

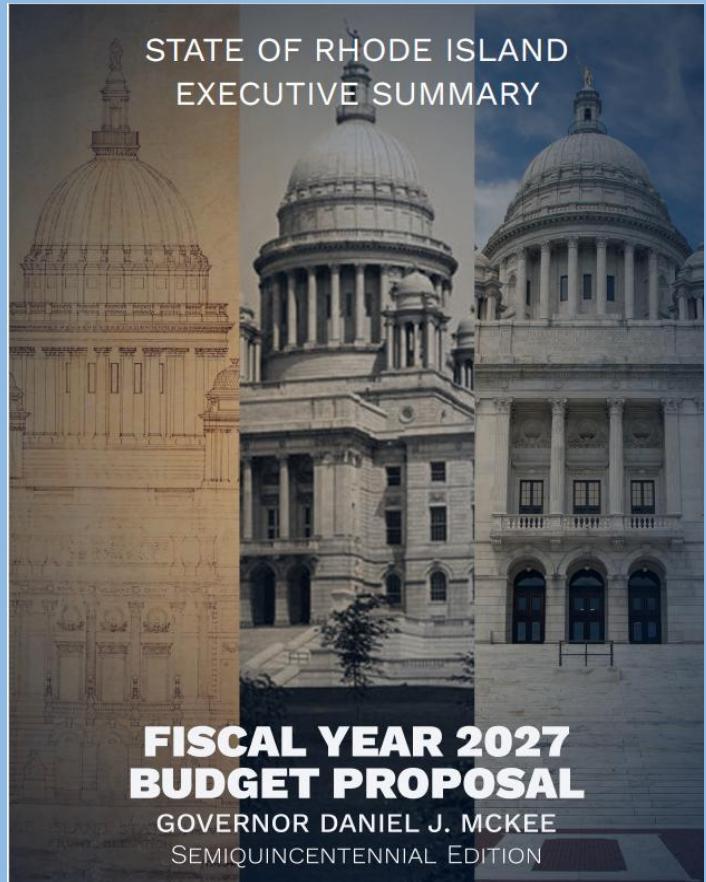


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FY 2027 Budget Overview

January 15, 2026

Prepared by the Office of Management and Budget (OMB)



“With the Trump Administration’s tariffs, its inaction to address cost of living, and the passage of H.R. 1, the State faces a different set of challenges. These challenges call for clear direction and decisive leadership – and this budget reflects both. My priorities are clear: putting more money back in families’ pockets, protecting the most vulnerable from President Trump’s safety net cuts, and keeping Rhode Island building to support good-paying jobs and long-term economic growth.”

- Governor Daniel J. McKee

Fiscal Conditions Impacting FY 2027 Budget

As of December, OMB forecast an FY 2027 deficit of \$101.3M. The following conditions are important to keep in mind when considering the State's fiscal position.

- State revenues are expected to grow on average by 2.4 percent annually, while expenditures are expected to increase at approximately 3.5 percent over the next five years.
- Three significant items are a substantial source of upward pressure on the FY 2027 budget and **were not included** in the deficit projection. They are:
 - H.R. 1's impacts on Medicaid and the Supplemental Nutrition Assistance Program
 - The Office of the Health Insurance Commissioner's recommended rates for social and human service programs
 - Other State agency requests in their operating budget submissions

H.R. 1's Increased Costs

In addition to individuals being at risk of losing their benefits because of H.R. 1, the law also increases states' share of SNAP administrative costs – and for the first time requires states to contribute to benefit payments.

SNAP Administrative Cost Sharing (\$9.3M) – FY 2027

- Effective October 1, 2026, the federal administrative match for the SNAP program goes down from 50% to 25%, thus increasing Rhode Island's rate from 50% to 75%. Rhode Island is budgeting an additional \$9.3M more in Fiscal Year 2027 for this cost, with the full-year impact projected to be around \$13M.

SNAP Benefit Cost Sharing (\$0 – \$50M) – FY 2028

- Effective October 1, 2027, states will pay a portion SNAP benefits based on their payment error rate. The cost share percentage ranges from 0% to 15% – the lower the error rate, the lower the contribution.

Responding to H.R. 1 Impacts on Medicaid and SNAP

The proposal includes \$19.3M for information technology systems, personnel, and resources to ensure Rhode Islanders keep their benefits and maximize federal funding

- SNAP Payment Error Rate Investments (\$8.5M General Revenue / \$18.0M All Funds)
- RIBridges System Compliance and Enhanced Support (\$7.8M General Revenue / \$19.9M All Funds)
- EOHHS FTEs and Contract Support (\$1.2M General Revenue / \$2.3M All Funds)
- Work Requirement Platform (\$0.8M General Revenue / \$1.9M All Funds)
- Volunteer and Workforce Development Capacity (\$1.0M General Revenue / \$2.9M All Funds)

Responding to H.R. 1's Impacts on Other Healthcare Costs

The Governor recommends leveraging limited State resources to ensure Rhode Islanders have access to critical healthcare and, when possible, remain insured.

Keeping Rhode Islanders Insured through HealthSource RI (\$9.5M)

- HealthSource RI (HSRI) estimates that the recent expiration of the enhanced Affordable Care Act subsidies could lead to 13,100 Rhode Islanders losing health coverage. The proposal backfills the subsidies to individuals under 200 percent of the federal poverty level. This keeps coverage affordable for approximately 20,000 individuals. Of this total, it is projected that 6,500 would let coverage lapse without this support.

Support for Uncompensated Care (\$4.2M General Revenue / \$10.0M All Funds)

- As some Rhode Islanders lose health coverage, more people will turn to hospitals for services. To help offset the losses for providing uncompensated care, the Governor recommends \$10.0M in Disproportionate Share Hospitals payments.

A Plan to Pay for H.R. 1 Investments and Costs

The Governor recommends creating a fourth tax bracket at 8.99% for income over \$1M in tax year 2027. The new bracket is projected to generate \$67.1M in FY 2027 and \$135.5M in FY 2028.

- Rhode Island has the lowest top marginal tax rate of New England states with personal income tax.
- Connecticut, Vermont and Massachusetts all have income brackets above Rhode Island's top income threshold.
- Establishing an additional income tax bracket at 8.99% for incomes over \$1M provides additional revenue from top earners to support vital safety net programs.

New England States' Highest Tax Bracket

State*	Percentage	Income Threshold
CT	6.99%	\$500k (single) / \$1.0M (joint)
MA	9.00%	\$1.1M (single and joint)
ME	7.15%	\$64,850 (single) / \$129,750 (joint)
VT	8.75%	\$260,225 (single) / \$323,825 (joint)
RI (current)	5.99%	\$186,450 (single and joint, TY 2026)
RI (proposed)	8.99%	\$1,000,000 (single and joint)

**New Hampshire does not have state income tax*

General Obligation Bond

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General Obligation Bond Overview

The budget recommends including six general obligation bond questions totaling \$600M on the November 2026 ballot.

Bond Question	Amount Requested
Higher Education Facilities	\$215M
Housing and Homeownership	\$120M
Economic Development	\$115M
Cultural Economy	\$50M
Career and Technical Education Grants	\$50M
Green Economy and Clean Energy	\$50M
Total	\$600M

Higher Education (\$215M)

URI Integrated Health Building (\$105M)

- Construct a facility to house the College of Nursing and support interdisciplinary education with the Colleges of Health Sciences and Pharmacy

RIC Adams Library (\$50M)

- Renovate the library to accommodate a student success and career readiness center

CCRI Workforce Innovation Center (\$60M)

- Build a facility on the Warwick Campus to serve as a regional hub for career and technical education



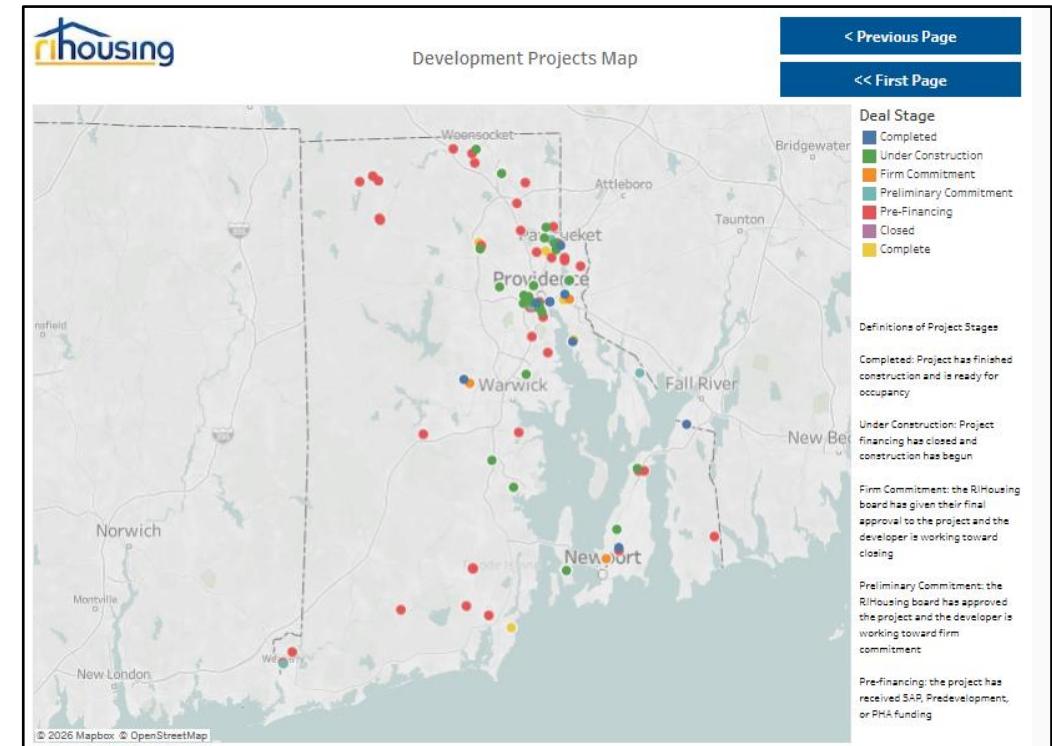
The James P. Adams Library provides students and faculty with the services necessary to support and improve instruction and learning consistent with the educational programs of Rhode Island College.

Housing and Community Development Bond (\$120M)

Ballot measures in 2021 and 2024 plus an investment of pandemic-era federal funds provided approximately \$400M toward housing development. The Governor recommends adding \$120M.

The funding would increase and preserve the State's affordable housing supply through redevelopment, new construction, property acquisition, and infrastructure improvements. Of the \$120.0M in funding, \$25.0M would go toward producing housing units for homeownership.

Developments Financed by State Fiscal Recovery Funds



Economic Development (\$115M)



The Quonset Business Park employs about 15,000, houses more than 250 companies, and is a top 10 port in North America for auto import.

Site Development (\$70M)

- Create pad-ready locations and/or facilities in the Quonset Business Park
- Land acquisition, preparation, and investments in the I-195 District

Growth Industry Infrastructure (\$45M)

- Infrastructure, facilities, projects, and investments that support RI's ocean, defense, life sciences, data analytics, and related industries

Green Economy and Clean Energy (\$50M)

Initiative	Amount	Description
Resilient Rhody Fund	\$20M	Assist municipalities in improving resilience of infrastructure and vulnerable coastal habitats
Energy Efficiency Infrastructure	\$10M	Finance energy efficiency infrastructure
Facilities Improvements	\$8M	Renovate and repair recreational facilities and construct new facilities and parks
Narragansett Bay Water Restoration	\$7M	Restore and protect Narragansett Bay's water quality
Brownfields Remediation	\$3M	Offer up to 80-percent matching grants for remediation projects
Local Recreation Projects	\$1M	Offer up to 80-percent matching grants to acquire, develop, or rehabilitate recreational facilities
Marine Infrastructure Pier Development	\$1M	Protect and repair marine infrastructure

CTE (\$50M) and Cultural Economy (\$50M)

Career and Technical Education

- Finances the creation of new career and technical education programs and improvements to existing programs across Rhode Island's local education agencies

Cultural Economy

- **State History Center (\$45M):** Construct a facility to display the State's founding documents and provide space for rotating exhibits rooms for events, functions, and programming
- **State Preservation Grants Program (\$5M):** Serves as matching grant opportunities for municipalities and nonprofits to preserve and renovate historic sites that are open to the public



Operating Budget Initiatives

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K-12 State Education Aid

The Governor recommends investing \$17.5M more in per-pupil education formula aid. This represents a 3.1 percent increase per pupil over FY 2026.

- The funding formula was calculated using enrollment data from October 2025
- 3 percent was added to the student success factor – currently an additional 40 percent for students in poverty – for all local education agencies. This increases provides an additional \$14.2M in aid to K-12 education.
- High-cost special education categorical funding was increased by \$2.5M – from \$17.5M in the current year to \$20.0M in FY 2027

Beyond the funding formula, the proposal includes \$2.0M for Learn365RI in making education a 365-day per year endeavor. The funds complement prior investments made by the Governor.

Other Initiatives

Funding First Year of Recommended OHIC Rates

- As previously mentioned, the proposal provides \$23.0M in general revenue for the social and human services provider rates, capping the gross rate increase to the lower of either the OHIC recommendation or the equivalent Medicare rate

Increasing Rates for Hospitals, Nursing Homes and FQHCs

- Aligns inflationary adjustments with revenue growth by providing a 2.5-percent increase

Supporting Organizations and Older Rhode Islanders

- Provides \$2.0M to the Rhode Island Community Food Bank – a \$1.0M increase over FY 2026; provides \$0.6M to Planned Parenthood of Southern New England; and increases senior services support from \$1.6M to \$1.8M

Reopening a Neighborhood at the RI Veterans Home

The Governor recommends investing \$3.0M to partially reopen the Foxtrot Neighborhood that will provide 16 additional beds, which is half of the neighborhood's capacity



- The neighborhood was closed during the pandemic due to staffing shortages
- The investment includes 24.0 FTE positions, of which 22.0 provide direct care and facility operating support. They are:
 - 12 Certified Nursing Assistants
 - 4 Cooks
 - 3 Registered Nurse A
 - 3 Registered Nurse B

Transportation

Closing RIPTA's Projected FY 2027 Deficit

- Increases annual Highway Maintenance Account funding by \$9.3M to support the Rhode Island Public Transit Authority's (RIPTA) operations. RIPTA projects a total operating shortfall of \$13.8M in FY 2027, with the remaining deficit addressed through the following recommended additions:
 - \$3.5M in Rhode Island Capital Plan Funds for bus purchases
 - \$1.0M in additional cruise operator fees

RhodeRestore

- Provides \$10.0M – an increase of \$3.5M over FY 2026 – to continue defraying municipalities' costs to build and maintain roads, bridges, and sidewalks

Commerce

- **Destination Marketing (\$1.5M):** Invests in tourism marketing in support of airline routes to Rhode Island T.F. Green International Airport.
- **Innovation Initiative (\$1.0M):** Incentivizes innovation and entrepreneurship in sectors such as STEM, design, and manufacturing. Three programs make up the portfolio: Innovation Vouchers, Network Matching Grants, and the Invention Incentive.
- **Main Street Streetscape Improvement (\$1.0M):** Awards grants or loans on a competitive basis for improvements to commercial districts, such as enhanced sidewalks, new street furniture, new way-finding signage, upgraded building facades, and improved street lighting.
- **Placemaking (\$0.5M):** Funds short- and long-term projects aimed at developing place-based events programming and developing new attractions.
- **Advanced Industry (\$0.25M):** Showcases RI's strengths in innovation, research, and industry to attract sustained investment from government, industry, and the private sector.

Other Revenue Sources

Tax Amnesty

- Launches a tax amnesty program to incentivize delinquent taxpayers to pay outstanding taxes owed to the State. The program is projected to generate \$26.3 million in FY 2027.

Decoupling from H.R. 1 on Research and Development Provision

- The Governor proposes permanently decoupling from H.R. 1's provision that allows business to fully deduct costs related to research and development in year they were incurred. Before Congress passed H.R. 1, these expenses were required to be amortized over five years. Decoupling is projected to save Rhode Island approximately \$22.6M in both Fiscal Years 2026 and 2027.

Cigarette and Cigar Tax Changes

- Increases the per-pack cigarette tax from \$4.50 to \$5.25 (\$6.6M); repeals the cigarette stamp discount (\$0.8M); and raises the cigar tax cap (\$0.6M)



Affordability for All

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Phasing Out the Social Security Tax



Rhode Island is one of eight states that tax Social Security benefits. The Governor recommends fully exempting retirees from the State income tax through a three-year phaseout.

Current Law: Most retirees are exempt if they have reached full retirement age AND their adjusted gross income is below \$107,000 (single filer) or \$133,750 (joint filers)

Beneficiaries: About 43,000 Rhode Islanders are exempt under current law. Eliminating the tax would extend benefits to 32,000 more residents.

Healthcare Costs: Premium growth and broader healthcare cost inflation disproportionately impact older Rhode Islanders, whose consumption patterns are more heavily weighted toward medical services and whose income streams are relatively inelastic

Tax Year 2027	Tax Year 2028	Tax Year 2029
Age Threshold Eliminated; relief to 9,200 resident taxpayers	Income Threshold Increased to \$165,200 / \$206,550; Relief to additional 11,600 residents	Income Threshold Eliminated; Relief to additional 11,200 residents Tax is eliminated

Creating the State's First Child Tax Credit



Converts the dependent deduction into a fully refundable \$325 child tax credit so that all Rhode Islanders with dependents benefit.

Current Law: Roughly resident 31,200 filers – 26 percent of all filers with dependents – earn too little to have the State income tax liability necessary to benefit from the dependent deduction

Beneficiaries: Changing the current deduction to a tax credit does not impact families benefitting and extends the benefit to lower- and middle-income households. A family of four with two children would receive \$650 per year.

Cost: The initiative would lower personal income tax revenue by \$14.7 million in FY 2027 and \$29.7 million in FY 2028, which represents the full-year impact

According to the National Conference of State Legislatures, the federal government, the District of Columbia, and 17 states (including Maine, Massachusetts, and Vermont) offer child tax credits.

State	Credit Amount Per Dependent
MA	\$440
ME	\$300
VT	\$1,000 (under age of 5)

In addition to providing \$9.5M to backfill the expired Affordable Care Act enhanced subsidies for a portion of the impacted population, the Governor recommends:

Curbing Healthcare Spending Growth

- To rein in rising healthcare costs, the budget proposal empowers the Office of the Health Insurance Commissioner (OHIC) to set annual cost growth targets and establish requirements for payers, such as commercial insurers and public payers for Medicare and Medicaid. Any payer whose spending growth exceeds the growth target in any two out of three performance years may be required to develop and implement a performance improvement plan, with enforceable penalties.

Requiring Pharmacy Benefit Manager Transparency

- Pharmacy Benefit Managers would be required to report detailed information to OHIC on rebates, retained rebates, spread pricing, administrative fees, and core business practices, with public disclosure structured to protect legitimate trade secrets. This is designed as an essential first step toward addressing prescription drug costs.

Implementing the Line-Item Veto

- Empowers the Governor to strike specific line items from an appropriations bill without having to approve or veto the entire. Even with line-item veto authority, the General Assembly would be able to override any vetoes with a three-fifths vote in both chambers. Governors in forty-four states have line-item veto authority to control spending.

Repealing Gas Tax Increase

- Undoes the 2-cent motor fuel tax increase enacted by the General Assembly in the Fiscal Year 2026 Budget. The decrease from 40 cents to 38 cents is projected to save Rhode Islanders \$8.6 million in Fiscal Year 2027. The 2.0 cents were used to pay off motor fuel bonds, and as of December 1, 2025, the State had defeased all outstanding motor fuel bonds. RIPTA will continue to receive two cents of the gas tax, as enacted last year.

Converting the Hope Scholarship from a Pilot to Permanent Program

- Makes the Hope Scholarship, which provides in-state students their junior and senior years tuition at Rhode Island College, a permanent program after being established as a pilot in fall 2023.

\$1B in Ratepayer Relief Over Five Years



The Governor's budget proposal delivers significant utility bill relief over the next five years by reforming State programs and taxes that account for approximately 25 percent of customers' energy bills

H.R. 1 repealed clean energy investment and production tax credits while recent federal actions have increased energy costs through tariffs and permitting constraints, limiting clean energy supply and raising the cost of compliance with existing programs.

- Rhode Island ratepayers should not pay the price for Trump's chaos in Washington.

The Governor's proposal moderates near-term utility costs by expanding eligibility for zero-emission technologies, aligning Rhode Island's programs with peer states, adjusting compliance schedules, and recalibrating ratepayer-funded programs to affordable and sustainable levels.

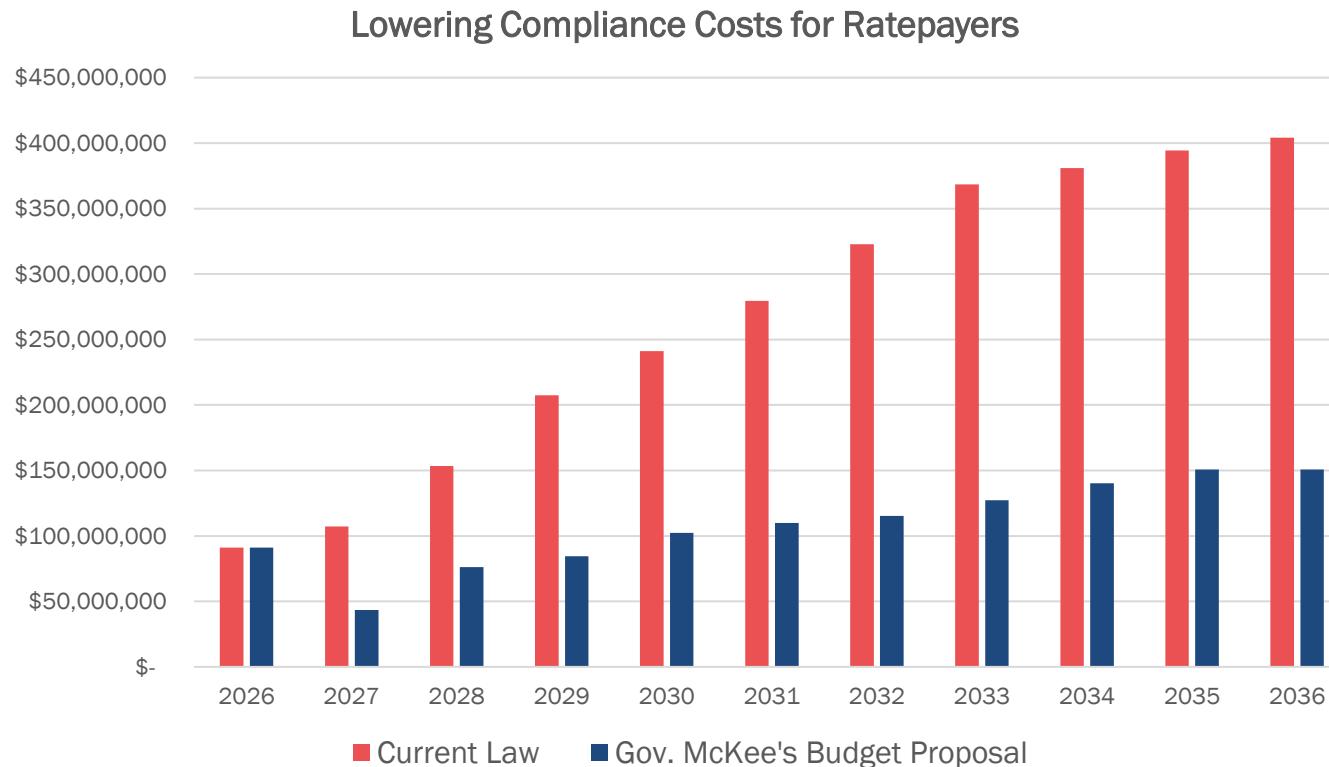
Recommended Action	Ratepayer Savings (2027 - 2031)
Reforming Renewable Energy Standard	\$597,228,305
Recovering Net Metering Costs	\$175,000,000
Capping Energy Efficiency Program	\$105,000,000
Capitalizing Paving Expenses	\$60,000,000
Other Amendments*	\$25,675,000
Sum of Proposals	\$962,903,305
Gross Earnings Tax Savings	\$38,516,132
Total Ratepayer Cost Reduction	\$1,001,419,437
Average Annual Savings Per Residential Customer	\$180

Average residential customer: 585 kWh per month

*Other Amendments includes Adjusting Energy Efficiency Infrastructure Bank Allocation, Eliminating Utility Shareholder Incentive Payments, Requiring RI Energy to Join ISO-NE

Reforming the Renewable Energy Standard (RES)

The proposal establishes a more affordable path to decarbonization by aligning the RES compliance schedule with the Act on Climate's 2050 target and leveraging lower-cost zero-emission resources:

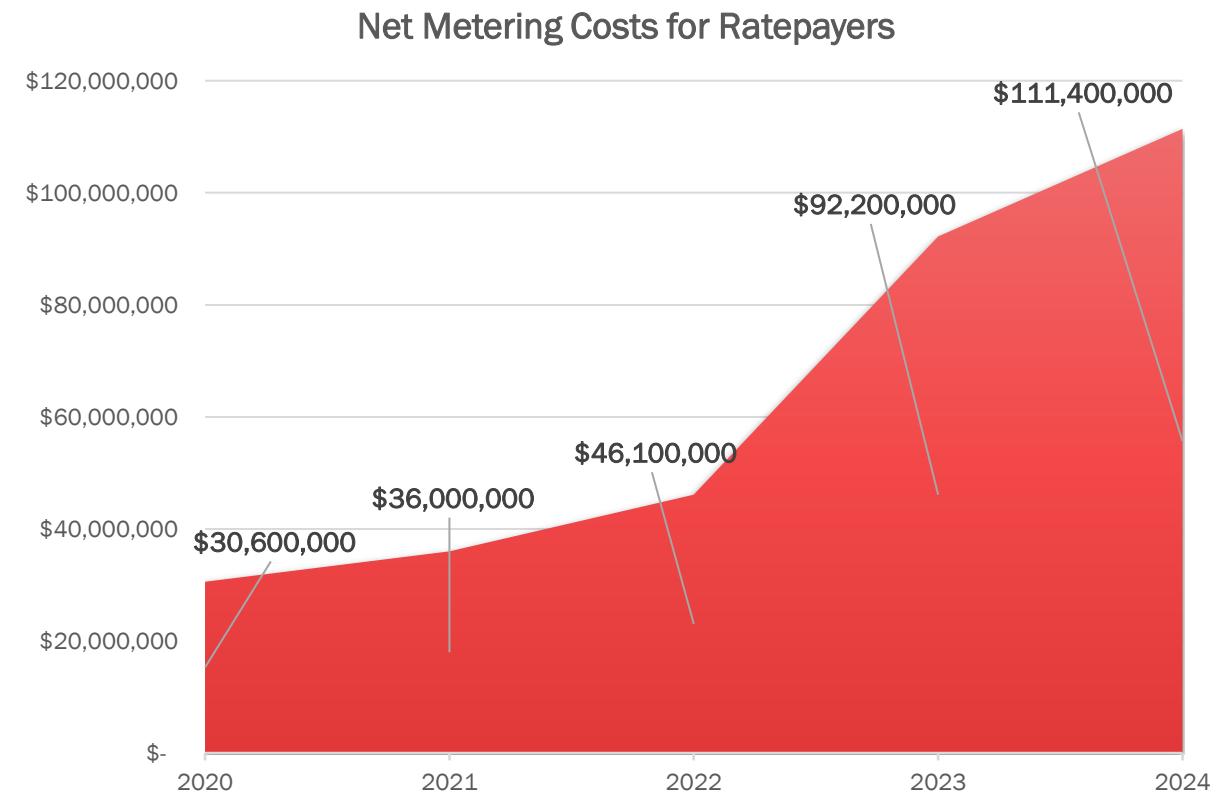


- Under current law, projected five-year ratepayer costs total \$988 million; the Governor's proposal reduces this burden by \$572 million (a 58% reduction).
- If no action is taken, the RES charge on energy bills would quadruple by 2033.
- Expands eligibility of allowable resources to add lower-cost, zero-emission resources like large-scale hydropower and nuclear. Currently, RI's RES allows only 2 percent of compliance to be met with existing resources and excludes several zero-emission resources that are permitted under other states' (VT/ME/MA) programs.

Reducing Virtual Net Metering Costs for Ratepayers

The cost of the net metering program has grown more than 250% in five years – rising from \$30 million in 2020 to over \$111 million in 2024 – an unsustainable trajectory for ratepayers:

- Establishes a grid access fee on projects over 1 MW to ensure large projects pay their fair share of fixed infrastructure costs.
 - Aligns Rhode Island with many states that recover net metering costs through non-bypassable charges.
- Freezes the virtual net metering credit rate as of July 1, 2026, to curb rapidly rising program costs.
- Transitions to lower-cost wholesale rates in 2045, consistent with standard Power Purchase Agreement timelines.



Additional Ratepayer Relief Reforms

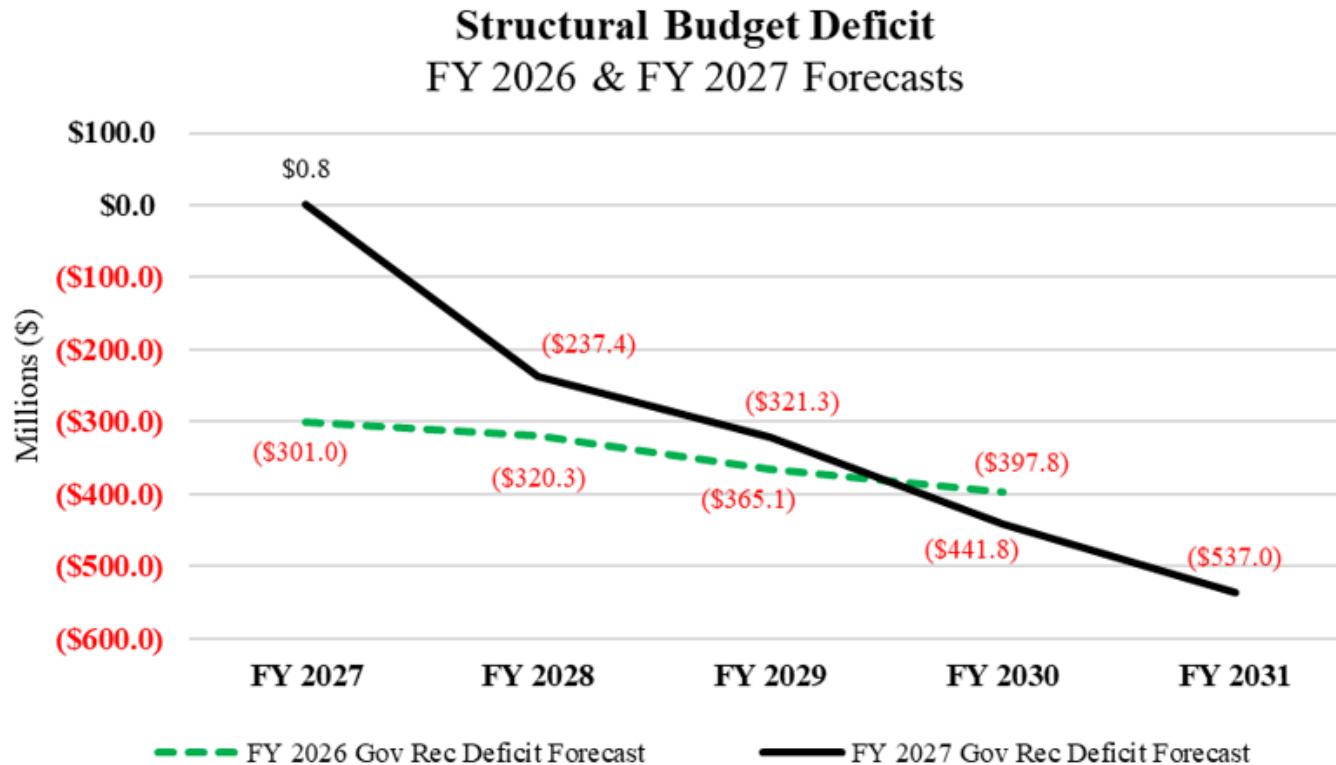
- **Renewing and Capping Energy Efficiency Program:** Extend and cap energy efficiency programs by limiting ratepayer funding to \$75M annually (\$225M per three-year cycle), aligning per-capita spending with Connecticut and New York.
 - Advances Rhode Island's first energy efficiency general obligation bond, providing \$10 million for energy efficiency to offset ratepayer costs and maintain continued investment in energy efficiency.
- **Capitalizing Paving Projects:** Returning to the long-standing utility accounting practice of spreading paving costs over a period of time rather than expensing them upfront, consistent with Federal Energy Regulatory Commission standards. This item will save ratepayers \$16 million in the first year and \$60 million over five years.
- **Eliminating Utility Shareholder Incentive Payments:** An unnecessary “bonus” on top of amounts already collected by Rhode Island Energy to cover operating costs and earn a fair return—saving ratepayers \$2.6M annually.

Fiscal Outlook

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Five-Year Forecast

The chart below shows the budget deficit since the FY 2027 budget:



H.R. 1's direct impacts and policy responses contribute sizably to outyear deficits. In FY 2031, \$160.0 million (29.8%) of the projected deficit results from H.R. 1 impacts.

Outyear growth rates at a glance:

- Avg. annual revenue growth: 2.4%
- 5-year avg. annual expenditure growth: 3.5%
 - Assistance and grants: 5.2%
 - Local Aid: 2.6%
 - Personnel: 2.9%
 - Capital: 1.6%

Enacted and Proposed Expenditures by Source

Sources of Funds	FY 2026 Enacted	FY 2026 Revised	Change from Enacted	FY 2027 Recommended	Change from FY 2026 Enacted
General Revenue	5,809.4	5,825.0	15.6	5,954.7	145.4
Federal Funds	5,108.5	5,508.9	400.4	5,506.0	397.5
Restricted Receipts	458.5	557.1	98.5	459.8	1.3
Other Funds	2,960.0	3,277.1	317.1	2,938.5	(21.5)
Total (millions)	\$14,336.4	\$15,168.1	\$831.7	\$14,859.0	\$522.6



Q&A

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