

Summary of Governor’s Proposed FY2027 Budget: Proposals Important to the Fiscal Health of the State and Its Residents

This analysis summarizes policy proposals and spending recommendations of particular relevance to low-income and modest-income Rhode Islanders and the advancement of their economic opportunity in relation to Governor McKee’s proposed FY2027 budget. Until the Governor and the General Assembly negotiate a final budget, Rhode Islanders will have opportunities to provide testimony and other input into shaping the annual budget, which becomes, in effect, a statement of our priorities as a state.

Overview

On January 15, 2026, Governor Daniel McKee released his proposed \$14.86 billion budget for Fiscal Year 2027, which begins on July 1, 2026, as well as his proposed revised budget for Fiscal Year 2026, which began on July 1, 2025 and ends on June 30, 2026. The FY2027 budget (see **Table 1**) is funded through four sources: \$5.95 billion in General Revenue; \$5.51 billion in Federal Funds; \$459.8 million from Restricted Receipts, revenue targeted and limited to specific uses, such as transportation; and \$2.94 billion from Other Funds, including lottery revenue. Any reference to “All Funds” means total funding from all four sources.

The proposed Fiscal Year 2027 budget uses the remaining \$821,564 of the \$1.13 billion in America Rescue Plan Act (ARPA) State Fiscal Recovery Funds (SFRF). The Revised Fiscal Year 2026 budget uses \$187.1 million of the total, the rest having been expended in Fiscal Years 2022 through 2025.

Table 1: FY2027 Proposed Budget (July 1, 2026 – June 30, 2027)

Expenditures by Revenue Type	FY2027 Proposed Budget Amounts	FY2027 Proposed Budget Percentages
General Revenue	\$5.95 billion	40.1%
Federal Funds	\$5.51 billion	37.1%
Other Funds	\$2.94 billion	19.8%
Restricted Receipts	\$459.8 million	3.1%
Total (All Funds)	\$14.86 billion	100%

Basic Needs

RI Works: The budget includes no proposals for improving RI Works, the state's cash assistance program that helps people meet their most basic needs. The benefit amount and the earned income disregard were increased in 2024 but did not include an annual inflation adjustment. Each year, the state receives a federal Temporary Assistance to Needy Families (TANF) block grant of \$94.7 million. Although the primary purpose of the funding is to help people with the fewest resources, the federal guidelines allow flexibility in the use of these funds, and Rhode Island does not spend most of the funds on *direct* cash assistance. The FY2027 budget proposes spending only \$34.8 million for this purpose. TANF funds are spent on other programs, such as child care (proposed \$49.5 million), that at least indirectly help low-income Rhode Islanders.

Food and Nutrition:

- For the **Supplemental Nutrition Assistance Program (SNAP) cost share shift**, requiring states to cover 75 percent instead of 50 percent of the federal program's administrative cost, the budget includes \$9.3 million from General Revenue. Total federal funding for the actual SNAP benefits in FY2027 is estimated at \$323.2 million, though starting with FY2028, Rhode Island may be required to cover approximately \$50 million of these benefits as well; the state share will depend upon the state's payment error rate. The proposed budget includes \$4.2 million to help lower the error rate.
- For the **RI Community Food Bank**, the budget includes level funding at \$950,000 and a one-time appropriation of \$1.0 million in General Revenue, of which \$250,000 is dedicated to local food pantries, including Higher Ground, Oasis International, and New Bridges for Haitian Success. This represents an increase in funding from \$950,000 to \$2.0 million from FY 2026.
- **To ensure Rhode Islanders meet new community engagement requirements for SNAP and Medicaid** as established by House Resolution 1 (H.R.1, or OBBBA, federal legislation enacted in the summer of 2025), the budget allocates \$1.0 million in General Revenue to facilitate community engagement for SNAP and Medicaid beneficiaries to meet the volunteering, educational, and/or work requirements.
- The funding to support the **operations** of the **Meals on Wheels** program includes funding of \$680,000, an increase of \$50,000 from FY 2026. An additional \$50,000 is allocated for elderly nutrition services.

Senior Centers: The budget proposes increasing support for senior centers from \$1.6 million to \$1.8 million.

Housing

Low-Income Housing Tax Credit: The non-owner occupied property tax goes into effect in July 2026 with proceeds going to this credit, which is designed to incentivize construction of low-income housing, not to help households make payments. The FY2026 budget included \$4.0 million in General Revenue on top of \$32.0 million allocated in previous years.

State Emergency Shelters: The budget includes \$1.7 million of General Revenue in FY2027 for three, year-round shelters.

Child Care Assistance Program (CCAP) and Pre-K

Pre-Kindergarten: The budget includes level funding at \$28.9 million in General Revenue to maintain more than 2800 pre-K seats statewide for the Early Childhood Demonstration project.

CCAP and Head Start Funding: The budget does not propose any programmatic changes or additional General Revenue funding compared with FY2026 to support CCAP, Head Start, or early Head Start. CCAP provides subsidies – for parents who are working, taking part in a training program, or enrolled in a higher-education program – to enroll their children under age 13 in center or family-based childcare. In 2024, the income eligibility limit was increased, allowing more families to utilize CCAP, and child care centers serving CCAP children received 5 percent rate increases. In 2025, the child care centers serving CCAP infants received 20 percent rate increases.

K-12 Education

Education Funding Formula: The budget proposes increasing the education funding formula allocation by \$41.4 million, bringing the total funding to \$1.277 billion. This amount is \$39.7 million above the education aid amount in the enacted FY2025 budget. The budget also modifies the funding formula by increasing the student success factor weight by 3 percent, from 40 percent to 43 percent, for districts with a pre-kindergarten through 6th grade poverty density that is at or above 60 percent. For FY2026, this would impact Central Falls, Newport, Pawtucket, Providence, and Woonsocket, and the budget allocates \$10.7 million for this change.

Free School Meals: The budget provides \$812,952 for breakfast and lunch at no cost for the students eligible for reduced-price meals; an additional \$270,000 covers administrative costs.

Higher Education and Workforce Development

Higher Education

General Revenue for Higher Education: Although the large majority of funding for Rhode Island's public colleges and universities comes from tuition placed in Restricted Receipts funds, General Revenue allocated in the budget plays an important role. The FY2027 budget recommends increasing General Revenue funding for higher education by \$14.0 million to \$341.2 million. This includes net increases for the three institutions as follows: \$4.2 million for URI; \$2.0 million for RIC; and \$2.0 million for CCRI.

Hope Scholarship Program: By removing the sunset date for the Hope Scholarship Program at Rhode Island College, the program becomes, in effect, permanent rather than continuing as a pilot program. The budget proposes an increase of \$1.6 million in General Revenue for a total allocation of \$7.1 million to help Rhode Island College students with tuition and fees for two years.

Rhode Island Promise Scholarship: The budget includes a \$694,490 increase in General Revenue for a total allocation of \$8.1 million to help Community College of Rhode Island students with tuition and fees for two years.

Workers and Workforce Development

Job Development Fund Assessment & Real Jobs RI: The state currently assesses for-profit employers a tax of 0.21 percent on the first \$30,800 of employee wages. The budget proposes \$13.3 million for Real Jobs RI: level-funding of \$5.5 million from General Revenue, \$1.0 million from federal funds, and \$6.3 million from the Governor's Workforce Board's Restricted Receipts account.

Paid Family Leave: The Governor's budget does not include proposals to strengthen the state's Paid Family Medical Leave (PFML) program. Although Rhode Island was one of the first states in the nation to implement PFML through the Temporary Caregiver Insurance (TCI) program, many other states, including neighboring Massachusetts and Connecticut, have passed more extensive paid leave programs.

Health Coverage and Healthcare

Medicaid Reimbursement: Budget proposes not implementing full rate increase for Medicaid providers as recommended by the Office of the Health Insurance Commissioner's September 2025 rate review. Increase would be done over two years, with half the recommended increase or 100 percent of the Medicare rate, whichever is lower, in the first year. The cost for half-implementation would be \$23.2 million in General Revenue and a total of \$58.8 million including Federal Funds.

Lower Rate Increases for Nursing Homes and Hospitals: While state law requires annual rate inflation adjustments based upon national prices, the budget proposes using 2.5 percent state revenue growth for FY2027; otherwise there would be 3.2 percent increase for nursing home payments, 3.3 percent increase for fee-for-service hospital payments, and 2.6 percent increase for managed care hospital payments. This would save an estimated \$2.6 million in General Revenue and also result in the loss of \$4.0 million in Federal matching funds.

Lower Rate Increases for FQHCs: The budget similarly proposes setting 2.5 percent as the rate increase for Federally Qualified Health Centers, saving \$1.2 million in General Revenue and losing \$2.1 million Federal matching funds.

Residential Care for Substance Use Treatment: The budget proposes freezing the rate increase for residential treatment services, saving \$0.7 million in General Revenue and \$1.6 million overall.

Individual Marketplace Affordability Program: In the wake of the expiration of federal enhanced premium subsidies, the budget devotes \$9.5 million to help Rhode Island households with income below 200 percent of the Federal Poverty Level to maintain their coverage from July to September of 2026, the first half of FY2027.

Uncompensated Care: To help community hospitals provide care for the tens of thousands of Rhode Islanders expected to lose health insurance as a result of H.R.1, the budget increases the Disproportionate Share Hospital (DSH) payments from \$1.0 million to \$11.0 million; \$4.2 million of this funding comes from General Revenue.

Economic Development & Tax Incentives

Minority Business Accelerator: From FY2023 through FY2025, the state allocated \$6.0 million in ARPA State Fiscal Recovery Funds and \$500,000 in General Revenue to establish a minority business accelerator program, supporting technical and financial assistance and investment in minority-owned businesses. No additional funding was proposed for or included in the FY2026 budget, and no funds have been proposed for FY2027.

Minority Entrepreneurship: The budget includes level funding of \$140,000 for a minority urban business incubator through the non-profit Urban Ventures program.

Rebuild RI Tax Credit: The budget calls for \$6.1 million in General Revenue to fund commitments already made and seeks to increase the total cap on this multi-year program from \$225 to \$250 million.

Sunset Dates: Without requiring further review to determine whether it makes sense to extend, modify, or repeal each program, the budget proposes extending from December 31, 2026 to December 31, 2027 the sunset dates of nine economic development tax incentive programs coordinated and managed by the Rhode Island Commerce Corporation: Rebuild RI Tax Credit, Qualified Jobs Tax Credit, Tax Increment Financing, Tax Stabilization Incentive, Main Street Streetscape, I-195 Redevelopment Project, Innovation Initiative, First Wave Closing Fund, and the Wavemaker Fellowship. Rhode Island's Evaluation Act of 2013 requires the Governor, in the proposed budget, to make recommendations to continue, modify, or terminate any economic development tax credit programs reviewed by the Department of Revenue since the previous proposed budget. Because some programs do not have sunset dates specified in statute, only legislative action can sunset such programs, even if they are not producing good results. In most years, the Governor's proposed budget and the final, enacted budget routinely extend program sunset dates by one year without any explicit evaluations or recommendations.

Revenue & Taxation

Millionaires Tax: The Governor proposes establishing a 4th tax bracket for taxable income over \$1 million at a rate of 8.99 percent, or 3.00 percent more than the current top rate of 5.99 percent. Taking effect in Tax Year 2027, the administration estimates this will raise \$67.1 million in FY2027 and \$135.3 million in FY2028.

Social Security Income Taxation: The Governor proposes eliminating the state taxation of Social Security income over a three-year period. In the first year, recipients below full retirement age will be able to use the current exemption if they meet income guidelines (below \$107,000 for individual filers in Tax Year 2025 and below \$133,750 for joint married filers). In the second year, the income limits would be raised to encompass half of filers, and in the third year removed altogether, meaning, for example, that even millionaires with Social Security income would not be taxed on this income. The top 20 percent in income would derive 91 percent of the benefit from the full repeal, with 35 percent of the benefit going to the top 5 percent and 7 percent of the benefit going to the top 1 percent. The annual revenue cost for this would reach \$60 million by FY2030.

Child Tax Credit (CTC): The budget includes a proposal for the first ever state CTC, \$325 annually per child under age 19. This credit would replace the dependent exemption but be fully refundable, benefiting Rhode Island’s lowest-income children and families the most. The estimated cost is \$14.7 million in FY2027 and \$29.7 million in FY2028.

Earned Income Tax Credit (EITC): There is no proposal in the budget to increase RI’s state EITC, which is 16% of the federal credit, while MA and CT are at 40 percent.

Tobacco: The budget would increase the per cigar tax (80 percent of wholesale price) from the current 50 cent maximum to a \$2.00 maximum, as well as increase the per-pack cigarette tax by 75 cents to \$5.25, together generating \$8.0 million in new revenue.

Tax Amnesty: The budget proposes opening a 75-day window for those owing taxes to pay with a 25 percent discount on interest owed and without criminal or civil penalties. Based upon experience from similar programs offered in FY2007, FY2013, and FY2018, the revenue estimate is \$26.3 million.

Decoupling from H.R.1 Research & Development (R&D) Expensing: H.R.1 allowed full R&D expensing immediately and even retroactively, instead of over five years going forward; decoupling means that for the purpose of state taxes, the expensing will still take place over five years. This will preserve \$22.6 million in revenue for FY2027. The budget does not include proposals to decouple from several other federal tax changes, moves which could save tens of millions of dollars in additional revenue.

Revenue Sharing with Cities and Towns

PILOT: The budget recommends funding the Payment in Lieu of Taxes (PILOT) program with \$49.0 million. PILOT monies are state funds used to compensate local governments for property taxes they cannot collect from such institutions as hospitals and colleges due to their tax-exempt status. Although this is \$2.3 million less than the amount in the enacted FY2026 budget, it appears to meet the statutory requirement of replacing the 27 percent of revenue the local governments would have collected.

Aid to Distressed Communities: The budget would provide \$14.9 million in aid, matching the amount in the enacted FY2026 budget. These funds are divided among the municipalities of Providence, North Providence, Central Falls, Woonsocket, West Warwick, Cranston, and Pawtucket.

Car Tax Phase-Out: The FY2027 budget includes \$239.6 million to make local governments whole for the loss of revenue resulting from the now completed phase-out of the local car tax. The Governor also proposes repealing the provision that allows the reimbursement amount to increase annually through a sales tax adjustment, meaning that the allocation would remain flat going forward, with specific allocations by municipality. This would generate estimated state revenue savings of \$4.8 million in FY2027 and \$9.7 million in FY2028.

Tangible Taxes: Enacted legislation in 2023 exempted businesses from the first \$50,000 in tangible taxes on business furniture and other items. Because this is a local tax, like the car tax was, the state agreed to make local governments whole here too for the revenue loss. For this reimbursement, the budget includes \$25.9 million for FY2027 and the same amount for FY2026.

General Obligation Bond Measures

The Governor proposes \$600 million in general obligation bond measures to be voted upon in the November 2026 elections:

- **Higher Education:** \$215.0 million for buildings at URI, RIC, and CCRI, including \$60.0 million for CCRI workforce innovation center.
- **Housing:** \$120.0 million to increase affordable housing construction and incentivize home ownership.
- **Career/Technical Education:** \$50.0 million for local education agencies.
- **Green Economy/Clean Energy:** \$50.0 million for environment, infrastructure, energy efficiency, recreational facilities, parks, and more.
- **Cultural Economy:** \$50.0 million, mostly for construction of a State History Center.
- **Economic Development:** \$115.0 million for site development and for infrastructure for life sciences, defense, ocean, data, and other industries.

Other Proposals

Rhode Island Black Heritage Society: Now incorporated into the state's historical societies under the state librarian, the Rhode Island Black Heritage Society would receive \$25,000 for FY2027, the same funding provided by the FY2025 and FY2026 budgets.

Cannabis Revenue: The budget proposes transferring from the Marijuana Trust Fund \$4.0 million for certified community behavioral health centers and \$1.0 million for the 988 Suicide Prevention Hotline.

Rhode Island Public Transportation Agency (RIPTA): The budget proposes closing RIPTA's \$13.8 million deficit and funding its \$128.2 million budget by increasing annual Highway Maintenance Account Transfers to \$14.3 million and by providing \$1.0 million from cruise operation fees and \$3.5 million from Rhode Island Capital Plan (RICAP) funding. **This closing of the deficit will not, however, restore the services cut during the fall of 2025.**

The Proposed Budget as a Whole

One form of the proposed budget is that of a bill, a piece of legislation, one that – like other bills – becomes the topic of legislative hearings. Although the budget is a large piece of legislation, addressing many different topics, it is a comprehensive spending plan for all the available revenue, from state and federal and other sources. Therefore, it is reasonable to consider the budget in its entirety. For the Economic Progress Institute, this means asking whether the proposed budget – in its individual proposals and overall – would likely improve the fiscal health of the state and its residents, particularly the state’s low- and modest-income residents? Does the proposed budget include and fund initiatives that would improve opportunity, or at the very least prevent those with the fewest resources from falling further behind? While it is true that large sections of the budget, such as Medicaid and education spending, do a considerable amount to help low- and modest-income Rhode Islanders and promote equity, it is still fair to ask if the budget includes *new* proposals, some of which might not cost that much, to show that this most important piece of legislation has these Rhode Islanders in mind. In this framing, the proposed budget makes a good start, but it could do more.

In thinking about the proposed budget as a whole, as a comprehensive plan, this year’s review of the budget presents **Table 2**, containing the Economic Progress Institute’s top legislative priorities for the FY2027 budget and the 2026 General Assembly session. This is a way of looking at how the proposed budget addresses – or fails to address – what EPI has identified as major priorities for increasing prosperity for Rhode Islanders and especially low- and modest-income members of our state community.

A budget that seeks to address, in a comprehensive way, improving the fiscal health of the state and its residents, particularly the state’s low- and modest-income residents, might, in the table’s rightmost column, have many more of the boxes filled with constructive and even innovative proposals. As policymakers hold hearings on the budget articles and eventually negotiate a final budget, they can use this table to help build a budget that does more in this regard.

Table 2: EPI's 2026 Policy Priorities and the Proposed Budget

Category	Issue	EPI-Supported Proposals	Status in Proposed FY2026 Budget
<i>Rhode Island Budget, Revenue & Tax Fairness</i>	Personal Income Tax and State Revenue	Improve tax fairness by enacting a 3% surtax for the highest-income Rhode Islanders on their income above \$640,000. This will raise an estimated \$203 million annually.	Proposes a 3% increase to the personal income tax on income above \$1 million.
<i>Economic Opportunity</i>	Paid Family Leave (TCI)	Increase the maximum benefit to 12 weeks, increase the wage replacement rate to 85%, increase the taxable wage base to \$168,000, expand the definition of family to include grandchildren and chosen family, and create an opt-in for self-employed workers.	No proposal.
	Minimum Wage	Increase to a living wage of \$24 per hour.	No proposal.
	State Earned Income Tax Credit (EITC)	Increase from 16% of the federal credit to 30%.	No proposal.
	State Child Tax Credit	Create a state child tax credit of \$650 per child under 19 and remove the state's existing personal exemption for dependents under 19.	Includes a proposal for a fully refundable child tax credit of \$325 per child under 19. Removes the state's existing personal exemption for dependents under 19.
	Adult Education	Increase funding.	Level funded for FY2027.
	Multi-Language Learning (MLL)	Invest \$650,000 in certifying multilingual teachers and \$350,000 in funding dual language programs across state.	No proposal.
<i>Investments in Children & Healthcare</i>	Child Care	Expand eligibility for RI's Child Care Assistance Program (CCAP), end the child support mandate for CCAP eligibility, and increase provider rates for childcare programs to address the staffing and low-wage crisis in this sector.	No proposal.

Table 2: EPI’s 2026 Policy Priorities and the Proposed Budget

Category	Issue	EPI-Supported Proposals	Status in Proposed FY2026 Budget
<i>Investments in Children & Healthcare</i>	Baby Bonds	Fund the RI Baby Bond Trust created last year to provide every child who is born to a family receiving RI Works with a \$3,000 investment at birth; at age 18, recipients can use invested funds for wealth building purposes such as education in RI, buying a home in RI, or starting a business in RI.	No proposal.
	Healthcare	Prevent cuts to Medicaid; create state subsidies to replace expiring federal healthcare subsidies that will cause 20,000 Rhode Islanders to lose health insurance through HSRI; increase investment in uncompensated care for tens of thousands of Rhode Islanders who will lose insurance and access to lifesaving healthcare, like surgery, prescription medication, dialysis, and nursing home care.	Proposals included to address some of these threats, but not strong enough to address the entire need.
<i>Lifting Rhode Islanders Out of Deep Poverty</i>	Rhode Island Works	Increase benefit and link to inflation; restore eligibility to legal permanent residents by eliminating 5-year waiting period; increase child support pass-through; remove benefit reduction for families on subsidized housing.	No proposal.
	Predatory Lending	End rent-a-bank scheme that allows lenders to evade RI interest rate limits by using limits from other states; establishes strong true lender anti-evasion language.	No proposal.

Table 2: EPI’s 2026 Policy Priorities and the Proposed Budget

Category	Issue	EPI-Supported Proposals	Status in Proposed FY2026 Budget
<i>Lifting Rhode Islanders Out of Deep Poverty</i>	Affordable Housing	Strengthen affordable housing by increasing tenant protections, capping rent increases at 4% annually, and maintaining funding in the state budget for existing housing programs.	No proposals on tenant protections; maintains funding for Low Income Housing Tax Credits to incentivize construction of affordable housing.
	Affordable Utilities	Enact the Percentage of Income Payment Plan (PIPP) legislation, which makes energy costs more affordable for low-income Rhode Islanders by linking payments to income levels.	Proposal included to lower utility costs.
	SNAP and Food Security	Increase funding to the RI Food Bank and other direct service providers to aid the thousands of Rhode Islanders who will lose SNAP; protect Rhode Islanders from having their SNAP benefits stolen by ensuring EBT cards have tap/chip theft-prevention technology (federal gov’t will pay half the cost); and reimburse Rhode Islanders for \$750,000+ SNAP benefits stolen in 2025.	Budget proposes increasing support for Food Bank and addressing federal threats to SNAP, but does not address issue of benefits theft.
<i>Race, Equity, & Democracy</i>	Equity Impact Statements	Require proposed budget and individual pieces of legislation to be accompanied by equity impact statements.	No proposal.
	Same-Day Voter Registration	Allow eligible residents to register and vote up to and on election day.	No proposal.

Table 2: EPI’s 2026 Policy Priorities and the Proposed Budget

Category	Issue	EPI-Supported Proposals	Status in Proposed FY2026 Budget
<i>Race, Equity, & Democracy</i>	Public Transit	Fully fund RIPTA to restore, maintain, and expand services.	Budget fully funds RIPTA but without restoring services cut made in 2025.
	Cannabis Equity	Invest some revenue from cannabis legalization in communities disproportionately harmed by the war on drugs	No proposal.
	Bail Reform	Require courts to grant bail or personal recognizance to people facing a 32F alleged probation violation, rather than holding them for weeks without a bail hearing.	No proposal.
	364 Misdemeanor Reform	Protect Rhode Island’s immigrant community from unduly harsh detention and deportation by reducing the maximum prison sentence for a misdemeanor from one year to 364 days.	No proposal.

Resources/Further Reading

This budget summary is based upon the budget bill and other documents providing helpful information:

House Bill 7127 (the legislative text of the FY2027 Budget Proposal, including all of its articles):
<https://webserver.rilegislature.gov/BillText26/HouseText26/H7127.pdf>

House Bill 7126 (the legislative text of the FY2026 Supplemental Budget Proposal):
<https://webserver.rilegislature.gov/BillText26/HouseText26/H7126.pdf>

Executive Summary, Fiscal Year 2027 Budget Proposal:
https://omb.ri.gov/sites/g/files/xkgbur751/files/2026-02/02.05.26_FY%202027%20Executive%20Summary_ERRATA.pdf

House Fiscal Advisory Staff's Budget Analysis: A User Guide (including links to Budget at a Glance and other documents): <https://rilegislature.gov/housefiscalreport/2020/FY%202027%20Budget%20Analysis%20User%20Guide.pdf>

Senate Fiscal Office's Governor's FY2027 and FY2027 Supplemental Budgets, 2026-H-7127 AND 2026-H-7126, First Look:
<https://rilegislature.gov/sfiscal/Budget%20Analyses/FY2027%20SFO%20Governor's%20Budget-%20First%20Look.pdf>