575	1,997,908,619	985,659	1,997,908,619	-
Public Safety									
Attorney General	38,244,427	-	-	145,464	145,464	38,389,891	145,464	38,389,891	-
Corrections	324,014,603	581,138	-	1,073,326	1,654,464	325,669,067	1,073,326	325,669,067	-
Judicial	133,516,539	1,848,662	-	185,851	2,034,513	135,551,052	185,851	135,551,052	-
Military Staff	3,424,058	-	-	84,034	84,034	3,508,092	84,034	3,508,092	-
Emergency Management	7,457,256	-	-	186,926	186,926	7,644,182	186,926	7,644,182	-
Public Safety	132,842,119	9,303,643	-	52,928	9,356,571	142,198,690	52,928	142,198,690	-
Office Of Public Defender	18,178,679	-	-	11,095	11,095	18,189,774	11,095	18,189,774	-
Subtotal - Public Safety	657,677,681	11,733,443	-	1,739,624	13,473,067	671,150,748	1,739,624	671,150,748	-
Natural Resources									
Environmental Management	58,380,368	-	-	172,924	172,924	58,553,292	172,924	58,553,292	-
Coastal Resources Management Council	3,904,812	-	-	269,201	269,201	4,174,013	269,201	4,174,013	-
Subtotal - Natural Resources	62,285,180	-	-	442,125	442,125	62,727,305	442,125	62,727,305	-
Total	5,809,363,121	38,796,839	(9,054,567)	(14,094,483)	15,647,789	5,825,010,910	(23,149,050)	5,825,010,910	-

Table 3 - November 2025 Revenue Estimating Conference Results

	FY 2026 Enacted	FY 2026 Nov 2025 Consensus	FY 2026 Consensus vs. FY 2026 Enacted	Growth From FY 2026 Consensus vs. FY 2026 Enacted
Personal Income Tax	\$ 2,000,882,929	\$ 2,056,400,000	\$ 55,517,071	2.8%
General Business Taxes				
Business Corporations	350,360,028	317,000,000	(33,360,028)	-9.5%
Public Utilities Gross	112,500,000	115,000,000	2,500,000	2.2%
Financial Institutions	21,200,000	11,500,000	(9,700,000)	-45.8%
Insurance Companies	180,217,698	176,900,000	(3,317,698)	-1.8%
Bank Deposits	5,200,000	5,200,000	-	0.0%
Health Care Provider	47,170,185	46,800,000	(370,185)	-0.8%
Sales and Use Taxes				
Sales and Use	1,726,581,707	1,726,000,000	(581,707)	0.0%
Cigarettes	119,100,000	114,500,000	(4,600,000)	-3.9%
Alcohol	21,900,000	20,000,000	(1,900,000)	-8.7%
Other Taxes				
Estate and Transfer	83,600,000	98,800,000	15,200,000	18.2%
Racing and Athletics	700,000	700,000	-	0.0%
Realty Transfer	25,764,646	26,500,000	735,354	2.9%
Total Taxes	4,695,177,193	4,715,300,000	20,122,807	0.4%
Departmental Receipts	574,268,879	574,900,000	631,121	0.1%
Other Miscellaneous	27,337,022	25,300,000	(2,037,022)	-7.5%
Lottery	441,000,000	451,300,000	10,300,000	2.3%
Unclaimed Property	28,800,000	29,000,000	200,000	0.7%
Total General Revenues	\$ 5,766,583,094	\$ 5,795,800,000	\$ 29,216,906	0.5%