Governor's FY 2027 Budget: Articles

Staff Presentation to the House Finance Committee
February 4, 2026

Introduction

Topics	2026-H 7127
Tobacco	Article 5, Sections 3 & 4
Motor Fuel Tax	Article 11, Section 2
Highway Maintenance Account	Article 2, Section 2
Newport Landing & Boarding Fees	Article 5, Section 8
Indirect Cost Recovery	Article 2, Section 1

Revenues Changes

Changes to REC	FY 2026	FY 2027	FY 2028
R&D Tax Provisions	$22.6	$22.6	$10.9
Income Tax Rates	-	67.1	135.3
Social Security Tax	-	(3.0)	(14.6)
Child Tax Credit	-	(14.7)	(29.7)
Cigarettes/Tobacco	**-**	**8.0**	**6.4**
Utility Ratepayer Savings	-	(2.3)	(4.8)
Tax Amnesty	-	26.3	-
Pawtucket TIF Debt Service	-	0.5	0.2
Scoops/Internal Fund Transfers	10.8	-	-
Total	**$33.4**	**104.5**	**$103.7**

$ in millions

Article 5, Sections 3 & 4 – Cigarette Tax

Component	FY 2027	FY 2028
Cigarette Tax Increase	$6.6	$4.5
Distributor Tax Stamp Discount	0.8	1.0
Cigar Tax Increase	0.6	0.9
Total	**$8.0**	**$6.4**

$ in millions

Article 5, Sections 3 & 4 – Cigarette Tax

- Current law – tax on all cigarettes sold or held for sale in the state
  - Tax evidenced by stamps
  - Currently $4.50 per pack of 20
    - Raised from $4.25 in 2024
- Article 5 increases cigarette tax by $0.75 to $5.25 per pack of 20
  - Effective September 1, 2026
  - Governor's proposal for $0.50 increase last year was not enacted

Article 5, Sections 3 & 4 – Cigarette Tax

- FY 2027 budget includes $6.6 million
  - Cigarette tax - $4.5 million
  - Floor Tax - $2.5 million
    - Tax on existing inventory – difference between the two tax rates
  - Reduces sales tax collections by $0.4 million
    - Consumer behavior change

Article 5, Sections 3 & 4 – Cigarette Tax

Recent Annual Collections

Fiscal Year	2023	2024	2025	2026 REC	2027 REC	2027 Gov.
Increase	$ -	**$0.25**	$ -	$ -	$ -	**$0.75**
Per pack Tax	**$4.25**	$4.50	$4.50	$4.50	$4.50	**$5.25**
Total	$123.0	$109.4	$105.6	$94.4	$85.7	$92.3
Change to Prior	$(15.5)	$(13.6)	$(3.8)	$(11.2)	$(8.7)	$6.6*

$ in millions *Change to 2027 REC

Article 5, Sections 3 & 4 – Cigarette Tax

- Each state/territory has own tax
  - Highest – New York $5.35/pack
  - Maryland 2nd at $5.00/pack
  - Lowest – Missouri, $0.17/pack

States & DC	Tax
38	At or over $1.00
24	At or over $2.00
12	At or over $3.00
5	At or over $4.00

Article 5, Sections 3 & 4 – Cigarette Tax

- RI tax would be 2^{nd} highest in US

New England States	Tax	U.S. Rank	N.E. Rank
Connecticut	$ 4.35	5	2
Rhode Island	$ 4.50	3	1
Massachusetts	$ 3.51	7	3
Vermont	$ 3.08	10	5
Maine*	$ 3.50	8	4
New Hampshire	$ 1.78	27	6

**Increased from $2.00 last year*
Source: Campaign for Tobacco-Free Kids, December 24, 2025

Article 5, Sections 3 & 4 – Cigarette Tax

- State tax is only one factor in final price
  - Federal tax - $1.01 since 2009
  - Local cigarette taxes in addition to state tax
    - Chicago - $1.18 local tax, $3.00 county tax – Total $7.16 (highest)
    - New York City - $1.50 local tax – Total $6.85
  - Base price of product
    - Product use/popularity
  - Minimum markup – retail and wholesale
    - Lowest price at which product can be sold
    - To prevent sales below cost or unfair pricing

Article 5, Sections 3 &4 – Cigarette Tax

Manufacturer

Sets the product base price -Includes federal tax

Distributors (Wholesalers)

Pay cigarette tax

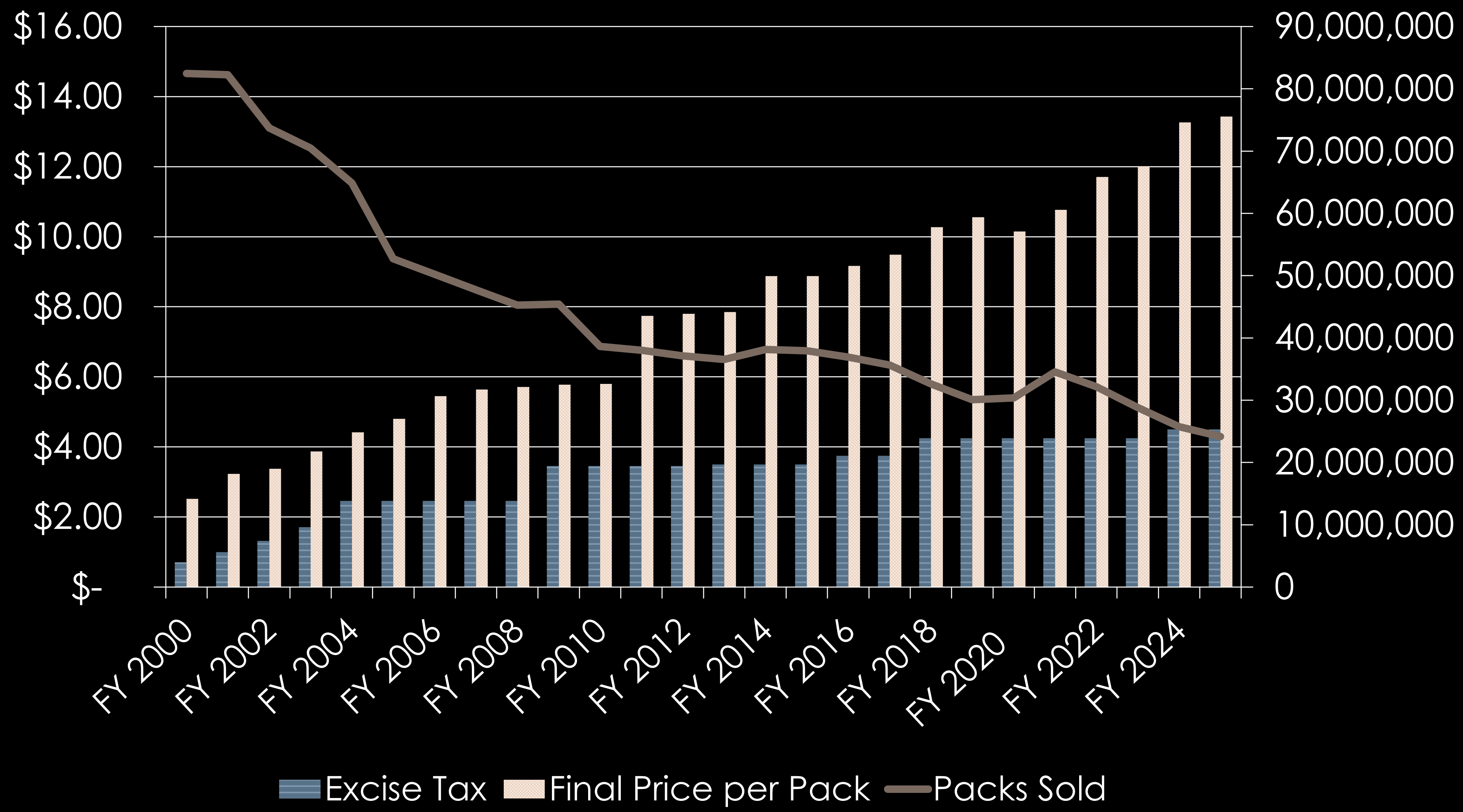
Must include wholesale minimum markup in price to dealers

Dealers (Retailers)

Must include retail minimum markup in price to consumers

Consumer – Pays retail price plus sales tax

Article 5, Sections 3 & 4 – Cigarette Tax



Article 5, Sections 3 & 4 – Cigarette Tax

Current Prices	RI	RI Art. 5	CT	MA
Base price/20-pack (incl. fed tax)	$7.02	$7.02	$6.47	$5.68
State Cigarette Tax	4.50	5.25	4.35	3.51
Total Base Price/pack of 20	**$11.52**	**$12.27**	**$10.82**	**$9.19**
Minimum Markup – Wholesaler	2.75%	2.75%	6.50%	2.75%
Minimum Markup – Retailer	6.00%	6.00%	8.00%	25.00%
Total Markup/pack of 20	8.93%	8.93%	15.02%	28.44%
Post Markup Price/pack of 20	**$12.55**	**$13.36**	**$12.45**	**$11.80**
Sales Tax Rate	7.0%	7.0%	6.35%	6.25%
Final Minimum Retail Price	**$13.43**	**$14.30**	**$13.24**	**$12.54**

Article 5, Sections 3 & 4 – Distributor Cigarette Stamp

- Current law
  - Distributors purchase cigarette stamps at 1.25% discount
    - Compensate distributors for the effort of affixing stamps
- Article 5 eliminates the discount
  - Effective September 1, 2026

Fiscal Impact	
FY 2027	**FY 2028**
$762,064	$974,262

Article 5, Sections 3 & 4 – Cigarette Tax

Distributors (Wholesalers)

Pay cigarette tax – **98.75% of value**

All stamped cigarettes must be purchased from "affixing" distributors; other distributors must purchase from them

Must include wholesale minimum markup in price to dealers

Dealers (Retailers)

Must include retail minimum markup in price to consumers

Article 5, Sections 3 & 4 – Distributor Cigarette Stamp

- Other states
  - Connecticut has 1% discount
  - Massachusetts's discount based on the number of stamps purchased
  - Maine has 1.15% discount
    - Phased down to 0.66% in January 2026
    - Will be eliminated in April 2026

Article 5, Sections 3 & 4 – Cigar Tax

- Other Tobacco Products
  - Rate & cigar cap changes

Eff. Date	Rate	Per Cigar Cap
2001	30%	n/a
2005	40%	n/a
2006	40%	$ 0.50
2009	80%	$ 0.50

- Governor Raimondo proposed a $0.30 tax cap increase in her 2019 & 2021 budgets
  - Not adopted

Article 5, Sections 3 & 4 – Cigar Tax

- Article 5 raises the tax cap on cigars by $1.50 to $2.00
  - Currently ~ 3.6 million cigars costing $0.63 or more are taxed at the $0.50 cap
- Budget estimates this will generate $0.6 million for FY 2027
  - Annualizes to $0.9 million
    - No adjustment for consumer behavior change

Article 5, Sections 3 & 4 – Cigar Tax

- Other States
  - Massachusetts
    - 40% of wholesale – not capped
  - Connecticut
    - 50% of wholesale with $0.50 cap
  - Vermont
    - 92% of wholesale on $2.17 or less
    - $2.00 of wholesale between $2.18 & $9.99
    - $4.00 of wholesale on $10.00 or more

Transportation Funding

- Governor's budget
  - Lowers the gas tax by 2 cents
    - $8.6 million annual reduction in available transportation funding
  - Shifts $9.3 million of existing transportation funding from DOT to RIPTA
  - Increases City of Newport cruise ship landing & boarding fees
    - Dedicates estimated $1.0 million to RIPTA

Gasoline Tax Proceeds

- Gasoline Tax aka Motor Fuel Tax
  - Derived from 41.0 cents per gallon
    - Approximately $177 million at $4.3M per cent
  - Deposited into Intermodal Surface Transportation Fund
    - Small portion into the Underground Storage Tank Trust Fund
  - Distribution to transportation entities contained in statute are made

Motor Fuel Tax

- 2014 Assembly indexed gasoline tax to CPI & dedicated future increases to DOT
  - Every other year, rounded to the nearest cent using one year of data
  - 2025 Assembly adjusted index to two years of data

Year	Inflation Adjustment
FY 2018	none
FY 2020	+ 1 cent
FY 2022	none
FY 2024	+ 3 cents
FY 2026	+ 1 cent

Motor Fuel Tax

- 2025 Assembly also increased the gas tax by 2 cents above the CPI adjustment
  - Dedicated increase to RIPTA
  - 9.75 cents to 11.75 cents
  - $8.7 million in additional resources
- Governor's FY 2027 budget proposes to lower the tax by 2 cents
  - Takes it from the DOT share

Article 11, Sec. 2 – Motor Fuel Tax

Disposition – Cents	FY 2025	FY 2026 & 2027 Current Law	Art.11 Sec. 2	Chg. to Current Law
Department of Transportation	23.25	24.25	22.25	(2.00)
RI Public Transit Authority	9.75	11.75	11.75	-
RI Turnpike and Bridge	3.50	3.50	3.50	-
DHS - Elderly Transportation	1.00	1.00	1.00	-
Underground Storage Tank Fund	0.50	0.50	0.50	-
Total	**38.0**	**41.00**	**39.00**	**(2.00)**

Includes 1 cent environmental protection fee

Article 11, Section 2 – Motor Fuel Tax

- Proposal links reduction to recent defeasance of motor fuel bond debt
  - 2 cents were pledged as a <u>state match</u> for GARVEE debt authorized by 2003 Assembly
    - Bonds paid off in December 2025
- Governor's budget assumes $8.6 million less in gas tax revenues otherwise available for transportation purposes

GARVEE Bonds

- 2016 Assembly authorized $300M GARVEE bonds
  - Bridge replacement, reconstruction, and maintenance of 10-year RhodeWorks plan
  - Refinance 2003 bonds
- 2019 Assembly authorized $200M in GARVEE bonds
  - Bridges in RhodeWorks plan
    - Providence Viaduct Northbound

Highway Maintenance Account

- 2014 Assembly
  - Transferred and new revenue sources
  - Increased inspection fee from $39 to $55
  - $25 surcharge for good driving dismissal
  - Established a schedule to transfer transportation related fees from DMV to DOT
  - Plan to address transportation funding
  - RIPTA receives 5% of HMA funding

Highway Maintenance Account

Year	Change to HMA Sources and Uses
2017	Adds fixed allocation of \$5.0M for RIPTA to reinstate bus pass program & cover debt – 2 years
2019	• Additional \$5.0M to RIPTA made permanent • State retains 5% to offset the cost of collections
2021	Technical one year change to maximize federal funds
2023	Shifts duplicate ID fee revenue from GR to HMA
2025	• Increased existing surcharges by \$10 • Establishes tiers of new electric vehicle charges • Increased RIPTA's share to 10%

Highway Maintenance Account

- Most recent changes were estimated to increase resources in the account
  - $6.7 million for FY 2026
  - $16.0 million for FY 2027
  - Total account resources assumed for FY 2026 was $117.7 million
    - Updated estimate provided in November

Article 2, Sec. 2 – Highway Maintenance Account

- Amends allocation to annually provide an additional $9.3M to RIPTA

	FY 2024	FY 2025	Current Law FY 2026	Current Law FY 2027	FY 2027 Gov	Chg.
Receipts	**$111.8**	**$113.8**	**$119.2**	**$128.2**	**$128.2**	**$-**
Allocation						
5% GR Transfer	$5.6	$5.7	$6.0	$6.4	$6.4	$-
RIPTA	10.3	10.5	16.3	17.2	26.5	9.3
DOT	95.9	97.6	96.9	104.6	95.3	(9.3)
Total	**$111.8**	**$113.8**	**$119.2**	**$128.2**	**$128.2**	**$-**

$ in millions

Department of Transportation

- Statewide Planning Council adopted 10-yr Statewide Transportation Improvement Program
  - Sept. 2025
  - Proposed revisions' impacts on planned work?

Annual DOT Impact	
Gas Tax Reduction	$(8.6)
HMA Allocation	(9.3)
Total	**$(17.9)**

$ in millions

Art. 5, Sec. 8 – City of Newport Landing & Boarding Fees

- City of Newport is authorized to charge cruise ship operators landing & boarding fees per passenger

Session	Fee	Effective Date
1998	Established $2	Jan. 1, 1999
2014	Increased to $3	Nov. 1, 2015
2024	Increased to $10	Upon passage

- 2024 increase tied to city's infrastructure improvement needs
  - Implemented over an 18-month period

Art. 5, Sec. 8 – City of Newport Landing & Boarding Fees

- Increases fees from $10 to $15 each way
  - Estimated to generate $1.0 million
- Allocates increased revenue to RIPTA
  - Support transit operations in Newport and Aquidneck Island

Calendar Year	# of Passengers
2025	83,228
2024	116,530
Average	**99,879**
New Fee Impact	
Average @ $10 $5 each way	**$998,790**

RI Public Transit Authority

- Authority projected an operating budget deficit of $13.8 million for FY 2027
  - Governor closes the gap with three proposals

2026-H 7127	Item	Impact
Article 2, Sec. 2	HMA increase	$9.3
Article 5, Sec. 8	Cruise ship fees	1.0
Article 1, Sec. 1 &14	RICAP for buses	3.5
Total		**$13.8**

$ in millions

Art. 2, Sec. 1 – Indirect Cost Recovery

- All revenues = general revenue, unless otherwise noted
  - Currently15% charge on restricted receipts unless:
    - Prohibited (federal or other)
    - Charitable
    - Specifically listed as exempt
- Section 1 technical correction
  - Adds RI Uninsured Protection Fund to list of exempted restricted receipt accounts
  - Considered as part of Workers' Comp Admin Fund
    - Exempted as part of FY 2026 enacted budget

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