



RIPEC

THE GOVERNOR'S FY 2025 BUDGET PROPOSAL

*A Transitional Budget as the State
Faces More Constrained Revenues*

May 2024



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I. Introduction

After a series of budgets flush with abundant federal pandemic relief funding and large budget surpluses, Governor Daniel J. McKee’s proposed budget for fiscal year (FY) 2025 is his first spending plan constrained by more limited revenues. However, by relying on surplus dollars and, to a lesser extent, federal funding, to pay for state operating expenses, the governor’s FY 2025 budget represents a transitional budget between plentiful revenues of the last few years and tighter fiscal times ahead. While state general revenues are projected to increase by only \$135.8 million (2.6 percent) from FY 2024 to FY 2025, the governor’s FY 2025 budget utilizes \$195.9 million in surplus funds carried over from FY 2024. In his budget proposal, the governor also reallocates federal pandemic relief aid in the amount of \$51.7 million primarily to fund operations. With these additional resources, the governor’s FY 2025 budget does not fully reflect the more difficult budgetary choices anticipated in the next fiscal year and beyond.

Just prior to submission of the governor’s budget in January, RIPEC published a report entitled “Rhode Island State Budget in Transition: Four Key Issues for FY 2025 and Beyond.” The report provided an overview of the fiscal crosscurrents presented for FY 2025. State revenues are growing more slowly, and federal pandemic relief funding allocations are expiring. At the same time, despite dramatic expenditure growth over the past few years, demand for large spending increases persist. The report also focused on four key issues that present challenges for policymakers in the context of these trends: health and human services, K-12 education, transportation, and affordable housing.¹

This report analyzes the governor’s FY 2025 budget proposal, including revisions to the current FY 2024 budget, in the context of the transition between plentiful revenues and a more constrained fiscal environment. As a transitional budget, the policy choices contained in the budget carry important short- and long-term implications.

In addition to this Introduction, there are five sections in this report. Section II outlines the revenue picture in the governor’s proposed FY 2025 budget and revised FY 2024 budget, considering revised revenue estimates from the November Revenue Estimating Conference (REC) and the governor’s proposed revenue initiatives. Section III analyzes total expenditures in the budget as proposed in the context of the trend of large increases in total spending over the last several budgets, and breaks down the governor’s proposed bond initiatives, revisions to federal pandemic relief spending, and increases in government personnel. With respect to the governor’s spending plan for FY 2025, Section IV provides in-depth analysis of key expenditure issues which present challenges in the current, and future, fiscal years: health and human services, K-12 education, transportation, affordable housing, and corrections. Section V details the forecasted budget deficit in future fiscal years and highlights future challenges in the context of a projected slowing of general revenues. Finally, Section VI provides RIPEC’s comments and recommendations for policymakers.

¹ RIPEC, [Rhode Island State Budget in Transition: Four Key Issues for FY 2025 and Beyond](#), January 12, 2024.

II. Revenues in Governor McKee’s Proposed FY 2025 Budget

On January 18, 2024, Governor McKee introduced his FY 2025 budget plan, recommending spending based on general revenues of \$5.45 billion for FY 2025 and \$5.32 billion for FY 2024, as projected by the November 2023 REC.² The revenue increase for FY 2025 over revised FY 2024 estimates is \$135.8 million, or 2.6 percent. The REC increased FY 2024 estimated revenues by \$42.1 million over projections made at the May 2023 Conference. Figure 1 shows the November revenue estimates for FY 2024 and FY 2025, and the changes detailed above.³

This relatively modest upward adjustment of current year revenues is a dramatic departure from the upsurge in current fiscal year revenues, and the resulting surpluses, projected at the last two November RECs. The November 2022 REC projected an increase in revenues of \$273.6 million for FY 2022 and the November 2023 REC projected an increase of \$358.9 million for FY 2023.⁴

While the revenue adjustment of \$42.1 million is relatively modest for FY 2024, the opening surplus amount for FY 2025 is much greater. At \$195.9 million, the anticipated surplus results from several additional components, including lower projected expenditures of \$71.8 million for FY 2024 and a surplus of \$43.6 million more than anticipated for FY 2023.⁵ Although substantial, the surplus is the smallest since FY 2020 and much smaller than surplus amounts available for the last three fiscal years, which averaged \$503.4 million over that period, as indicated in Figure 2.

Figure 1
November 2023 Revenue
Estimating Conference
(\$ Millions)

FY 2024 Enacted	\$ 5,276.3
FY 2024 Revised Estimate	\$ 5,318.4
<i>Change from FY 2024 Enacted</i>	<i>\$ 42.1</i>
FY 2024 Revised Estimate	\$ 5,318.4
FY 2025 Estimate	\$ 5,454.2
<i>Change from FY 2024 Revised</i>	<i>\$ 135.8</i>

Source: R.I. OMB, November 2023 Revenue Estimating Conference Report

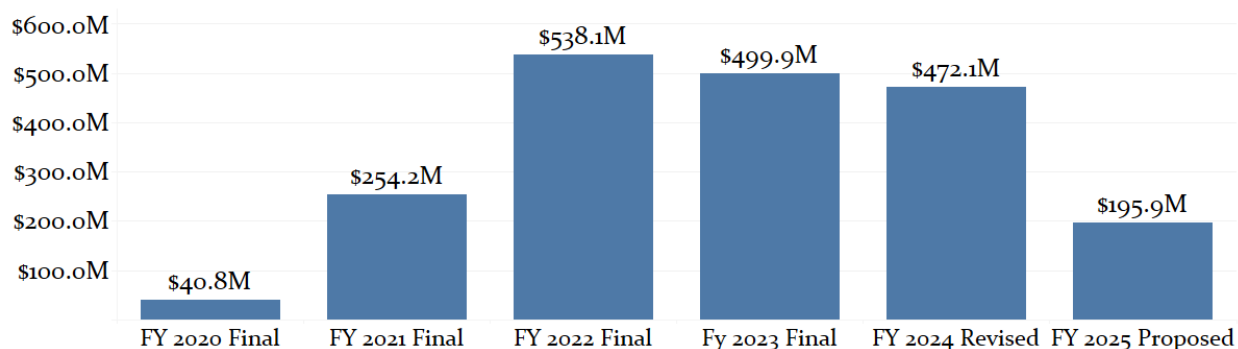
² The Conference is held in the first week of November and May each year. Revenue estimates reflect the consensus reached by the three Conference principals: the state budget officer, the house fiscal advisor, and the senate fiscal advisor. The Conference relies on testimony from executive branch officials as well as economic projections by an independent forecasting firm to produce revenue estimates for both the current and subsequent fiscal year. R.I. Gen. Laws [§ 35-16-3\(a\)](#), [§ 35-17-1](#), [§ 35-17-1](#).

³ R.I. OMB, [November 2023 Revenue Estimating Conference Report](#); Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

⁴ R.I. OMB, [November Revenue Estimating Conference Reports, 2022-2024](#).

⁵ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

Figure 2
General Revenue Budget Opening Surplus
FY 2020 - FY 2025 Proposed



Source: R.I. OMB, Budget Executive Summary FY 2022 - FY 2025

While revisions to revenue projections for the current year will be determined by the May 2024 REC, it appears unlikely that there will be a substantial upward adjustment in revenues. Through the first nine months of the fiscal year, revenues ran only 0.4 percent ahead of FY 2024 revenues as estimated at the November 2023 REC. If this trend continues, the positive revision of FY 2024 revenues at the May 2024 REC would be expected to yield only approximately \$20.0 million in additional revenues.⁶

Revenue Items in the Governor’s Budget

The governor’s FY 2025 budget proposes no major changes to the state’s broad-based taxes but includes some significant revenue measures. The governor recommends increasing the amount of pension and annuity income that is untaxed from \$20,000 to \$50,000. This proposed change is expected to reduce taxes for 10,000 Rhode Islanders, with an average tax savings of \$500 per impacted taxpayer. If adopted, this increased deduction would reduce personal income tax revenue by \$3.0 million in FY 2025 and \$6.2 million annually.⁷

As with his last budget, the governor has proposed a cut in the corporate minimum tax. The proposed reduction, from \$400 to \$350, would benefit over 70,000 taxpayers, the majority of which are limited liability companies and partnerships. This change is projected to result in lost revenue of \$2.3 million in FY 2025 and \$4.7 million annually.⁸ In his FY 2024 budget, the governor proposed to reduce the

⁶ R.I. Dept. of Revenue, Office of Revenue Analysis, [Revenue Assessment Report, March 2024](#). Complicating the May 2023 REC is that certain tax information typically available will not be forthcoming since the tax filing deadline has been extended from April 15 to July 15 by the Rhode Island Division of Taxation in response to a similar extension conferred by the federal Internal Revenue Service connected with storm and flooding events occurring in Rhode Island in December 2023 and January 2024. R.I. Dept. of Revenue, Division of Taxation, [Advisory 2024-17](#), April 11, 2024.

⁷ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#). Eligibility is limited to filers who have reached full retirement age and have incomes below a certain threshold. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁸ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

corporate minimum tax from \$400 to \$375, but this reduction was not approved by the General Assembly.⁹

The governor also has proposed to extend the period that taxpayers may carry forward net operating losses to 20 years, effective January 1, 2025. Businesses are allowed to use prior operating losses to offset future profits and reduce tax liabilities. Rhode Island currently limits the carryforward period to five years, which is the shortest period among states.¹⁰ If adopted, the governor's proposal would bring Rhode Island in line with most other states and would match the carryforward periods in Massachusetts and Connecticut. If adopted, there would be no fiscal impact until tax year 2031.¹¹

In his budget, the governor also has proposed to increase revenues by reducing the tax credit offered to members of pass-through entities who pay taxes under the state's elective pass-through entity tax. The elective tax was implemented in 2019 in response to the federal limitation of deductions of state and local taxes. The governor's proposal would reduce the credit from 100 percent to 90 percent, identical to the credit offered in Massachusetts and similar to Connecticut's 87.5 percent credit. This change would raise an estimated \$8.1 million in FY 2025 and \$16.5 million annually.¹²

After submitting his budget, the governor proposed an amendment that would create a new 5.0 percent whole home short-term rental tax to be administered in the same manner as the state's hotel tax. Revenues from the tax would fund the existing Housing Resources and Homelessness restricted receipts account and provide a dedicated funding source to address homelessness. This new revenue source would provide an estimated \$2.5 million in FY 2025 and \$5.0 million in FY 2026.¹³

⁹ R.I. OMB, Fiscal Year 2024 Budget Proposal, [Executive Summary](#).

¹⁰ California does not enable businesses to carry forward net operating losses. All other states allow businesses to carry forward losses for a longer period. R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); RIPEC, "[RIPEC Analyzed Rhode Island's Business Tax Climate Index Ranking of 41st](#)," February 2024.

¹¹ Ibid.

¹² R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

¹³ The amendment states that the new tax seeks to close a loophole under which partial home short-term rentals are subject to the hotel tax, but whole home short-term rentals are not. R.I. OMB, [Governor's Budget Amendment #13](#), April 22, 2024.

III. Expenditures in Governor McKee’s Proposed FY 2025 Budget

Governor McKee’s FY 2025 budget plan proposes total expenditures of \$13.68 billion—\$334.8 million, or 2.4 percent, less than the enacted FY 2024 level, as depicted in Figure 3. This reduction is driven by the drop-off in federally funded expenditures, which are \$713.8 million lower than the FY 2024 enacted amount. The governor’s budget proposes state general revenue spending for FY 2025 of \$5.50 billion, an increase of only \$74.9 million (1.4 percent) over the FY 2024 enacted budget level.¹⁴

Figure 3
Enacted and Proposed Expenditures by Source
(\$ Millions)

Source 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	\$ 14,010.8	\$ 14,409.0	\$ 398.2	\$ 13,676.1	\$ (334.8)

Note: Totals may not sum due to rounding

Recreated from R.I. OMB, Fiscal Year 2025 Budget Proposal, Executive Summary

In his spending plan, the governor also proposes significant revisions to expenditures in the current fiscal year, FY 2024, also shown in Figure 3. Most notably, federally funded spending was increased by \$150.7 million over the enacted budget level, primarily resulting from the reallocation of pandemic-era State Fiscal Relief Funds (SFRF).¹⁵ General revenues expenditures are proposed to be reduced by \$46.2 million, attributed primarily to underspending in the Department of Children, Youth and Families and the Department of Human Services relative to budgeted appropriations. Expenditures from other funds, including the gas tax, Rhode Island Capital Plan funds, and unemployment insurance trust funds are proposed to increase by \$242.9 million.¹⁶

As depicted in Figure 4, the FY 2025 budget proposed by Governor McKee represents the first significant drop in overall spending in the last few years following a dramatic increase in total expenditures driven largely by federal pandemic relief funding. At \$4.93 billion, FY 2025 proposed spending from federal sources is \$1.67 billion less than the high-water mark of \$6.60 billion in federal spending in FY 2021.

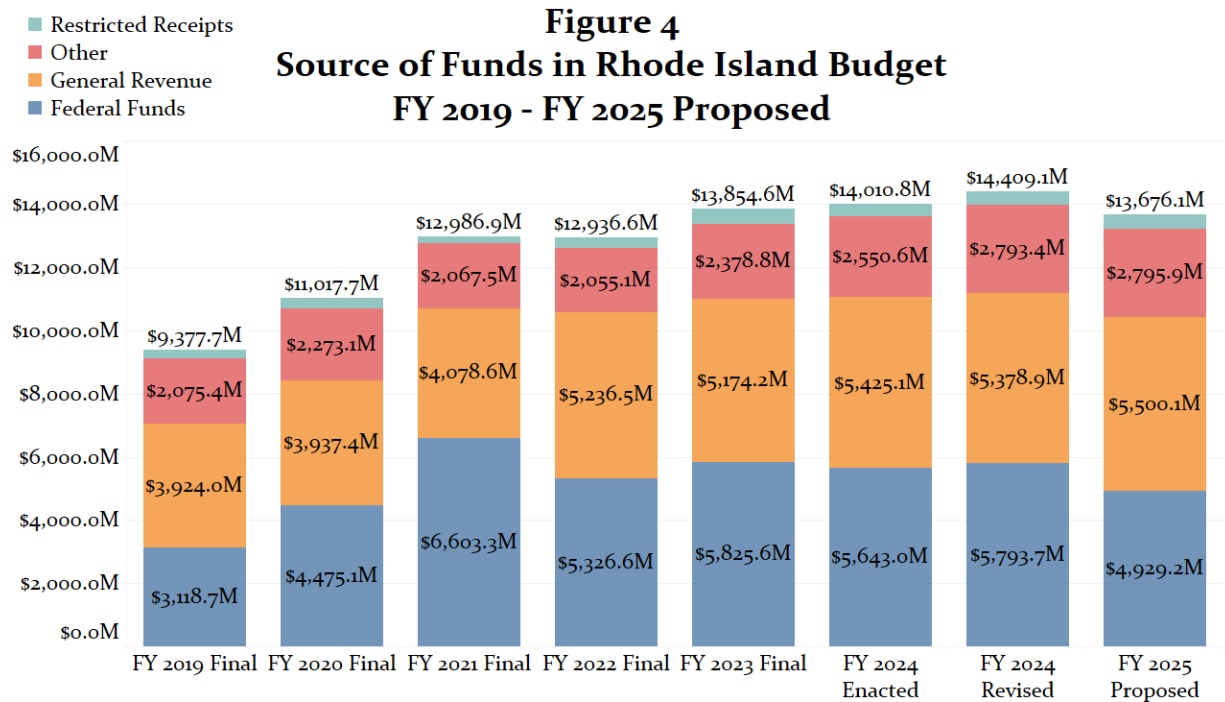
In contrast, state general revenue spending continues to increase, though at a slower rate. While the variability of state spending by fiscal year can be affected significantly by the allocation of surplus

¹⁴ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

¹⁵ R.I. Senate Fiscal Office, [Governor’s FY 2025 and FY 2024 Supplemental Budget, Budget Analysis](#).

¹⁶ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

funds between fiscal years, Figure 4 illustrates a large jump of \$1.10 billion in general revenue spending between FY 2021 and FY 2023, and much slower growth of \$325.9 million from FY 2023 to the spending level proposed in the governor’s FY 2025 budget.¹⁷



Source: R.I. House Fiscal Advisory Staff, budget documents; R.I. Senate Fiscal Office, budget documents

Bond Initiatives

The governor’s FY 2025 budget proposes \$345.0 million in bond referenda to be placed on the ballot for voter approval in November 2024. As shown in Figure 5, proposed borrowing includes four separate bond proposals: higher education (\$135.0 million), housing and community opportunity (\$100.0 million), state archive and history center (\$60.0 million), and green economy (\$50.0 million).¹⁸

The proposed higher education bond would fund two projects: a new biomedical sciences building at the University of Rhode Island (\$80.0 million) and a cybersecurity building at Rhode Island College (\$55.0 million).¹⁹ Proposed borrowing for higher education has been included in all seven ballot initiatives presented to the voters since 2010; the bond proposal of \$135.0 million included in

¹⁷ For example, actual expenditures for FY 2023 were \$99.3 million less than the final appropriated level; these dollars were added to the surplus available for appropriation in FY 2024. R.I. House Fiscal Advisory Staff, [Governor’s FY 2025 Budget, Staff Presentation](#), February 6, 2024.

¹⁸ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

¹⁹ The URI sciences building assumes \$8.4 million from private sources for a total project cost of \$88.4 million. Funding for the RIC project would be used to repair and restore Whipple Hall to house the new Institute for Cybersecurity and Emerging Technologies. The RIC cybersecurity facility also would utilize \$18.5 million in Rhode Island Capital Plan funds, for a total project cost of \$73.5 million under the governor’s proposal. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

the governor’s FY 2025 budget would represent the highest level of higher education borrowing ever proposed for the ballot.²⁰

The governor’s proposed \$100.0 million bond for housing and community opportunity would increase affordable and middle-income housing production and infrastructure, support community revitalization, and promote home ownership. If adopted, this housing bond would constitute the largest amount of borrowing by far for housing purposes, with the next largest bond (\$65.0 million) approved by the voters in 2021. Voters have also approved housing bonds in 2006, 2012, and 2016, in amounts of \$50.0 million, \$25.0 million, and \$50.0 million, respectively. The governor’s proposed housing bond is discussed more fully on pages 23-27.²¹

A referendum in the amount of \$60.0 million would fund a new state archives and history center to store and display documents important to the state and country’s founding. The total estimated project cost is \$101.7 million, with the governor proposing \$10.0 million in additional state spending from Rhode Island Capital Plan funds. The remaining \$31.7 million would be from private funding.²²

Also included in the governor’s ballot initiatives is \$50.0 million for the green economy, consisting of six components: \$20.0 million for infrastructure improvements at the Port of Davisville; \$10.0 million to restore and improve municipal resiliency of infrastructure, coastal habitats, and floodplains; \$8.0 million to restore and improve the resiliency of the Newport Cliff Walk; \$5.0 million for brownfield remediation; \$5.0 million for local recreation grants; and \$2.0 million to restore or improve the resiliency of vulnerable coastal habitats and river and stream floodplains.²³ Subsequent

Figure 5
Governor's Recommended
November 2024 Ballot Initiatives

	\$ Millions
Higher Education	
University of Rhode Island Biomedical Sciences	\$ 80.0
Rhode Island College Cybersecurity	\$ 55.0
Subtotal	\$ 135.0
State Archives and History Center	\$ 60.0
Housing and Community Opportunity	\$ 100.0
Green Economy	
Port of Davisville Infrastructure at Quonset	\$ 20.0
Municipal Resiliency	\$ 10.0
Newport Cliff Walk	\$ 8.0
Brownfields Remediation	\$ 5.0
Local Recreation Grants	\$ 5.0
Climate Resiliency and Public Access Projects	\$ 2.0
Subtotal	\$ 50.0
Total	\$ 345.0

Source: R.I. OMB, Fiscal Year 2025 Budget Proposal, Capital Budget

²⁰ Ibid; R.I. OMB, FY 2025 Budget Proposal, [Capital Budget](#). The next largest higher education bond referendum was for \$125.0 million, approved by the voters in 2014. Ibid.

²¹ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); FY 2025 Budget Proposal, [Capital Budget](#).

²² Ibid; R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#). While state bond referenda are rarely rejected by voters, a \$25.0 million bond referendum for a Heritage Harbor Museum was rejected in a very close vote (50.7% to 49.3%) in 2000.

²³ Municipal resiliency, brownfield remediation, local recreation, and climate resiliency funds would go to matching grant programs, with additional funds invested by local governments, non-profit, private and/or public entities. R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

to submission of the governor’s budget, the City of Newport received a \$11.0 million federal grant for repair of the Cliff Walk, presumably obviating the need for state bond funding for this project.²⁴

Bonds to fund environmental projects have been included in every ballot measure for the last 20 years. The governor’s proposed green economy bond for this year’s ballot differs somewhat from prior environmental bond proposals in that nearly half of the borrowing would be dedicated to port infrastructure. In contrast, the \$50.0 million green economy bond approved by the voters in 2022 directed \$38.0 million to resiliency, watershed restoration, conservation, brownfields remediation, open space, and recreation, with the remainder (\$12.0 million) allocated to an Education Center at Roger Williams Park Zoo.²⁵

At \$345.0 million, the total amount of the ballot initiatives proposed by the governor is less than the total for each of the last three referenda presented and approved by the voters.²⁶ The amount proposed for this year’s ballot is also roughly equivalent to the state-supported principal debt coming off the books in the next two years (\$170.1 million in FY 2025 and \$173.5 million in FY 2026), and is well within the benchmarks for state borrowing set by the Public Finance Management Board in its December 2023 debt affordability study.²⁷ Rhode Island voters have approved every bond measure placed on the ballot since 2008, and typically by wide margins.²⁸

American Rescue Plan Act Spending Revisions

Signed into law in March 2021, the federal American Rescue Plan Act (ARPA) allocated significant support to state and local governments to assist with expenses incurred during the COVID-19 pandemic. Under ARPA, Rhode Island state government received \$1.13 billion in State Fiscal Recovery Fund (SFRF) aid, as well as \$112.3 million in Capital Projects Funds. SFRF dollars must be obligated by December 31, 2024, corresponding to the first half of FY 2025. Obligated funds must be expended by December 31, 2026, corresponding to the first half of FY 2027.²⁹

To ensure that the state can meet federal deadlines for formally obligating funds, the General Assembly appropriated all remaining ARPA funding in the FY 2024 enacted budget. In the governor’s FY 2025 budget, funding for most projects is unchanged from the FY 2024 enacted budget, although the governor’s budget shifts unspent FY 2023 funding to FY 2024 for some projects. In a key proposed change, the governor seeks authority to direct funds at risk of not meeting obligation and spending

²⁴ N. Lavin, “[With federal money filling funding hole to repair Newport Cliff Walk, why bother with a state bond?](#),” *Rhode Island Current*, April 9, 2024.

²⁵ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#), [Capital Budget](#); R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#); RIPEC, [Rhode Island State Budget in Transition: Four Key Issues for FY 2025 and Beyond](#), January 2024.

²⁶ Bond referenda totaled \$400.0 million in both 2021 and 2022, and \$367.3 million in 2018. R.I. OMB, Fiscal Year 2025 Budget Proposal, [Capital Budget](#).

²⁷ Ibid; R.I. OMB, FY 2025 Budget Proposal, [Media Presentation](#); R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#). The 2023 Debt Affordability Study estimated that the state could borrow up to \$1.45 billion in new bonds in FY 2025 and FY 2026 based on affordability limits.

²⁸ R.I. OMB, FY 2025 Budget Proposal, [Capital Budget](#). The last bond measure rejected by the voters was a proposal in 2006 to borrow \$4.0 million for restoration of Fort Adams in Newport. It was rejected by a very close vote (50.5 percent to 49.5 percent). Ibid.

²⁹ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

deadlines to the unemployment insurance trust fund.³⁰ Subsequent to the submission of his budget, the governor has offered an amendment that would direct \$24.0 million in SFRF aid to the unemployment insurance trust fund.³¹

In a departure from the general practice followed by both the governor and the Assembly to utilize SFRF monies for one-time purposes, the governor's budget proposes to reallocate \$40.0 million in SFRF aid to cover operating expenses. The governor's proposed revised FY 2024 budget includes \$20.0 million in SFRF dollars to cover operating shortfalls at the Department of Corrections, discussed more fully below on pages 27-29. In addition, the governor's FY 2025 budget uses \$10.0 million in SFRF funds to partially defray an \$18.0 million deficit projected by the Rhode Island Public Transit Authority (RIPTA). The governor also proposes to reallocate \$10.0 million in SFRF dollars to support nursing homes for three months until October 1, 2024, when rate increases will take effect.³²

Personnel

The governor's proposed FY 2025 budget seeks to authorize 15,725.8 full-time equivalent (FTE) positions in state government, an increase of 88.9 (0.6 percent) over the enacted FY 2024 budget and an increase of 73.0 (0.5 percent) over the governor's proposed revised FY 2024 budget. The governor's requested FTE increase for FY 2025 includes positions to support statewide revenue and technology initiatives, a health and human services call center, and permanent staff for state parks and beaches.³³

If adopted, the level of proposed FTEs for FY 2025 represents the highest level of authorized positions since FY 2008, after which over 700 filled and vacant positions were eliminated throughout state government due to the Great Recession.³⁴ However, the number of vacant positions also has climbed significantly in recent years. The state's vacancy rate began to increase sharply in FY 2021, a product of decreased staffing levels during the pandemic as well as a voluntary retirement incentive program, peaking in FY 2022 at 11.9 percent. Since FY 2022, the vacancy rate has trended downward, and preliminary data from approximately halfway through FY 2024, indicates a vacancy rate of 10.0 percent.³⁵ The figure below, prepared by the Rhode Island House Fiscal Advisory Staff, depicts

³⁰ Ibid.

³¹ R.I. OMB, [Governor's Budget Amendment #12](#), April 22, 2024. After submission of his budget, the governor proposed an amendment that would reduce federal pandemic relief allocations for the South Quay Marine Terminal, COVID-19 Ongoing Response, Targeted Housing Development, Municipal Homelessness Support Initiative, and Housing Related Infrastructure programs in the total amount of \$61.6 million. R.I. OMB, [Governor's Budget Amendment #11](#), April 22, 2024.

³² R.I. OMB, FY 2025 Budget Proposal, [Media Presentation](#).

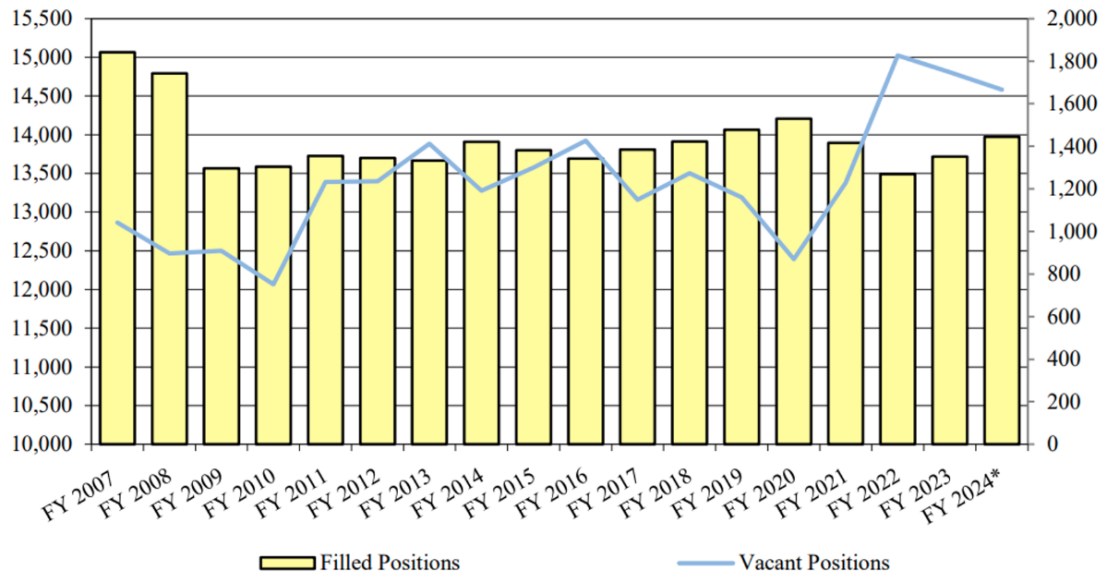
³³ Among the governor's request are 519.8 higher education FTEs dedicated to research or supported with third-party funds. R.I. House Fiscal Advisory Staff, Fiscal Year 2025 Budget Analysis, [State Government Personnel and Staffing](#).

³⁴ The FY 2009 budget as enacted included reductions in authorized state personnel of 629.7 FTEs. The FY 2010 budget as enacted further reduced authorized FTEs by 95.6 and the FY 2011 budget reduced authorized FTEs by 35.4. The number of authorized FTEs thereafter began to rise. Ibid; R.I. OMB, [FY 2009 Budget as Enacted](#); R.I. House Fiscal Advisory Staff, [FY 2010 Budget as Enacted](#); [FY 2011 Budget as Enacted](#).

³⁵ House Fiscal Advisory Staff, Fiscal Year 2025 Budget Analysis, [State Government Personnel and Staffing](#); R.I. House Fiscal Advisory Staff, FY 2023 Budget as Enacted, [Section VI: Special Reports](#).

authorized and filled positions from FY 2007 to January 2024, highlighting the increase in authorized FTEs and vacancies in recent years.

Average FTEs in Rhode Island State Budget, FY 2007 – FY 2024



**As of January 27, 2024*

Prepared by Rhode Island House Fiscal Advisory Staff in FY 2025 Budget Analysis

The governor’s proposed FY 2025 budget contains \$2.68 billion in personnel costs, \$1.28 billion (47.5 percent) of which is funded by general revenues. The governor’s proposed budget reflects the continuation of a trend of decreasing spending on personnel as a proportion of total general revenue spending; 23.3 percent of general revenue spending in the FY 2025 proposed budget is attributed to personnel, compared to 24.0 percent in the FY 2024 budget as enacted, 24.7 percent in FY 2023, and 25.7 percent in FY 2022.³⁶

³⁶ House Fiscal Advisory Staff, budget documents; RIPEC calculations.

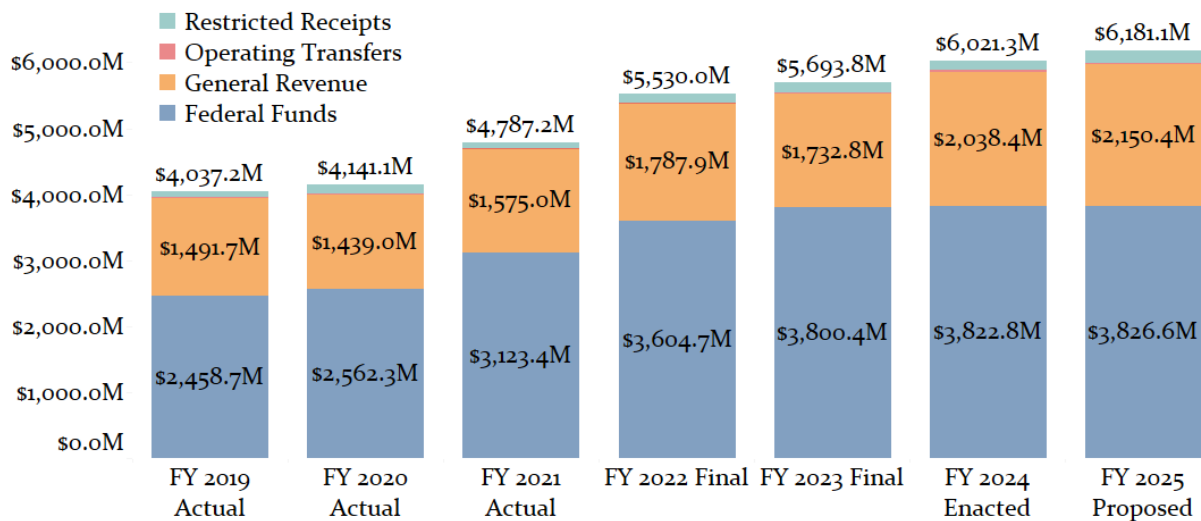
IV. Key Expenditure Issues

Health and Human Services

The health and human services function of Rhode Island state government encompasses a broad range of essential services delivered through five departments: the Executive Office of Health and Human Services; the Department of Behavioral Health, Developmental Disabilities, and Hospitals; the Department of Children, Youth, and Families; the Department of Health; and the Department of Human Services. These departments collectively are responsible for delivering medical assistance, economic support, services for at-risk children, and medical provider regulation, among many other functions. In total, health and human service expenditures represent by far the largest proportion of spending in the state budget—45.2 percent of total expenditures and 39.1 percent of general revenue spending in the governor’s proposed FY 2025 budget.³⁷

Health and human services expenditures represent a fast-growing component of the state budget—a trend that the governor’s FY 2025 budget proposal continues. As depicted in Figure 6, between FY 2019 and FY 2025 as proposed, total expenditures on health and human services increased from \$4.04 billion to \$6.18 billion—53.1 percent, and an average annual increase of 8.9 percent. During this same period, state general revenue spending on health and human services grew from \$1.49 billion to \$2.15 billion (44.3 percent).³⁸ The governor’s proposed FY 2025 budget recommends an increase of \$160.1 million in total spending on health and human services, including an increase of \$112.0 million in state general revenue spending, as compared to the enacted FY 2024 level.

Figure 6
Health and Human Services Spending by Source of Funds
FY 2019 - FY 2025 Proposed



Source: R.I. OMB, Budget Visualization; R.I. HHS: FY 2022 Budget Proposal

³⁷ R.I. OMB, [Rhode Island State Government: Budget by Funding Source](#); RIPEC calculations.

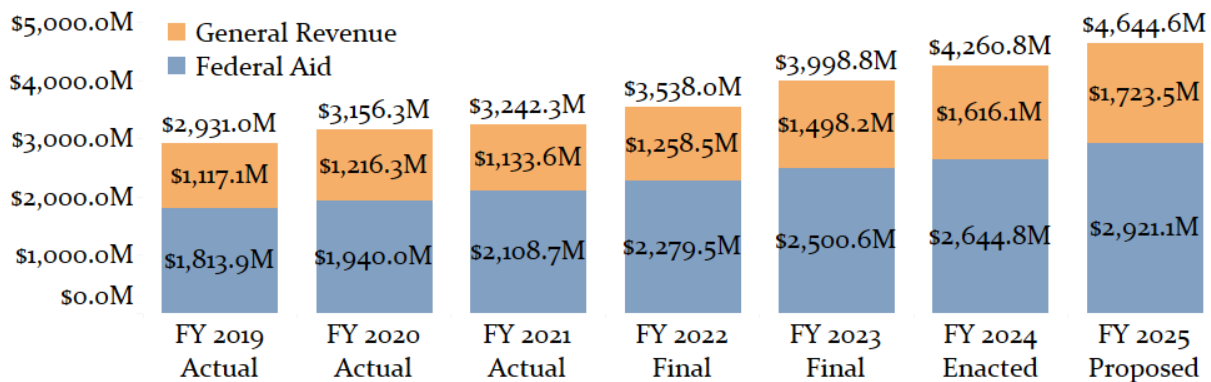
³⁸ Federal expenditures increased from \$2.46 billion to \$3.83 billion during the same time.

Medicaid

The primary driver of health and human services spending increases is the Rhode Island Medical Assistance Program—more commonly known as Medicaid. Medicaid is funded jointly by the states and the federal government through a matching formula, with federal funding carrying the larger share of expenditures in Rhode Island (in the governor’s proposed FY 2025 budget, the federal government’s share is 56.0 percent, with the state responsible for the remaining 44.0 percent). Medicaid expenditures make up an increasing share of health and human services expenditures, comprising 75.1 percent of total health and human services expenditures in the governor’s FY 2025 budget, up from 70.8 percent in the FY 2024 enacted budget.³⁹

Figure 7 depicts the total increase in Medicaid spending in Rhode Island’s state budget, from \$2.93 billion in FY 2019 to \$4.64 billion in the governor’s FY 2025 proposed budget, an increase of 58.5 percent over six years (average annual rate of 9.7 percent). The federal aid component of Medicaid funding has grown from \$1.81 billion in FY 2019 to \$2.92 billion in FY 2025, a 10.2 percent average annual increase. General revenue spending on Medicaid increased at a slower average annual rate (9.0 percent) over the same six-year period, from \$1.12 billion to \$1.72 billion, but still greatly outpaces the average annual increase in total general revenue spending during this period (6.7 percent). Some of the surge in Medicaid spending is attributable to the temporary uptick in enrollment of Medicaid beneficiaries while federal pandemic rules prohibited disenrollment, but much of the growth can be explained by the rising cost of health care, which tends to grow faster than inflation.⁴⁰

Figure 7
Medicaid Spending by Source of Funds
FY 2019 - FY 2025 Proposed



Source: House Fiscal Advisory Staff documents

³⁹ R.I. House Fiscal Advisory Staff, [FY 2025: Medicaid as Proposed](#); RIPEC calculations.

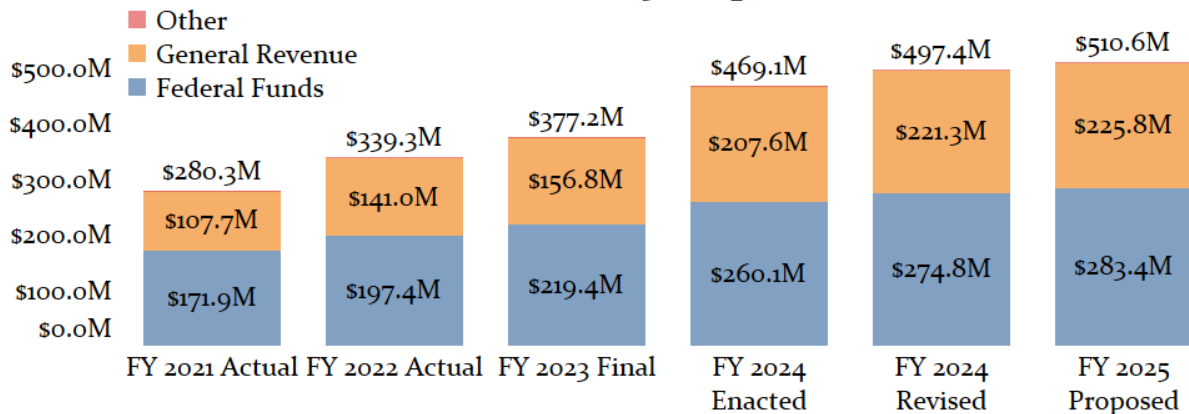
⁴⁰ Medicaid enrollments have increased from 308,955 in FY 2019 to 338,000 in January 2024, a five-year increase of 29,045 (9.4 percent). R.I. House Fiscal Advisory Staff, [Special Reports Medicaid: FY 2025](#); [Medicaid as Enacted: FY 2024](#); [Special Reports: FY 2023](#); [Special Reports: FY 2022](#); [Special Reports: FY 2021](#); [Special Reports: FY 2020](#). For more on the rising cost of healthcare compared to inflation, see: Kaiser Family Foundation, [“America’s Challenges with Health Care Costs,”](#) March 2024; Kaiser Family Foundation, [“How does medical inflation compare to inflation in the rest of the economy?”](#) July 2023; U.S. Department of Health and Human Services, [“Rhode Island Focused Program Integrity Review,”](#) April 2022.

For FY 2025, the governor is seeking to increase general revenue spending on Medicaid by \$107.5 million, or 6.7 percent, over the FY 2024 enacted level. Of this amount, the governor proposes to allocate \$20.4 million to fund increases in Medicaid reimbursement rates for behavioral health providers, home and community-based services, and children’s services in response to a 2023 Office of the Health Insurance Commissioner (OHIC) report recommending relatively large rate increases for these providers.⁴¹ The much greater portion of the increase in general revenue spending on Medicaid consists of reimbursement rate increases for hospitals, nursing homes, and other providers, as well as other spending increases projected by the November 2023 Caseload Estimating Conference and incorporated in the governor’s spending plan.⁴²

Developmental Disabilities

Another area of health and human services that has driven spending increases in this sector is the rapid expansion of funding for the Department of Behavioral Health, Developmental Disabilities, and Hospitals—specifically increased spending in the Division of Developmental Disabilities since FY 2022. Representing a relatively small but not insignificant proportion of health and human services expenditures (8.3 percent in FY 2025), total spending on developmental disabilities has increased from \$280.3 million in FY 2021 to \$510.6 million in the governor’s FY 2025 budget, as depicted in Figure 8. This change represents a four-year increase of 82.2 percent and an average annual increase of 20.5 percent. General revenue spending on developmental disabilities has seen an even more rapid rate of growth, increasing 109.7 percent since FY 2021—an average annual increase of 27.4 percent and nearly three times greater than the 34.9 percent growth in total general revenue spending during the same period.

Figure 8
Spending on Developmental Disabilities by Source of Funds
FY 2021 - FY 2025 Proposed



Source: R.I. OMB, Technical Appendix

⁴¹ OHIC recommended rate increases for a subset of providers, consisting of behavioral health providers (29.1 percent), home and community-based services (31.2 percent), and children’s services (11.3 percent). The governor’s FY 2025 budget proposal adopts OHIC’s recommended rate increases, although phased-in over three years, with a first-year cost of \$22.0 million in general revenue. OHIC, “[Social and Human Service Program Review: Final Report](#),” September 2023.

⁴² R.I. OMB, [Caseload Estimating Conference](#), November 2023. The November Caseload Estimating Conference increased general revenue expenditures for Medicaid by \$89.4 million over the enacted level.

Much of the growth in spending on the Division of Developmental Disabilities stems from a 2014 federal court consent decree, which obligated the state to make changes to services provided to the developmentally disabled in the context of requirements of the Americans with Disabilities Act. The original consent decree required the state to make systemic changes to its administrative processes and funding system, its model for providing support, and to increase its capacity. In October 2021, the state entered an action plan accelerating institutional reforms to avoid a contempt citation for failure to fully implement the provisions of the original consent decree.⁴³

These changes in services and the resulting spending increases connected with the consent decree have occurred while the population of those served by programs for the developmentally disabled has remained relatively stable. This has led to steep increases in annual costs per person served by the Division of Developmental Disabilities, from \$73,379 in FY 2021 to \$132,828 in the governor's proposed FY 2025 budget, an 81.0 percent increase.⁴⁴

K-12 Education

The governor's FY 2025 budget signals the winding down of more expansive, pandemic-era, hold harmless policies that have protected school districts from the financial consequences of significant enrollment losses.⁴⁵ The FY 2025 budget also incorporates the expiration of large allocations of federal COVID-era Elementary and Secondary School Emergency Relief (ESSER) funding, required to be expended by September 2024.⁴⁶ In the context of these converging forces, the governor also has proposed significant changes to K-12 funding.

Education Aid Proposals in the Governor's Budget

A key component of the funding formula for education—the primary mechanism for allocating state education aid—is the core instructional amount, which incorporates the average cost of educating students in Rhode Island, as well as in the neighboring states of Connecticut, Massachusetts, and

⁴³ Rhode Island was found to have a segregated system of workshops and facility-based programs which violated the Americans with Disabilities Act. The consent decree required the state to provide state-funded employment and daytime engagement in the broader community. U.S. Dept. of Justice, "[Department of Justice Reaches Landmark Americans with Disabilities Act Settlement Agreement with Rhode Island](#)," R.I. BHDDH, "[Developmental Disabilities: Consent Decree](#)." United States of America v. State of Rhode Island, [C.A. No. 13-442-JJM-PAS](#). The action plan included raising hourly wages for direct care providers for adults with developmental disabilities from \$13.18 to \$20.00 between FY 2022 and FY 2024. Gina Macris, "[\\$20/hr start for direct care workers for adults with developmental disabilities](#)," *R.I. News Today*, January 19, 2023; R.I. House Fiscal Advisory Staff, "[Presentation to the House Subcommittee on Human Services: Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals](#)," March 14, 2024.

⁴⁴ R.I. OMB, [FY 2025 Health and Human Services: Technical Appendix](#); R.I. OMB, [FY 2023 Health and Human Services: Technical Appendix](#); R.I. BHDDH Division of Developmental Disabilities, [Caseload Estimating Conference Testimony](#), October 27, 2023; RIPEC calculations.

⁴⁵ FY 2025 represents the last year in which inflated enrollment counts will be used to calculate formula aid. The enacted FY 2024 budget created an enrollment loss transition fund that would provide 40.0 percent and 25.0 percent in consecutive years of the per student foundational aid for each district experiencing enrollment losses year over year. The governor's FY 2025 budget proposal includes the last year of enrollment losses calculated using inflated, pandemic-era hold-harmless enrollments. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁴⁶ The \$312.3 million in federal dollars included in the governor's FY 2025 budget represents the smallest allocation of federal funds since 2019 and \$255.5 million less than allocated in the FY 2024 budget. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

New Hampshire. Under current law, the core instructional amount for FY 2025 is set to increase from \$11,876 to \$12,617 (6.2 percent) per pupil. The governor’s proposal would cap annual increases to the core instructional amount to the five-year average annual inflation rate—3.9 percent for FY 2025 (from \$11,876 to \$12,335).⁴⁷

At the same time, the governor’s budget proposes to increase education funding in some other areas, most notably by increasing the categorical funding bonus for multilingual learners (MLLs) from 15 percent to 25 percent of the core instructional amount for students in the most intensive program of instruction.⁴⁸ In the FY 2024 enacted budget, the Assembly increased MLL categorical funding from ten to 15 percent and required full funding of this category. The governor’s budget includes \$36.1 million for MLL categorical funding, an increase of \$16.6 million over the FY 2024 enacted level.⁴⁹ The governor’s budget also includes other proposed increases in education aid to K-12 schools, including \$7.1 million to fund 35 new Pre-K classrooms, \$800,000 to transition reduced-price meals to free meals for all qualifying students, and \$2.0 million for school construction aid. In total, the governor’s budget increases education aid to local education agencies (LEAs) by \$46.8 million, an increase of 3.2 percent over FY 2024.⁵⁰

In addition to LEA education aid, the governor is proposing \$15.0 million for math and reading coaches to be distributed by the Rhode Island Department of Education and \$5.0 million for the Learn365RI program, which provides after school learning opportunities for students.⁵¹ The proposed funding for Learn365RI consists of \$3.0 million in general revenues and \$2.0 million in SFRF aid.⁵² Adding these investments, the total FY 2025 increase for K-12 education is \$64.8 million, or 4.4 percent, over FY 2024. Figure 9 displays K-12 education spending by source of funds since FY 2019.

⁴⁷ The governor’s proposal provides a provision that whichever percentage is lower between the average cost of educational expenses of Connecticut, Massachusetts, New Hampshire, Rhode Island, or the five-year average annual inflation rate will be used to calculate the core instructional amount. For FY 2025, the provision acts as a limitation on the increase in the core instructional amount, but the language would have a limiting effect only when the five-year average is less than the annual increase in a given year. R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

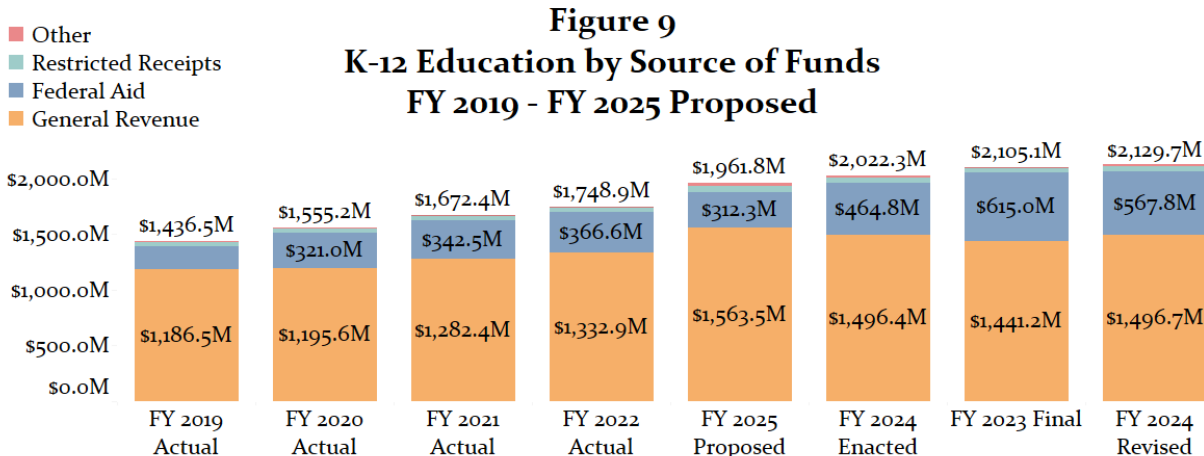
⁴⁸ Multilingual learners are identified by a process administered by RIDE. Students take an annual Assessing Comprehension and Communications in English State-to State assessment and are scored in one of six categories. If a student scores in categories one through three they qualify for the most intensive multilingual learner programs. For more see RIDE, [Rhode Island Regulations and Guidance for Multilingual Learners](#); University of Wisconsin, [WIDA](#).

⁴⁹ R.I. House Fiscal Advisory Staff, FY 2025 Budget Analysis, [Education Aid](#).

⁵⁰ Total Pre-K seats would increase to 3,000. The governor’s budget includes funding for an additional 633 seats. Ibid; R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

⁵¹ Ibid. The governor’s described \$63.7 million increase in education aid over FY 2024 includes the full \$5.0 million for Learn365RI in his FY 2025 proposal. Learn365RI was allocated \$4.0 million in the enacted FY 2024 budget, so the increase in education aid should only be \$1.0 million, bringing the actual increase down to \$59.7 million. House Fiscal Advisory Staff, FY 2024 Budget as Enacted, [Education Aid](#); RIPEC calculations.

⁵² For FY 2024, Learn365RI was funded through an SFRF allocation of \$4.0 million. Ibid.



Source: R.I. House Fiscal Advisory Staff budget documents, R.I. OMB budget documents

Fiscal Impact on Districts

The governor’s proposed education aid for FY 2025 results in challenging funding allocations for school districts compared to FY 2024—although recently updated student enrollment data has somewhat brightened that picture. Funding formula calculations under the governor’s FY 2025 budget are based on enrollment data from October 2023. Districts would have received an increase of \$14.3 million in total aid (1.4 percent) under the governor’s initial proposal and public charter schools would have realized a \$20.1 million increase (12.8 percent).⁵³ March enrollment figures include significantly higher overall enrollment counts; traditional district enrollment increased from 118,737 to 119,832 (1.0 percent increase), while charter schools also saw enrollment growth, though at a much smaller rate, increasing from 13,840 to 13,898 (0.4 percent).⁵⁴ Applying these updated enrollment counts, total education aid to LEAs—including districts, charters, and other LEAs—jumps to \$50.8 million, a \$13.8 million increase over the governor’s initial proposal.⁵⁵ School districts would see \$26.9 million more in aid over FY 2024, a \$12.6 million increase over the governor’s original recommendation. Charter schools would see a smaller increase in aid, from \$20.1 million to \$21.3 million, but would still receive a significantly larger proportion of the year-over-year state aid increase than in previous budgets: 41.9 percent of the total additional aid.⁵⁶

Driven by declining enrollments, the winding down of more generous hold harmless policies, and the proposed cap to the core instructional amount, the relatively small increase in spending for school districts in the governor’s original FY 2025 budget proposal is almost entirely attributable to the proposed increase in MLL categorical funding (\$13.7 million). Under this original proposal, 15 districts would experience a year-over-year decrease in state aid. Despite the increase in aid overall using the more robust March enrollments, 15 districts would still see reductions in educational aid

⁵³ Ibid; RIPEC calculations; RIDE, [FY 2025: Funding Formula Distribution](#). Aid includes foundational aid, group home aid, and categorical funding.

⁵⁴ RIDE, [FY 2025 Formula Calculation March Update](#); [FY 2025 Governor Recommended Formula Calculations](#); RIPEC calculations.

⁵⁵ Under the reference year provisions in Rhode Island law, the General Assembly is obligated to use the most recent data when calculating ADM for the purposes of the funding formula. R.I. Gen. Laws [§ 16-7-22](#); [§ 16-7-2-3](#).

⁵⁶ RIDE, [FY 2025 March Update Funding Formula Distribution](#); RIPEC calculations.

compared to FY 2024. This result can be explained by the concentration of MLL funding, which makes up most the aid increase (50.9 percent) but benefits a relatively small number of districts which educate the large majority of Rhode Island’s MLLs.⁵⁷ Figure 17, in the Appendix of this report, compares education aid to school districts as appropriated in the FY 2024 enacted budget, and as proposed for FY 2025—using both October and March enrollment counts.

The distribution of these aid allocations to school districts is due in part to the continued decline in public school enrollment statewide—especially in traditional districts. Since FY 2021, the last year unaffected by pandemic-era enrollment losses, enrollment statewide has fallen by 7,819 students (5.5 percent).⁵⁸ District schools have fared significantly worse, with enrollment falling by 11,242 students (8.7 percent) during the same period. Over the last year, based on updated student counts, enrollment statewide has dropped by 1,010 students (0.7 percent), with traditional districts losing 1,921 students (1.6 percent). By contrast, charter schools have seen their enrollments grow by 3,313 students (31.3 percent) since FY 2021 and by 910 students (5.9 percent) in the last year. Charter students now make up 10.2 percent of public school students statewide, up from 7.4 percent in FY 2021.⁵⁹

The aid distributions also can be explained by hold harmless policies pursued by the General Assembly over the past four fiscal years, which have insulated districts from the full impact of enrollment losses by providing substantial additional aid above amounts if calculated using actual enrollments.⁶⁰ While the governor’s budget includes hold harmless funding in the amount of \$20.4 million, this is \$5.3 million less than the \$25.7 million included in the FY 2024 enacted budget.⁶¹ Consequently, school districts are now experiencing more fully the impact of enrollment declines accumulated over the past several years.

While updated March enrollment figures result in a substantial increase in education aid over the governor’s original proposal, the governor’s recommended limit on increases to the core instructional amount results in significantly less education aid to school districts than under current law, even accounting for the generous increase in MLL funding. Using updated enrollment figures, districts would receive a \$34.8 million increase in aid over FY 2024 levels under current law—\$7.9 million greater than under the governor’s plan, also adjusted for updated enrollments.⁶² As depicted in Figure 18 in the Appendix of this report, every school district but Providence and Central Falls would receive less aid under the governor’s recommended plan than under current law.

⁵⁷ The top five districts in terms of population of MLL students—Central Falls, Cranston, Pawtucket, Providence, and Woonsocket—receive 91.2 percent of the total MLL funding increase, with Providence alone receiving 57.6 percent of the increase. RIDE, [Funding Formula Distribution: FY 2025 March Update](#); RIPEC calculations.

⁵⁸ Enrollment is determined by average daily membership, which is calculated by dividing the number of total days students are enrolled in an LEA by the number of school days in a year. RIDE, [Funding Formula Reference Guide](#), Spring 2018.

⁵⁹ RIDE, [Funding Formula Calculations](#).

⁶⁰ In FY 2022, the Assembly distributed state aid based on the highest level of enrollment from the previous two fiscal years, adding \$38.9 million in aid above formula calculations. In FY 2023, aid was calculated based on the highest level of enrollment from the previous three years, resulting in \$68.6 million in additional aid. RIPEC, [Rhode Island’s Funding Formula Revised](#), July 2023.

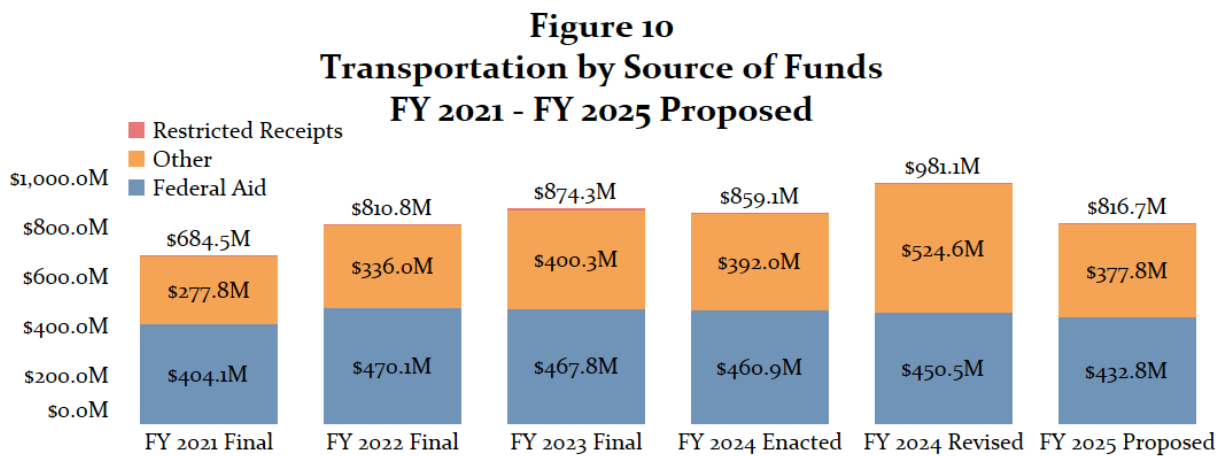
⁶¹ Hold harmless funding for FY 2024 and FY 2025 includes both enrollment loss transition funds and poverty loss stabilization funds. RIDE, [FY 2024 Funding Formula Calculations](#); [FY 2025 March Update Formula Calculation](#).

⁶² RIDE, [Funding Formula Calculations](#); RIPEC calculations.

Compared to current law, the governor’s proposal offers a decidedly mixed picture for the urban core districts: Central Falls, Pawtucket, Providence, West Warwick, and Woonsocket.⁶³ These districts rely most heavily on state funding and have the highest levels of students in poverty, and consequently are most adversely affected by the reduction in the core instructional amount, as well as the downstream effects on the bonus for students in poverty, which is based on the core instructional amount. Three of the urban core districts—Pawtucket, West Warwick, and Woonsocket—collectively would receive \$2.9 million less in total aid under the governor’s plan than under current law. However, the governor’s proposed increase in MLL funding benefits both Providence and Central Falls due to the substantial number of qualifying students in both districts.⁶⁴ Providence and Central Falls would respectively receive \$2.7 million and \$400,000 more in total aid under the governor’s proposal than under current law. The five urban core districts collectively would receive only \$250,988 more under the governor’s proposal than under current law.⁶⁵

Transportation

The governor’s FY 2025 budget includes \$816.7 million in total expenditures to fund the Department of Transportation (DOT). This represents a \$42.4 million reduction compared to the FY 2024 enacted budget—\$28.1 million less in federal funds and \$14.2 less from state sources. The governor’s proposed total spending on transportation would be the lowest amount since FY 2022, but still represents a 19.3 percent increase over FY 2021. Figure 10 shows spending by source of funds from FY 2021 to FY 2025 as recommended.



Source: R.I. OMB

⁶³ RIPEC defines these districts as the urban core because they have the state’s five lowest levels of property wealth per student and rank among the top six communities for highest proportion of students in poverty. Newport often has been categorized as an urban core community and West Warwick often has not been included in this category. For example, see R.I. Division of Municipal Finance, [Municipal Transparency Portal](#). While Newport ranks in the top five for proportions of students in poverty, it is not included among the urban core in this analysis because it also has the state’s fifth highest level of per student property wealth. RIDE, [Funding Formula Supporting Calculations: State Share Ratio](#).

⁶⁴ Providence would receive an additional \$6.7 million in MLL funding in the governor’s proposal, offsetting a \$5.0 million loss in foundational aid compared to current law. Central Falls would similarly receive an additional \$1.3 million in MLL funding, offsetting a \$0.9 million loss in foundational aid. Pawtucket, West Warwick, and Woonsocket do not have enough MLLs to make up the difference in lost foundational aid. RIDE, [Funding Formula Calculations](#); RIPEC calculations.

⁶⁵ Ibid.

The governor's revised request for FY 2024 includes a substantial increase of \$122.0 million (14.2 percent) in additional funding over the FY 2024 enacted budget. This request includes a reduction of \$10.4 million in federal funding offset by an increase in \$132.4 million in other state funds, including \$10.9 million in gas tax proceeds and \$91.8 million in highway maintenance funds. A significant increase in highway maintenance funds is requested to implement part of DOT's five-year improvement plan.⁶⁶

Infrastructure, Investment, and Jobs Act Matching Funds

The federal Infrastructure, Investment, and Jobs Act (IIJA), passed by Congress in 2021, authorizes large increases in federal transportation funding, but also requires increases in the state's matching contributions. From FY 2022 to FY 2024, the state received an average annual amount of \$348.3 million in federal funding under the IIJA, which required the state's matching contribution to increase by \$20.6 million in FY 2022. For FY 2025, the increase in the state's matching requirement over FY 2021 will total \$24.3 million.⁶⁷

Beginning in FY 2022, the state took steps to pre-fund this additional required state match by transferring general revenue surplus funds to the Rhode Island Capital Plan Fund in the total amount of \$183.3 million. Some of these funds were to be dedicated to other transportation needs, including backfilling roughly \$70 million in lost commercial truck toll revenue.⁶⁸ The prior transfers to the Rhode Island Capital Plan Fund are expected to cover the necessary IIJA state matching contributions through at least FY 2026.⁶⁹

Gas Tax

The gas tax is the largest state source of funding for transportation and a crucial component of financing Rhode Island's state match for federal funding. However, DOT and the R.I. Senate Fiscal Office project this source to yield declining returns over time, from \$157.2 million in revenue in FY 2024 to \$145.9 million in FY 2028, despite scheduled increases in the tax rate during this period.⁷⁰

Nationwide, the decline in gas tax revenues has been attributed to the growing popularity of hybrid and electric vehicles, improving fuel efficiency, rising gas prices, and the increased prevalence of working from home.⁷¹ Beginning in 2021, state policy has further incentivized fuel efficiency and the

⁶⁶ The five-year improvement plan includes three major projects: Providence Viaduct Northbound, Route 146 Reconstruction, and the Route 6/10 Bridge Reconstruction. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁶⁷ R.I. House Fiscal Advisory Staff, [FY 2024 Budget as Enacted: Transportation](#).

⁶⁸ Ibid.

⁶⁹ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁷⁰ Ibid; R.I. Senate Finance Committee, [Department of Transportation Testimony](#), April 9, 2024; R.I. Senate Fiscal Office, [Motor Fuel Tax](#). The gas tax is distributed primarily between DOT (61.2 percent), RIPTA (27.7 percent), and the Turnpike and Bridge Authority (9.2 percent). Indexed to the Consumer Price Index every other year, the tax was increased from \$0.35 to \$0.38 in FY 2024, with increases scheduled in FY 2026 and FY 2028. R.I. House Fiscal Advisory Staff, [FY 2025 Budget Analysis: Transportation](#).

⁷¹ Bill Kramer, "[The Gas Tax is Failing to Fund Transportation Infrastructure](#)," *Multistate*, September 2023; National Conference of State Legislatures, "[Road Worries: Sagging Gas Tax, Rising Traffic Safety Woes](#)," April 2023; Jennifer Ricciuti,

use of hybrid/electric cars with legislation requiring zero emission goals for cars and trucks, and a tax rebate program for environmentally friendlier vehicles.⁷²

The governor's FY 2025 budget provides slightly more optimistic projections for gas tax yields in FY 2025. The Governor's FY 2024 revised budget—based on estimates from the Office of Revenue Analysis in November 2023—includes \$157.2 million in gas tax revenue, a 1.5 percent increase over May 2023 estimates. The governor's FY 2025 recommended budget includes a projected \$157.2 million in gas tax revenue, a \$5.4 million (3.6 percent) increase over May estimates.⁷³ These increases appear to be temporary, as the Senate Fiscal Office, DOT, and the R.I. Office of Management and Budget still expect long-term declines.⁷⁴

Truck Tolls

The 2016 RhodeWorks program authorized tolling on large commercial trucks. The program began collecting tolls in 2018 and at its peak in FY 2022, collected \$38.4 million.⁷⁵ In September 2022, the U.S. District Court ruled the tolling program was unconstitutional and suspended collection of the tolls. The state is currently appealing this decision.⁷⁶ While the enacted FY 2024 budget included \$70.0 million to backfill the loss of commercial truck toll revenues for FY 2023 and FY 2024, the governor's budget does not include specific funding to cover the loss of nearly \$40.0 million in projected annual revenue loss in truck tolls for FY 2025.⁷⁷

RIPTA

RIPEC has previously reported on persistent structural deficits at RIPTA—projected to be \$18.1 million for FY 2025 and increasing in subsequent years.⁷⁸ The governor's proposed budget includes two provisions to address RIPTA's deficiency. First, it includes a one-time transfer of \$10.0 million in federal SFRF dollars to address the authority's needs in the short term. Additionally, the governor's

⁷² ["Impact of Lost Gas Tax Revenues Due to Sale of Electric Vehicles: Analysis and Recommendations for the 50 States,"](#) Analytics Capstones, 2020; Ulrik Boesen, ["Gas Tax Revenue to Decline as Traffic Drops 38 percent,"](#) Tax Foundation, March 2020; Tong Zhang and Paul Burke, ["The effect of fuel prices on traffic flows,"](#) Transportation Research: Policy and Practice, November 2020.

⁷³ Rhode Island's Act on Climate provides goals for climate-emission reductions with targets for reductions in 2030 and 2040, and the goal of net-zero emission by 2050. R.I. Gen. Laws § [42-6.2-9](#). Rhode Islanders can get a tax rebate for the purchase of new battery and fuel cell electric vehicles and plug-in hybrids (of up to \$1,500 and \$1,000, respectively), as well as for used electric and hybrid vehicles (up to \$1,000 and \$750, respectively). R.I. Dept. of Transportation, ["Drive EV."](#)

⁷⁴ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁷⁵ R.I. OMB; R.I. Senate Fiscal Office, [FY 2025: Department of Transportation](#); R.I. Senate Finance Committee, [Department of Transportation Testimony](#), April 9, 2024.

⁷⁶ R.I. House Fiscal Advisory Staff, [FY 2024 Enacted Budget: Transportation](#).

⁷⁷ Prior to suspension, DOT had contracted with Kapsch TrafficCom to design, build, operate, and maintain 13 gantries at a cost of \$41.8 million for construction and \$27.1 million to maintain operations. Since only 12 of 13 gantries were operational when the program was suspended, the \$27.1 million contract for maintenance was not executed. R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

⁷⁸ R.I. House Fiscal Advisory Staff, [FY 2025: Transportation](#). There also have been no alternate plans to make use of the existing gantries remaining from the commercial truck toll program.

⁷⁹ RIPEC, [Rhode Island's State Budget in Transition](#), January 2024.

budget directs RIPTA to conduct an efficiency review to improve cost-effectiveness, ridership, and administration, as well as exploring other transit delivery service models.⁷⁹

Washington Bridge

The westbound span of the Washington Bridge—which services up to 70,000 vehicles per day along I-195 between Providence and East Providence—was abruptly shut down in December 2023 after the discovery of two failed tie-rods which put the bridge in danger of collapse.⁸⁰ After three months of study and analysis, the governor announced that the bridge’s superstructure will need to be fully replaced and part or all of its substructure may also need replacement.⁸¹ The initial cost estimate for the demolition and bridge replacement is between \$250.0 million and \$300.0 million.⁸²

The governor’s office expects that, at a minimum, the federal government will provide 80 percent of the funding for the Washington Bridge replacement, which is typical for state transportation projects. In that case, the state would be required to provide matching funds of \$50.0 million to \$60.0 million. After the submission of his budget, the governor offered an amendment to reprogram \$20.0 million in SFRF funds to be used for priority transportation projects, including the non-federal share of the Washington Bridge replacement.⁸³ To address the remaining costs, the McKee administration has cited various federal sources, or changes to DOT’s ten-year plan, as potential funding sources. Officials also cited remaining funds from the \$78.0 million previously allocated for repairs to the bridge that were underway when the structural failures were identified.⁸⁴

Affordable Housing

Rhode Island continues to face significant challenges with housing affordability. Approximately 150,000 households throughout the state are cost burdened with respect to their housing.⁸⁵ Median home prices throughout the state have increased 80.2 percent since 2018, and only one community in the state has been identified as affordable to those making the state’s median renter household income.⁸⁶ Rhode Island has not increased production to meet this demand and close the gap in affordable housing. Last year the National Low Income Housing Coalition estimated the state would

⁷⁹ R.I. Senate Fiscal Office, [Governor’s FY 2025 Budget: First Look](#).

⁸⁰ R.I. House Fiscal Advisory Staff, [Budget Analysis: FY 2025](#); Governor’s Office, [“Governor McKee Shares Structural Analysis, Outlines Next Steps for the Washington Bridge,”](#) March 2024.

⁸¹ Ibid. A superstructure is the main part of a bridge that bears the weight of travel and includes the deck, slab, and girders. The substructure is the bridge’s foundation. U.S. Bridge, [The Different Components of a Bridge](#).

⁸² R.I. Governor’s Office, [“Governor McKee Shares Structural Analysis, Outlines Next Steps for the Washington Bridge,”](#) March 2024.

⁸³ R.I. OMB, [Governor’s Budget Amendment #12](#), April 22, 2024.

⁸⁴ Patrick Anderson, Wheeler Cowperthwaite, and Katherine Gregg, [“Westbound Washington Bridge need to be demolished. What it means for the state,”](#) *Providence Journal*, March 14, 2024.

⁸⁵ Cost burdened, as defined by the U.S. Department of Housing and Urban Development (HUD), is a household that spends 30 percent or more of income on rent or mortgage. HUD, [Payment Standards and Rent Burdens](#), March 2022. In Rhode Island, 72,000 renter households (45 percent of all renters) and 78,000 homeowner households (28 percent) are estimated to be cost burdened. Rhode Island Foundation, [Housing Supply and Homelessness in Rhode Island](#), April 2023.

⁸⁶ HousingWorksRI, [2023 Housing Factbook](#).

need over 24,000 additional affordable housing units.⁸⁷ Despite the growing need, Rhode Island historically has invested very little toward affordable housing. State funding has been limited to periodic general obligation bonds and a modest Housing Production Fund, which taken together place Rhode Island second worst in New England in spending per capita on affordable housing.⁸⁸

Recent Investments in Affordable Housing

Recognizing the need and the history of underinvestment in this area, starting in 2021 the General Assembly capitalized on federal COVID relief aid and dedicated \$259.8 million to affordable housing. The Assembly leveraged these federal dollars with additional leftover bond funds and modest amounts of general revenues, bringing the total investment to \$361.2 million.⁸⁹ While not included in the governor's FY 2025 budget recommendation, the state still has \$70.4 million in funds for affordable housing—consisting of \$59.0 million in remaining SFRF aid and \$11.4 million in state bond dollars and Housing Production funds.⁹⁰ The governor's proposal calls for a \$100.0 million bond dedicated to housing and an additional \$4.0 million in general revenue to further pre-fund the state low-income tax credit.⁹¹

The state has directed \$184.4 million to projects dedicated to the rehabilitation, preservation, or construction of affordable housing since FY 2021.⁹² Of that investment, \$154.5 million (84.2 percent) was dedicated to the construction of 1,063 net new affordable housing units—representing an average state subsidy of \$145,382.⁹³ If current spending trends hold constant and the state is required

⁸⁷ National Low Income Housing Coalition, "[The Gap: Rhode Island](#)," Accessed March 6, 2024. Rhode Island averaged 954 permits a year for new housing construction over the last ten years, far short of the between 2,224 and 3,087 estimated to be needed to keep up with new households and unit losses. U.S. Census Bureau, [Building Permits Survey](#); RIPEC calculations; R.I. Dept. of Housing, [House Finance Committee Handout](#), February 29, 2024. Rhode Island ranked 38th in per capita net housing production between 2012 and 2021, and last in the nation in 2021—the most recent year for which data are available. Rhode Island Foundation, [Housing Supply and Homelessness in Rhode Island](#), April 2023.

⁸⁸ Bond issues have been offered separately in 2006, 2011, 2016, and 2021, collectively totaling \$190.0 million, an average of about \$9.5 million a year. R.I. Dept. of Housing, [Building Homes Rhode Island](#); Rhode Island Foundation, "[Housing Supply and Homelessness in Rhode Island](#)," April 2023.

⁸⁹ Allocations for affordable housing were divided into multiple streams, including: \$100.0 million for affordable housing development, \$31.0 million for targeted housing development (including \$4.0 million for transit-oriented development), \$25.0 million for site acquisition, \$20.0 million for workforce or middle-income housing, \$10.0 million in pre-development funds, \$45.0 million for homelessness infrastructure, \$4.3 million for housing-related infrastructure, and \$24.5 million for home-repair or community revitalization. This \$259.8 million total came directly from SFRF allocations. The state leveraged this amount with \$70.4 million in previously approved bond dollars, \$28.0 million in general revenue to pre-fund a state low-income tax credit, and \$3.0 million in general revenues for the housing production fund. R.I. House Fiscal Advisory Staff, [FY 2025: Budget Analysis](#).

⁹⁰ Sixty-five million dollars in SFRF aid was put out for competitive bid in November 2023. RIHousing, [November 2023 Consolidated Funding Round](#). After the submission of his budget, the governor offered an amendment to his FY 2024 revised budget that would repurpose \$5.0 million in funds originally dedicated for production to the Homelessness Assistance Program. R.I. OMB, [Governor's Budget Amendment #11](#), April 22, 2024.

⁹¹ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#). If approved by voters, bond funds would be expected to be expended over three years and would not be available for allocation until at least January 2025.

⁹² RIHousing, [SFRF Program Dashboard](#); RIPEC calculations. The state has also issued pre-development loans and site acquisition funds to projects that have not been allocated additional funding through alternate streams of funding such as development of affordable housing funds. These projects are not included in the calculation, and it does not appear that the Department of Housing includes them in its calculations.

⁹³ *Ibid.* Two projects—the Central Street development and The Avenue—are excluded from this calculation. These projects have both new construction and substantial rehabilitation components. Data for the new construction components of the

to supply the same level of subsidy per affordable housing unit, the remaining \$70.4 million in funds could be expected to produce an additional 484 units, for a total of 1,547 units. When an additional 69 net new units from projects containing a substantial rehabilitation component are included, the state will have invested \$254.8 million and produced 1,616 net new units of affordable housing.⁹⁴ This would leave the state 22,384 affordable housing units short of the 24,000 units the state is projected to need—with the recent investment addressing 6.7 percent of the total need.⁹⁵

Further complicating the projections of affordable housing production are recent significant cost overruns for nearly all projects supported by SFRF funds. Figure 11 depicts the increase in costs from preliminary to firm commitments for SFRF projects to date. Of the 24 projects that received SFRF dollars for production, 21 experienced cost increases from preliminary to firm financing.⁹⁶ In total, projects necessitated an additional \$67.9 million over preliminary awards, including an additional \$47.8 million in

Figure 11
Cost Overruns vs. Underruns for Affordable Housing Projects Moving from Preliminary to Firm Financing, 2021 - 2024

Project	Cost Overrun (Underrun)	% Difference	Additional Subsidy
Ade Bethune	\$ 6,075,381	30.7%	\$ 1,721,481
Bernon Mills	\$ 2,407,608	9.7%	\$ 3,695,822
Bourne Mill III	\$ 4,980,526	29.1%	\$ 3,806,764
Broad Street Homes	\$ 4,196,715	20.8%	\$ 1,838,070
Central Street	\$ 1,440,886	7.1%	\$ -
Copley Chambers II & III	\$ 335,121	0.7%	\$ 4,877,850
Frenchtown	\$ 5,558,455	22.6%	\$ 9,213,546
Ivy Place	\$ 583,690	10.1%	\$ -
Lockwood Plaza	\$ 2,818,427	12.3%	\$ 680,000
Looking Upwards	\$ 250,000	4.9%	\$ -
Millrace	\$ 5,783,161	27.7%	\$ 3,689,479
Potters Tigray	\$ (1,811,768)	-10.1%	\$ -
Parcel 9	\$ 2,809,140	21.2%	\$ 2,282,320
Ralph aRusso	\$ (5,863)	-0.1%	\$ -
Residences at Riverside Square	\$ 1,469,941	33.8%	\$ 1,444,941
Reynolds Farm Senior Housing	\$ 1,974,352	13.4%	\$ 1,000,000
Riverside Landing	\$ (120,000)	-3.6%	\$ -
Rosebrook Commons	\$ 5,627,538	26.4%	\$ 5,065,538
Summer Street Apartments	\$ 4,963,450	6.3%	\$ -
Sutton Place	\$ 651,252	12.4%	\$ -
The Avenue	\$ 1,991,819	6.7%	\$ (1,320,000)
Villages at Manville	\$ 2,503,770	14.1%	\$ 1,423,148
Walker Lofts	\$ 10,543,700	24.7%	\$ 6,945,000
West House II	\$ 2,842,241	18.3%	\$ 1,454,969
Total	\$ 67,869,542	13.7%	\$ 47,818,928

Note: Some projects have not moved to firm financing, but have required an additional subsidy after preliminary financing.
Source: RIHousing; RIPEC calculations.

project are not separated from the total cost of the project, so analysis of the total construction costs for those units is not feasible.

⁹⁴ This assumes that all the remaining \$70.4 million will be used to produce net new affordable units. If only 84.2 percent of the money is used (as has been the case with spending to date), an estimated 408 units would be produced, bringing the total down to 1,471 units.

⁹⁵ In a recent report, RIPEC projected that the state would produce 2,340 net new affordable units after all funds were expended based on available data at the time. See: RIPEC, [Rhode Island State Budget in Transition: Four Key Issues for FY 2025 and Beyond](#), January 2024. Recently available, updated data suggest that this projection overstated the number of affordable units, and that this investment is likely to produce 724 fewer units than originally estimated. Since publication, several projects have seen increased costs moving from preliminary to firm financing, while others have yet to receive firm financing but have received larger state subsidies. For example see, RIHousing, [“Approval of Development of Affordable Housing 2 Program \(DAH-2\) Funding Awards,”](#) March 28, 2024. Also since publication, RIHousing has published a program dashboard containing SFRF awards to date, which also added projects to RIPEC’s calculations. RIHousing, [“SFRF Program Dashboard,”](#) Accessed April 8, 2024.

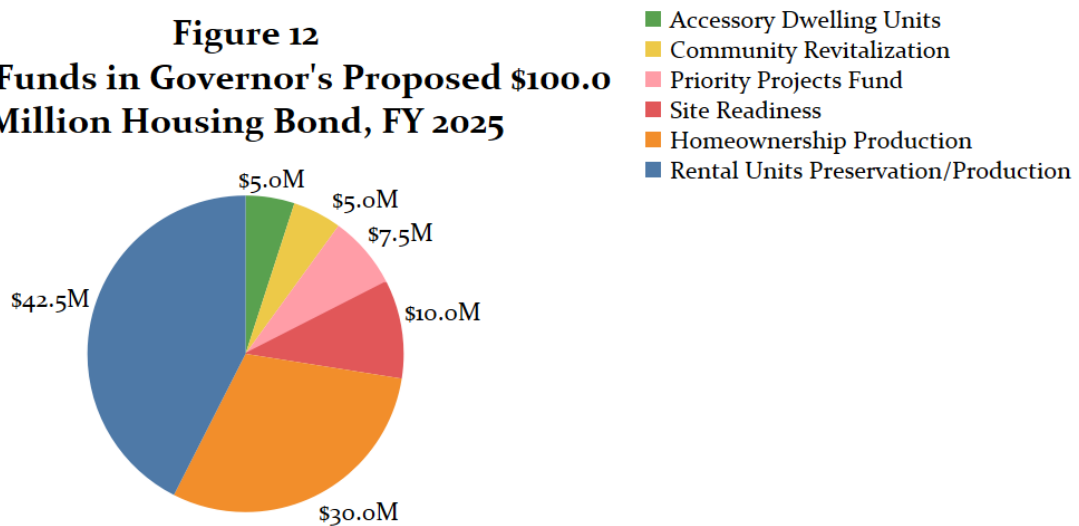
⁹⁶ Not all projects have received firm financing to date. The projects Reynolds Farm Senior Housing, Broad Street Homes, Ade Bethune House, and Walker Lofts have only received additional awards following preliminary financing through two separate consolidated funding rounds. Whether these projects are considered to have firm commitments is unclear. For more information see, RIHousing, [“Approval of Affordable Housing 2 Program \(DAH-2\) Funding Awards,”](#) March 28, 2024.

subsidies from the state for 15 of the 21 projects.⁹⁷ This pattern of underestimating costs associated with affordable housing production raises concern that once remaining funds are exhausted after awards are committed—expected in May or June of 2024—there will be no additional funding available to cover the potential cost increases needed to complete the projects.⁹⁸

Governor’s Proposed Housing Bond

To help address the shortage of available affordable housing units, the governor has proposed a \$100.0 million bond for housing and community opportunity, by far the largest such housing bond the state has ever issued. While the governor’s budget proposal does not include details as to how the bond proceeds would be allocated, the Secretary of Housing provided specific plans for the funding in testimony to the House Finance Committee in February 2024.⁹⁹ As depicted in Figure 12, this proposal sets aside \$42.5 million for the production and preservation of affordable rental units, and \$30.0 million for the production for homeownership units.¹⁰⁰ The bond also targets \$7.5 million for a Priority Projects Fund for vulnerable Rhode Islanders like veterans or seniors facing economic hardship, \$5.0 million to produce accessory dwelling units (ADUs), \$5.0 million for community revitalization, and \$5.0 million to mixed-use projects (projects that include commercial space or daycare centers). The final \$10.0 million would go to site acquisition, site readiness, and infrastructure to aid in the development of housing.

Figure 12
Use of Funds in Governor's Proposed \$100.0 Million Housing Bond, FY 2025



Source: R.I. Department of Housing, Testimony to House Finance Committee

⁹⁷ The sources of funding include one-time federal SFRF dollars, including development of affordable housing funds, community revitalization funds, middle-income program funds, and Rhode Island rebounds funds. Sources also include state bond money, specifically Building Homes Rhode Island funds.

⁹⁸ RIHousing, “[November 2023 Consolidated RFP Funding Round](#)”; R.I. Dept. of Housing, “[Department of Housing Updates](#),” Presentation to the Budget Subcommittee, March, 13 2024.

⁹⁹ R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); R.I. Dept. of Housing, “[House Finance Committee Handout](#),” February 29, 2024.

¹⁰⁰ For reference, BHRI IV appropriated \$6.2 million for the development of affordable homeownership units, but there were no dedicated set of funds specific to that purpose. R.I. Housing Resources Commission, “[Building Homes Rhode Island: Availability of Funds](#).”

Analysis of the most recent bond issue allocated through the Building Homes Rhode Island IV (BHRI) program provides insight into the amount of production the proposed bond might provide. As depicted in Figure 13, BHRI IV included homeownership and rental projects. Each new homeownership unit required an average state subsidy of \$155,115 and each new rental unit required an average state subsidy of \$127,671, with total costs of \$407,085 for homeownership and \$471,662 per rental unit.¹⁰¹ The governor’s proposed housing bond dedicates \$85.0 million to the production or preservation of affordable housing—\$55.0 million for rental units and \$30.0 million for homeownership.¹⁰² If current spending trends remain constant, this investment would produce an estimated 431 net new rental units and 193 net new affordable units for homeownership.¹⁰³

Figure 13
BHRI IV Production
(New Construction)

	Homeownership	Rental Units
Bond/One-Time Federal Investment	\$ 6,204,594	\$ 79,922,174
Affordable Units	40	626
State Investment Per Unit	\$ 155,115	\$ 127,671
Outside Investment	\$ 10,078,803	\$ 215,337,973
Bond/One-Time Federal Investment	\$ 6,204,594	\$ 79,922,174
\$ Leveraged	\$ 1.6	\$ 2.7
Total Development Cost	\$ 16,283,397	\$295,260,147
Affordable Units	40	626
Cost Per Affordable Unit	\$ 407,085	\$ 471,662

Source: R.I. Housing; R.I. Department of Housing; RIPEC calculations.

Corrections

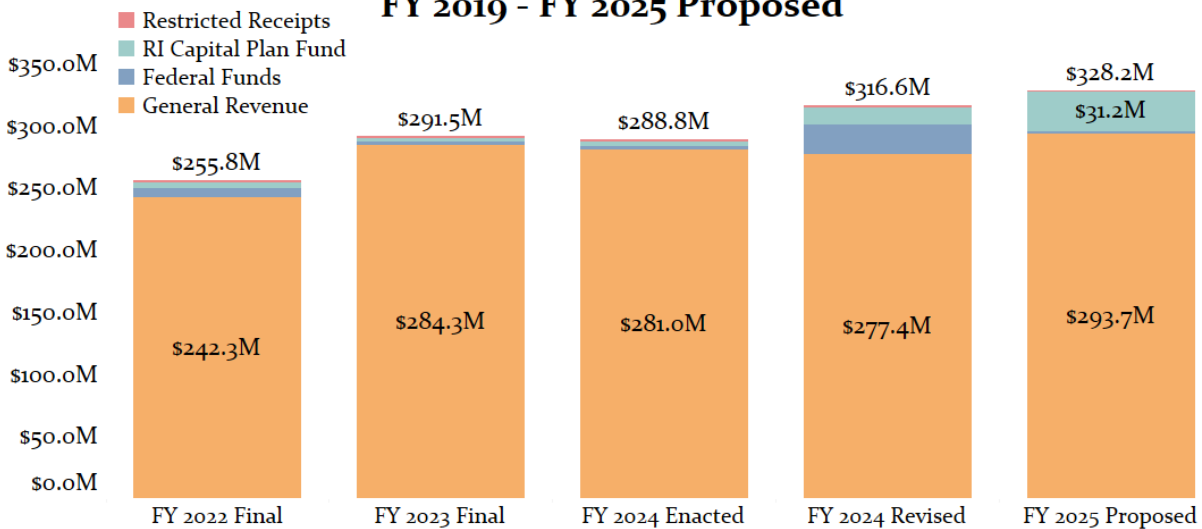
Spending for corrections increased sharply beginning in FY 2023, a trend that continues under the governor’s FY 2025 budget. As depicted in Figure 14, the governor is recommending total spending for the Department of Corrections of \$328.2 million, including \$293.7 million in general revenue expenditures. Since FY 2022, total spending for corrections has increased \$72.4 million (28.3 percent), representing an average annual increase of 9.4 percent.

¹⁰¹ BHRI IV included \$6.2 million in bond and federal one-time funds paired with \$10.1 million in outside investment (\$16.3 million in total development cost), which produced 40 new affordable homeownership units at a cost of \$397,156 per unit. BHRI IV dedicated \$39.6 million in bond dollars that were leveraged with \$40.3 million in federal one-time funds for a total state investment of \$79.9 million. This allocation was able to generate \$215.3 million in outside funding (\$295.3 million total) to produce 626 net new affordable rental units with a total cost per unit of \$471,662. RI Housing; R.I. Dept. of Housing.

¹⁰² This analysis leaves aside the \$10.0 million for site readiness and the \$5.0 million for ADUs. This is the first allocation dedicated solely to ADUs, which would make any analysis speculative. The site readiness dollars are not necessarily tied to the production of affordable housing units, so they are excluded as well.

¹⁰³ This assumes that the \$30.0 million portion of the bond will produce \$48.0 million in outside investment. It should also be noted that the Department of Housing provides that “at least” \$30.0 million would be for homeownership, so this amount could be higher. This analysis assumes that all the governor’s proposed bond dollars dedicated to affordable rental units would be used for production. Based on BHRI IV, this is unlikely to be the case. BHRI IV dedicated 81.3 percent of funds to new construction, with the remaining going to rehabilitation or preservation. If that pattern remains, the governor’s proposal would only dedicate \$44.7 million to production and—holding the state subsidy constant—the state would see the production of only 350 net new affordable units.

Figure 14
Spending on Department of Corrections by Source of Funds
FY 2019 - FY 2025 Proposed



Source: R.I. House Fiscal Advisory Staff documents

In the last few years, Department of Corrections spending has overrun authorized spending levels. The enacted FY 2023 budget authorized total spending for the Department of Corrections of \$256.3 million, but Department spending totaled \$291.5 million in the final accounting, \$35.2 million (13.7 percent) above the enacted level. The enacted 2024 budget set total appropriations for the Department of Corrections at \$288.8 million, however the Department is again projected to exceed this appropriation. In his budget submission, the governor proposes to revise the FY 2024 appropriation upward to \$316.6 million, an increase of \$27.8 million (9.6 percent), to be funded largely through an allocation of \$20.0 million in SFRF funds.¹⁰⁴

For FY 2025, the governor is proposing an increase of \$16.3 million in general revenue over the FY 2024 enacted level to bring the Department of Corrections' total general revenue expenditures to \$293.7 million. However, accounting for the \$20.0 million in SFRF monies used to balance the Department's budget in FY 2024, the governor's proposed level of general revenue expenditures for the Department for FY 2025 represents a reduction in the Department's budget compared to FY 2024, despite an increase in the assumed number of inmates from FY 2024 to FY 2025.¹⁰⁵

The main drivers of the spending increases in corrections appear to be staffing shortages and a delay in reconfiguring the density of housing to return to pre-pandemic levels. While authorized FTEs have remained relatively stable over time—1,416 in FY 2019 compared to 1,461 in FY 2025 (3.1 percent increase)—the Department has had difficulty filling these positions, having only filled 1,334 positions

¹⁰⁴ R.I. OMB, Fiscal year 2024 Budget Proposal, [Executive Summary](#); Fiscal Year 2025 Budget Proposal, [Executive Summary](#). The large jump in expenditures from FY 2022 to levels of spending for FY 2023 and FY 2024 is driven in part by the settlement of a collective bargaining agreement with the Rhode Island Brotherhood of Correctional Officers. R.I. House Fiscal Staff, [Fiscal Year 2024 Budget Analysis](#).

¹⁰⁵ The governor's FY 2025 request is based on 192 more inmates than assumed in the enacted FY 2024 budget and 74 more than assumed in the revised FY 2024 request. Ibid; R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

as of October 2023.¹⁰⁶ This vacancy rate has led to increased overtime costs, with the Department routinely spending over its budgeted allocation for overtime.¹⁰⁷ The continuation of pandemic-era housing policies also has contributed to the spending increase.¹⁰⁸ During the pandemic, the prison population was reduced and spread out to single-occupancy densities due to health and safety concerns.¹⁰⁹ While this practice was scheduled to end in late FY 2023 with housing returning to double-occupancy, density has remained relatively stable or even lower in some facilities.¹¹⁰ This has occurred while the prison population has declined from 2,665 in FY 2019 to a projected 2,470 represented in the governor’s FY 2025 budget request (7.9 percent decline).¹¹¹

The growth in spending on corrections coupled with the declines in the prison population have left Rhode Island with very high levels of spending per prisoner. Spending per prisoner has increased from \$92,826 in FY 2019 to \$132,866 in the governor’s proposed FY 2025 budget—an increase of 43.1 percent and an average annual increase of 7.2 percent. Historically, Rhode Island has had high per prisoner costs relative to other states. In 2020—the last year for which comparative data is available—Rhode Island had the fourth highest spending per prisoner in the country, nearly three times the U.S. total of \$45,800 per prisoner.¹¹²

¹⁰⁶ Ibid.

¹⁰⁷ R.I. House Fiscal Advisory Staff, [Staff Presentation to the House Finance Subcommittee on Public Safety](#), March 26, 2024.

¹⁰⁸ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

¹⁰⁹ The prison population has declined by 195 inmates since FY 2019 (a 7.3 percent reduction), although the governor’s FY 2025 budget projects a modest growth of 74 inmates (3.1 percent year-over-year increase). Ibid.

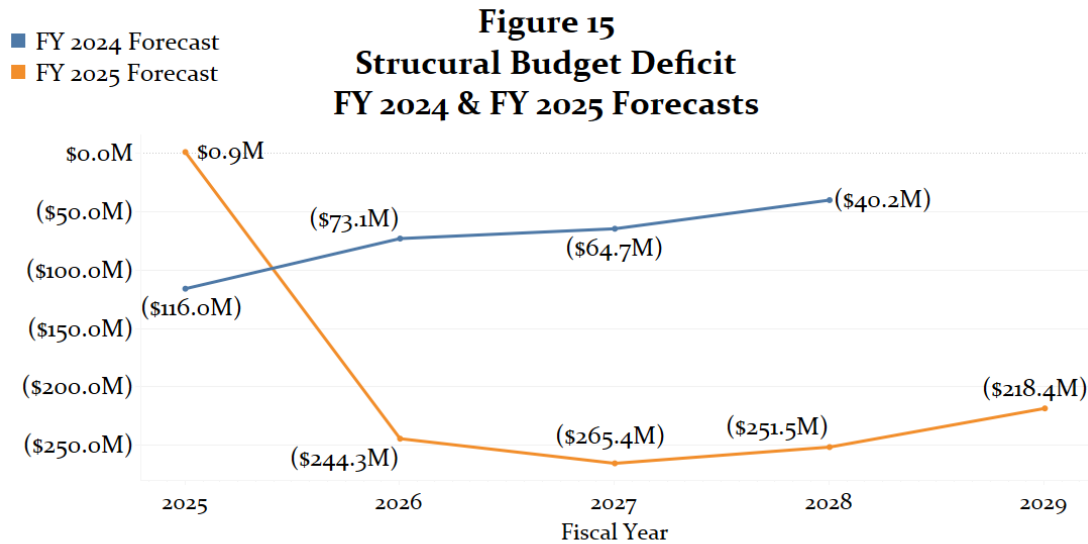
¹¹⁰ The Department has testified that it has “countless enemy, gang, transgender, and Prison Rape Elimination Act issues” that prevent closing housing modules. R.I. Dept. of Corrections, [“FY 2024 and FY 2025 Governor’s Budget Opening Remarks,”](#) March 2024.

¹¹¹ R.I. House Fiscal Advisory Staff, [Fiscal Year 2025 Budget Analysis](#).

¹¹² This ranks Rhode Island second in New England, behind only Maine. Bureau of Justice Statistics, [“Prisoners in 2020 – Statistical Tables,”](#) December 2021. Rhode Island has low incarceration rates compared to other states. Rhode Island had 124 prisoners per 100,000 residents and ranked 48th (third lowest) among states in 2022, behind only Massachusetts and Maine, which respectively ranked first and second. Rhode Island’s incarceration rate was nearly three times lower than the U.S. total (355 per 100,000 residents). The Sentencing Project, [U.S. Criminal Justice Data: Imprisonment Rate](#), 2022.

V. Budget Outlook for 2026 and Beyond

The governor’s FY 2025 budget includes financial projections of anticipated general revenues and expenditures for five fiscal years ending in FY 2029, as required by law.¹¹³ Rhode Island’s state constitution requires a balanced budget, and as depicted in Figure 15, the governor’s budget projects a slight surplus of \$0.9 million for FY 2025. However, significant structural deficits are projected for future fiscal years, beginning with a deficit of \$244.3 million in FY 2026 and reaching an apex of \$265.4 million in FY 2027 before declining to \$218.4 million in FY 2029.¹¹⁴



Source: R.I. OMB, FY 2025 Budget Executive Summary

The governor’s projected out-year deficit is derived from three components: 1) the use of one-time dollars to fund continuing expenses, 2) relatively constrained projected revenue growth, and 3) the anticipation that certain expenditures will outpace revenues. Regarding the first component, in a departure from consistent practice by the governor and Assembly over the past few fiscal years of dedicating one-time revenues to one-time expenditures, the governor has utilized most of the \$195.9 million surplus to fund continuing operating expenditures in his FY 2025 budget. While the governor’s budget does not separately identify spending funded by general revenue surplus funds, the governor’s outyear forecast identifies as one-time expenses only his proposed \$15.0 million for math and ELA coaches and some other smaller items.¹¹⁵ The allocation of \$40.0 million in SFRF dollars to cover operating expenses further adds to the structural issue connected with funding continuing expenditures with one-time revenues.¹¹⁶

¹¹³ State law requires that the state budget officer prepare a five-year final projection of “anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas.” R.I. Gen. Laws § 35-3-1(a)(6).

¹¹⁴ [Constitution of the State of Rhode Island](#), Art. IX, Sec. 16.

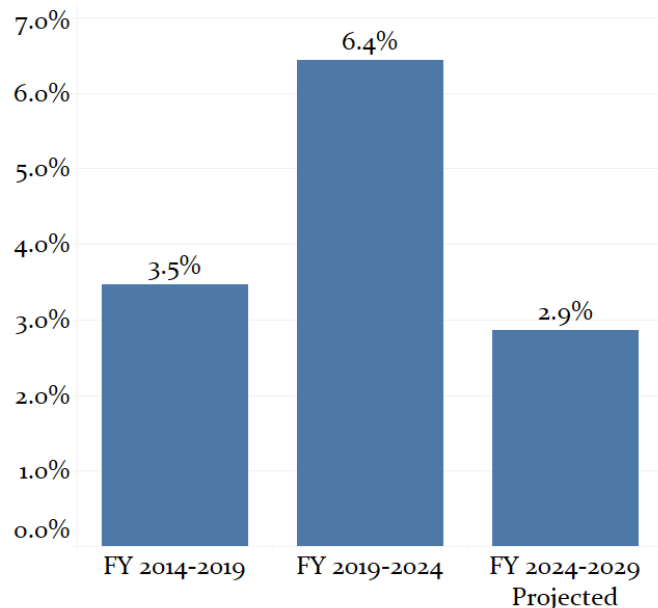
¹¹⁵ The governor’s outyear projections also assume that various economic development investments totaling \$9.8 million would continue through FY 2026 but would be eliminated thereafter due to sunset provisions. R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#).

¹¹⁶ The \$10.0 million allocated to the Department of Corrections was applied to a deficit in FY 2024 and would not result in a structural problem if the Department’s budget were fully funded in FY 2025. R.I. House Fiscal Advisory Staff, [Fiscal Year](#)

General revenue growth is projected to return to more historically typical levels after a period of large increases over the last few years—a result of both increased spending on goods during the height of the pandemic and higher inflation in recent years. As depicted in Figure 16, total general revenues are projected to increase at an average annual rate of 2.9 percent over the next five fiscal years (FY 2024-2029). This is significantly lower than the preceding five-year period (FY 2019-2024)—when general revenues increased at an average annual rate of 6.4 percent—and somewhat lower than the FY 2014-2019 average annual growth rate of 3.5 percent.¹¹⁷

Finally, the state projects high growth in a few spending areas relative to revenue growth. Grants and benefits are projected to grow at an average annual rate of 3.9 percent between FY 2025 and FY 2029, reflecting in part the governor’s proposed three-year implementation of the provider rate increases recommended by OHIC. State education aid, is projected to grow from \$1.51 billion to \$1.72 billion over four years, an average annual rate of 3.3 percent, which—while exceeding anticipated revenue growth—is significantly lowered by the governor’s proposal to place a cap on the per pupil core instructional amount used to determine funding formula aid.¹¹⁸

Figure 16
Five-Year Average Annual General Revenue Growth, Actual and Projected



Source: R.I. OMB FY 2025 Budget Proposal; Revenue Estimating Conference Reports; RIPEC calculations.

¹¹⁷ [2025 Budget Analysis](#). Subsequent to submission of his budget, the governor offered a proposed amendment that would provide \$16.6 million in SFRF dollars to the Homelessness Assistance Program. R.I. OMB, [Governor’s Budget Amendment #12](#), April 22, 2024.

¹¹⁷ Based on economic forecasting assuming limited job growth but steady wage growth, revenues from the personal income tax, the state’s largest source of general revenues, are projected to increase at an average annual rate of 4.0 percent between FY 2024 and FY 2029 (compared to 6.5 percent between FY 2019 and FY 2024). Sales tax revenues—including excise taxes—are projected to grow at an annual average rate of 2.9 percent between FY 2024 and FY 2029, significantly lower than average annual growth of 7.6 percent in the preceding five-year period (FY 2019 -FY 2024). Other revenues are projected to grow at a particularly sluggish average annual rate of 0.7 percent from FY 2024-FY 2029 (compared to 3.6 percent in the preceding five-year period), and business tax revenues are projected to increase at an average annual rate of 2.8 percent from FY 2024-FY 2029 (compared to 7.8 percent from FY 2019-FY2024). R.I. OMB, Fiscal Year 2025 Budget Proposal, [Executive Summary](#); [Revenue Estimating Conference Reports](#); RIPEC calculations.

¹¹⁸ Ibid.

VI. RIPEC Comments

After a series of budgets flush with abundant federal pandemic relief funding and large budget surpluses, Governor McKee's proposed budget for FY 2025 is his first spending plan constrained by more limited revenues. However, by relying on surplus dollars and, to a lesser extent, federal funding, to pay for state operating expenses, the governor's FY 2025 budget proposes increases in spending that exceed the rate of revenue growth. With these additional resources, the governor's FY 2025 budget does not fully reflect the more difficult budgetary choices anticipated in the next fiscal year and beyond.

The governor's use of one-time dollars to fund continuing expenses contributes to a sizable structural deficit, projected at nearly \$250.0 million for FY 2026 and higher in FY 2027 and FY 2028. Over the next few years, state general revenues are projected to grow at a rate of around 3.0 percent, comparable to the period before the pandemic, but dramatically lower than the 6.4 percent annual growth rate over the past five fiscal years. At the same time, growth of certain expenditures is projected to outpace revenues. Given these fiscal constraints, certain areas of spending deserve particular focus.

Representing nearly half (45.2 percent) of total expenditures in the state budget, health and human services expenditures are a fast-growing component of the state budget. In particular, state general revenue spending on Medicaid, which alone encompasses nearly one-third of all general revenue spending, has grown at an average annual rate of 9.0 percent since FY 2019—significantly higher than the overall rate of general revenue spending growth. For FY 2025, the governor is seeking to increase general revenue spending on Medicaid by \$107.5 million, or 6.7 percent over the FY 2024 enacted level.

As the second largest spending area of the state budget (representing 28.4 percent of general revenue spending in FY 2025), funding for K-12 schools also deserves special focus. School districts, particularly urban core districts, are at a critical financial juncture with the phase-out of hold harmless policies that have insulated districts from large drops in student enrollment and the expiration of pandemic-era federal funding. Moreover, the state's funding formula for education has failed to deliver adequate support to the state's poorest districts. While the governor's proposed increase in categorical MLL funding benefits some school districts—specifically Providence and Central Falls—all other districts receive less funding under the governor's proposed cap on the increase of the core instructional amount than under current law. Notably, the three remaining urban core districts—Pawtucket, West Warwick, and Woonsocket—all suffer large losses in aid under the governor's plan as compared to current law.

While a much smaller proportion of the state budget, transportation funding presents a critical long-term fiscal challenge for the state. There is a growing need for state revenues as greater federal funding allocations require greater matching contributions by the state. The potential for an additional state expense to match funding for replacement of the Washington Bridge and a sizable deficit at RIPTA add to the demands for increased state spending on transportation. Faced with this growing demand, revenues from the gas tax—the state's largest funding source for transportation—

are declining despite planned rate increases. Moreover, the state's truck toll program, which took in nearly \$40.0 million per year, has been suspended by a federal court ruling pending the state's appeal.

Rhode Island's serious housing affordability challenges also place pressure on the state's finances. Historically, Rhode Island has dedicated relatively little state funding to housing compared to other New England states. Starting in FY 2021, the General Assembly has made historic investments of \$361.2 million in affordable housing, funded in large part by SFRF aid. However, development costs and subsidy requirements have grown dramatically in recent years; for each new affordable unit, the total cost and average state subsidy are now approaching \$500,000 and \$150,000, respectively. If these trends hold constant, the state's historic investment in housing likely will produce only 1,616 affordable units, and the governor's proposed \$100.0 million housing bond—which would be by far the largest housing bond issued by the state—would produce no more than 431 net new rental units and 193 net new affordable units for homeownership. Further complicating projections of affordable housing production are recent significant cost overruns, which have required additional state subsidies for nearly all projects supported by SFRF aid.

Other expenditure issues in the budget deserve attention. Total spending in the Division of Developmental Disabilities has increased dramatically in recent years, growing from \$280.3 million in FY 2021 to \$510.6 million in the governor's FY 2025 budget request, an average annual increase of 20.6 percent. This increase in spending has occurred while the population served has remained relatively stable, resulting in a large jump in cost per person. The Department of Corrections has experienced similar sharp spending increases, with expenditures growing at an average annual increase of 9.4 percent since FY 2022 despite a stable inmate population during this period. Perhaps more problematic than the rate of growth in corrections spending is that the Department's spending has overrun its budgeted appropriations by wide margins over the past few years.

Lastly, despite challenging fiscal constraints, it is important for the state to improve its business tax climate, which ranks 41st highest (tenth worst) in the most recent Tax Foundation study.¹¹⁹ In his FY 2025 budget, the governor has avoided broad-based tax increases and has proposed to improve the state's tax competitiveness by extending the period that taxpayers may carry forward net operating losses to 20 years, bringing it more in line with the majority of states and on par with neighboring Massachusetts and Connecticut. In his budget, the governor also seeks authority to direct ARPA funds at risk of not meeting obligation and spending deadlines to the unemployment insurance trust fund. If adopted, this provision has the potential to improve the finances of the trust fund and reduce or stabilize unemployment insurance rates for employers.

Based on this analysis, RIPEC makes the following recommendations for consideration:

The General Assembly should curtail spending growth in crafting the FY 2025 budget. The Assembly should seek to limit the use of one-time revenues to fund continuing operating expenses in FY 2025, and thereby reduce the structural deficit for FY 2026 and beyond. Policymakers should bring spending growth in line with anticipated revenues.

¹¹⁹ RIPEC, "[RIPEC Analyzes Rhode Island's Business Tax Climate Index Ranking of 41st](#)," February 2024.

Policymakers should manage the growth of health and human services spending. The largest part of the state budget, health and human services is driving growth in overall expenditures, with Medicaid spending in particular increasing at rates above the growth in available revenues. Given the sheer size of Medicaid expenditures and constrained state revenues, it will become more and more challenging to raise Medicaid spending without crowding out other state spending priorities.

The Assembly should allocate state education aid to better support urban core districts. The state's K-12 funding formula should be reformed to better support students in poverty and multilingual learners, and to assist urban core districts facing the most serious fiscal challenges. The governor's proposed increase in categorical MLL funding helps some urban core districts—specifically Providence and Central Falls. However, the remaining urban core districts—Pawtucket, West Warwick, and Woonsocket—are acutely disadvantaged by the governor's proposed cap on growth of the core instructional amount.

Policymakers should develop a sustainable finance plan for transportation. Given the increasing demand for state funding for transportation and the projected decline in revenues from the gas tax, policymakers should consider revenue alternatives to develop a sustainable plan to finance the state's transportation needs.

The state should dedicate greater resources to affordable housing while also improving its return on investment. The governor's proposed \$100.0 million bond, if approved by the voters, is projected to produce a limited number of affordable units. Given the magnitude of the problem, the state should devote greater resources to affordable housing. At the same time, the state should improve its return on investment by curtailing the cost of developing and subsidizing affordable units.

The General Assembly should seek to continue to improve the state's business climate. Consistent with the governor's budget, the Assembly should continue to resist proposals to increase broad-based taxes and should approve the governor's proposals to reform Rhode Island's carryforward period for net operating losses—which is the shortest among states. The Assembly should also approve the transfer of unused ARPA funds to the unemployment insurance trust fund.

Appendix

Figure 17
K-12 Education Aid Comparison (October/March Enrollments)
FY 2024 Enacted vs. FY 2025 Proposed

District	FY 2024 Enacted	FY 2025 Gov. Proposed October	Change From Enacted	FY 2025 Gov. Proposed March	Change From Enacted
Barrington	\$ 11,101,246	\$ 11,830,429	\$ 729,183	\$ 11,862,138	\$ 760,892
Bristol-Warren	\$ 14,619,453	\$ 14,551,102	\$ (68,351)	\$ 14,575,802	\$ (43,651)
Burrillville	\$ 14,124,620	\$ 13,690,282	\$ (434,338)	\$ 13,658,173	\$ (466,447)
Central Falls	\$ 51,643,348	\$ 51,980,488	\$ 337,140	\$ 54,072,108	\$ 2,428,760
Chariho	\$ 16,669,124	\$ 17,805,882	\$ 1,136,758	\$ 17,830,819	\$ 1,161,695
Coventry	\$ 26,376,051	\$ 27,218,909	\$ 842,858	\$ 27,281,846	\$ 905,795
Cranston	\$ 74,422,251	\$ 77,789,379	\$ 3,367,128	\$ 78,078,678	\$ 3,656,427
Cumberland	\$ 24,359,167	\$ 25,876,633	\$ 1,517,466	\$ 25,993,150	\$ 1,633,983
East Greenwich	\$ 6,085,014	\$ 6,879,232	\$ 794,218	\$ 6,939,038	\$ 854,024
East Providence	\$ 39,186,557	\$ 38,578,165	\$ (608,392)	\$ 38,161,967	\$ (1,024,590)
Exeter-WG	\$ 7,269,662	\$ 7,516,404	\$ 246,742	\$ 7,551,871	\$ 282,209
Foster	\$ 1,222,365	\$ 1,270,055	\$ 47,690	\$ 1,279,284	\$ 56,919
Glocester	\$ 2,890,505	\$ 3,007,968	\$ 117,463	\$ 3,042,417	\$ 151,912
Foster-Glocester	\$ 6,659,257	\$ 6,620,942	\$ (38,315)	\$ 6,587,620	\$ (71,637)
Jamestown	\$ 794,918	\$ 668,621	\$ (126,297)	\$ 691,553	\$ (103,365)
Johnston	\$ 22,428,734	\$ 24,080,958	\$ 1,652,224	\$ 24,285,120	\$ 1,856,386
Lincoln	\$ 17,721,522	\$ 18,560,630	\$ 839,108	\$ 18,384,169	\$ 662,647
Little Compton	\$ 362,326	\$ 334,800	\$ (27,526)	\$ 336,357	\$ (25,969)
Middletown	\$ 7,897,254	\$ 7,278,525	\$ (618,729)	\$ 7,255,721	\$ (641,533)
Narragansett	\$ 2,256,136	\$ 2,192,472	\$ (63,664)	\$ 2,165,935	\$ (90,201)
New Shoreham	\$ 151,992	\$ 89,426	\$ (62,566)	\$ 89,012	\$ (62,980)
Newport	\$ 15,212,109	\$ 15,243,086	\$ 30,977	\$ 15,479,958	\$ 267,849
North Kingstown	\$ 11,921,360	\$ 13,313,799	\$ 1,392,439	\$ 13,215,928	\$ 1,294,568
North Providence	\$ 29,046,056	\$ 29,984,543	\$ 938,487	\$ 29,982,998	\$ 936,942
North Smithfield	\$ 7,606,635	\$ 7,968,587	\$ 361,952	\$ 7,862,533	\$ 255,898
Pawtucket	\$ 107,174,138	\$ 108,445,979	\$ 1,271,841	\$ 109,752,182	\$ 2,578,044
Portsmouth	\$ 3,593,688	\$ 3,497,208	\$ (96,480)	\$ 3,521,080	\$ (72,608)
Providence	\$ 282,866,333	\$ 282,567,411	\$ (298,922)	\$ 291,283,995	\$ 8,417,662
Scituate	\$ 3,717,597	\$ 3,613,934	\$ (103,663)	\$ 3,614,544	\$ (103,053)
Smithfield	\$ 8,926,874	\$ 9,861,896	\$ 935,022	\$ 9,908,419	\$ 981,545
South Kingstown	\$ 5,923,005	\$ 5,848,729	\$ (74,276)	\$ 5,882,024	\$ (40,981)
Tiverton	\$ 6,961,353	\$ 5,703,246	\$ (1,258,107)	\$ 5,723,859	\$ (1,237,494)
Warwick	\$ 45,898,470	\$ 46,379,654	\$ 481,184	\$ 45,853,854	\$ (44,616)
Westerly	\$ 8,781,097	\$ 8,547,185	\$ (233,912)	\$ 8,608,411	\$ (172,686)
West Warwick	\$ 37,983,651	\$ 39,260,453	\$ 1,276,802	\$ 39,267,547	\$ 1,283,896
Woonsocket	\$ 82,872,749	\$ 82,922,553	\$ 49,804	\$ 83,626,836	\$ 754,087
District Total	\$ 1,006,726,617	\$ 1,020,979,565	\$ 14,252,948	\$ 1,033,616,946	\$ 26,890,329

Source: RIDE, Funding Formula Distribution, Funding Formula Supporting Calculations, FY 2024 - 25; RIPEC calculations

Figure 18
Analysis of State Education Aid to Districts
Governor's Proposal vs. Current Law
FY 2025 (March Enrollment Update)

District	FY 2025 Governor March	FY 2025 Current Law March	Difference
Barrington	\$ 11,862,138	\$ 12,109,700	\$ (247,562)
Bristol-Warren	\$ 14,575,802	\$ 14,789,882	\$ (214,080)
Burrillville	\$ 13,658,173	\$ 13,944,127	\$ (285,954)
Central Falls	\$ 54,072,108	\$ 53,667,644	\$ 404,464
Chariho	\$ 17,830,819	\$ 18,156,900	\$ (326,081)
Coventry	\$ 27,281,846	\$ 27,855,063	\$ (573,217)
Cranston	\$ 78,078,678	\$ 79,248,956	\$ (1,170,278)
Cumberland	\$ 25,993,150	\$ 26,516,148	\$ (522,998)
East Greenwich	\$ 6,939,038	\$ 7,058,251	\$ (119,213)
East Providence	\$ 38,161,967	\$ 38,894,619	\$ (732,652)
Exeter-WG	\$ 7,551,871	\$ 7,665,716	\$ (113,845)
Foster	\$ 1,279,284	\$ 1,304,609	\$ (25,325)
Glocester	\$ 3,042,417	\$ 3,107,055	\$ (64,638)
Foster-Glocester	\$ 6,587,620	\$ 6,697,407	\$ (109,787)
Jamestown	\$ 691,553	\$ 697,994	\$ (6,441)
Johnston	\$ 24,285,120	\$ 24,688,039	\$ (402,919)
Lincoln	\$ 18,384,169	\$ 18,748,844	\$ (364,675)
Little Compton	\$ 336,357	\$ 344,752	\$ (8,395)
Middletown	\$ 7,255,721	\$ 7,379,322	\$ (123,601)
Narragansett	\$ 2,165,935	\$ 2,210,397	\$ (44,462)
New Shoreham	\$ 89,012	\$ 90,441	\$ (1,429)
Newport	\$ 15,479,958	\$ 15,623,782	\$ (143,824)
North Kingstown	\$ 13,215,928	\$ 13,498,341	\$ (282,413)
North Providence	\$ 29,982,998	\$ 30,341,111	\$ (358,113)
North Smithfield	\$ 7,862,533	\$ 8,040,581	\$ (178,048)
Pawtucket	\$ 109,752,182	\$ 110,806,185	\$ (1,054,003)
Portsmouth	\$ 3,521,080	\$ 3,592,332	\$ (71,252)
Providence	\$ 291,283,995	\$ 288,591,454	\$ 2,692,541
Scituate	\$ 3,614,544	\$ 3,692,261	\$ (77,717)
Smithfield	\$ 9,908,419	\$ 10,129,708	\$ (221,289)
South Kingstown	\$ 5,882,024	\$ 5,978,196	\$ (96,172)
Tiverton	\$ 5,723,859	\$ 5,847,129	\$ (123,270)
Warwick	\$ 45,853,854	\$ 46,757,995	\$ (904,141)
Westerly	\$ 8,608,411	\$ 8,774,448	\$ (166,037)
West Warwick	\$ 39,267,547	\$ 40,064,436	\$ (796,889)
Woonsocket	\$ 83,626,836	\$ 84,621,961	\$ (995,125)
District Total	\$ 1,033,616,946	\$ 1,041,535,786	\$ (7,918,840)

Source: RIDE, FY 2025 March Update Formula Calculations; RIPEC calculations.



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About the Rhode Island Public Expenditure Council

The Rhode Island Public Expenditure Council (RIPEC) is a nonpartisan and nonprofit public policy research organization dedicated to advancing fiscally responsible government, competitive tax policies, and economic opportunities for all in Rhode Island.

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