



OFFICE OF MANAGEMENT & BUDGET

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April 3, 2025

The Honorable Marvin L. Abney
Chairperson
House Committee on Finance
82 Smith Street
Providence, RI 02903

RE: H 5533 – An Act Relating to Cities and Towns – State Aid

Dear Chairperson Abney:

Thank you for providing the Office of Management and Budget (OMB) the opportunity to submit this letter of opposition in response to House Bill No. 5533. This bill would reinstate general revenue sharing of State aid among the municipalities. The amount for Fiscal Year 2026 would be \$39 million and distributed based on population, as determined by the 2020 Census. The aid amount would be increased annually thereafter based on the increase in the Consumer Price Index for all Urban Consumers.

While well-intentioned, the bill would contribute to the State's outyear deficits, as expenditure growth rates continue to outpace available revenues. In the five-year forecast, State revenues are expected to grow by 2.8%, while local aid to municipalities is growing at 3.2% – which is driven primarily by the 3.8% growth rate to education aid.

As the Governor developed his Fiscal Year 2026 budget proposal, he confronted an approximately \$250 million deficit. By identifying cost-cutting measures and ensuring state government lives within its means, he was able to introduce a balanced budget without any broad-based tax increases or cuts to critical services upon which Rhode Islanders rely. Additional investments, especially those with ongoing obligations and a cost escalator, would negatively impact the State's fiscal outlook and undo the deliberative work captured in the budget proposal.

Since the phase-out of municipal revenue sharing in Fiscal Year 2009, the State has substantially increased municipal aid, most notably with the phase-out of the motor vehicle excise tax. In Fiscal Year 2025, the State is providing \$234.7 million to cities and towns to reimburse them for the elimination of this unpopular tax. The State also recently established an exemption of \$50,000 from tangible taxes that applies as of the December 31, 2023, assessment date. The initial disbursements scheduled for Fiscal Year 2025 are expected to provide a total of \$28 million to municipalities and fire districts to compensate for the forgone revenue. Finally, the implementation of the education funding formula and other education investments have provided nearly \$800 million to local schools since the end of municipal revenue sharing.

In addition to these recent investments, the Fiscal Year 2026 budget proposes a new funding source to make RhodeRestore a permanent program. RhodeRestore provides matching funds to

municipalities to make improvements to locally maintained roads, bridges, and sidewalks and has already improved nearly 700 lane-miles of roads. The budget's \$6.5 million investment is intended to provide municipalities with a reliable funding source to defray the cost of these critical transportation infrastructure projects.

While the Administration continues to prioritize investments across the State's 39 cities and towns, as evidenced by RhodeRestore, these investments must be sustainable and in line with available resources. Resuming general revenue sharing to cities and towns – indexed for future inflation – does not meet either criterion.

We appreciate the opportunity to share our comments on this legislation with the Committee. Should you have any questions or require further information, please do not hesitate to contact my office.

Sincerely,



Brian M. Daniels
Director, Office of Management and Budget

cc: The Honorable Members of the House Committee on Finance
The Honorable Terri Cortvriend
Nicole McCarty, Chief Legal Counsel to the Speaker of the House
Christopher O'Brien, Committee Clerk