



SENATE FISCAL OFFICE
REPORT

**GOVERNOR'S FY2026 AND FY2025
SUPPLEMENTAL BUDGET**

2025-H-5076 AND 2025-H-5075

ARTICLE SUMMARIES

FEBRUARY 10, 2025

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FY2025 SUPPLEMENTAL BUDGET ARTICLES

2025 – H-5075: Relating to Making Revised Appropriations in Support of FY2025

Article 1 outlines the appropriation amounts from all fund sources for the FY2025 Supplemental Budget. In most cases, the appropriations are by fund source at the program level in each department or agency. The article includes the FTE position authorizations by department or agency. Other sections of the article outline the use of contingency funds; expenditure limits for internal service funds; and, disbursements of Lottery, Temporary Disability Insurance, Employment Security, and University and College Funds. This article makes appropriations for general revenues, federal, restricted, and other funds, and authorizes FTE levels for each agency and department. Article 1 also includes the following items:

- Sets the airport impact aid formula at \$1.0 million.
- Authorizes 15,772.8 FTE positions, consistent with the authorized level set in the FY2025 Budget as Enacted.
- Details Community Service Objective grant funding recipients and amounts.
- Requires that all unexpended or unencumbered balances relating to the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island, be reappropriated to FY2026. In addition, the Office of the Postsecondary Commissioner shall provide \$7.4 million be allocated to the Rhode Island Promise Scholarship program, and \$3.6 million to support the Rhode Island Hope Scholarship Program, \$455,000 to support the Onward We Learn, \$200,000 to the Rhode Island School for Progressive Education, \$151,410 to support the State's membership in the New England Board of Higher Education, and \$75,000 to Best Buddies Rhode Island.
- Caps the amount the Judiciary may charge five state agencies (Public Defender's Office, Office of the Attorney General, Department of Corrections, DCYF, and Department of Public Safety) for public courthouse occupancy costs at \$1.4 million. It requires Judiciary to provide \$500,000 to the Rhode Island Coalition Against Domestic Violence for domestic abuse court advocacy and requires \$90,000 be provided to the Rhode Island Legal Services to provide housing and eviction defense to indigent individuals.
- Amends federal funds, authorized, allocated, or apportioned to the State from the State Fiscal Recovery Fund pursuant to the American Rescue Plan Act of 2021.
- Extends the quarterly reporting period to January 31, 2025, for the Pandemic Recovery Office to identify programs that are at risk of significant under spending or noncompliance with federal or state requirements. The reports are provided to the chairpersons of the House and Senate Finance Committees. Commencing with the report due on April 30, 2025, the report will be made on a biannual basis until October 31, 2026. The report must include an assessment on how programs that are risk can be remedied.
- Allows the Governor to reclassify any State Fiscal Recovery Funds that are at risk of forfeiture from the SFRF program to other eligible uses as determined by the U. S. Treasury. The Governor is required to notify the General Assembly and the proposal will be referred to the General Assembly to go into effect 30-days later, unless formally rejected by the House of Representatives and Senate acting concurrently within those 30-days.
- Requires the Department of Environmental Management to transfer \$3.0 million from the Underground Storage Tank Trust Fund to the State Controller by June 30, 2025.
- Requires the Rhode Island Student Loan Authority to transfer \$2.7 million to the State Controller by June 30, 2025.

- Requires the Rhode Island Infrastructure Bank (RIIB) to transfer \$2.0 million to the State Controller by June 30, 2025.
- Requires the Department of Revenue to transfer \$579,788 from the Marijuana Trust Fund restricted receipt account to the State Controller by June 30, 2025.

APPROPRIATIONS

Article 1 makes appropriations from general revenues and authorizes expenditures of federal funds, restricted receipts, and other funds for the fiscal year ending June 30, 2025.

<u>Expenditures by Source</u>	<u>FY2024 Actual</u>	<u>FY2025 Enacted</u>	<u>FY2025 Governor</u>	<u>Change to Enacted</u>
General Revenue	\$5,236.1	\$5,594.9	\$5,610.7	\$15.8
Federal Funds	4,936.5	5,066.5	5,660.4	593.8
Other Funds	2,948.6	3,471.7	3,834.0	362.2
Restricted Receipts	473.7	463.1	491.0	27.8
Total	\$13,594.9	\$14,596.3	\$15,596.0	\$999.7

\$ in millions. Totals may vary due to rounding.

Section 1 also provides language directing the disbursement of specific appropriations including:

- **Office of Energy Resources:** The article shifts \$500,000 in general revenue from the Department of Administration to provide \$250,000 for the Electric Bike Rebate Program and \$250,000 for the Electric Leaf Blower Rebate Program.
- **Commerce:** The Budget allocates \$900,000 in general revenue for the annual support for the Rhode Island Science and Technology Council (STAC).
- **Commerce – Wavemaker Fellowship:** The Budget provides that at least \$500,000 shall be reserved for awards for medical doctor, nurse practitioner, and physician assistant healthcare applicants, consistent with the enacted budget.
- **Labor and Training – Direct Care Training:** The article requires \$600,000 in general revenue be used for enhanced training for direct care and support services staff to improve the resident quality of care for nursing facility residents.
- **BHDDH – DD Consent Decree:** The State has been under a Consent Decree with the United States Department of Justice since 2014, requiring the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) to foster more supportive and less isolated employment opportunities and day services for individuals with intellectual and developmental disabilities. The State has agreed to an action plan to ensure that the requirements of the Consent Decree are fulfilled. Article 1 provides that of both general revenue and federal funds within the Services for the Developmentally Disabled program, an amount to be certified by the Department will be allocated to direct support professional wage increases. In addition, \$982,957 in general revenues and \$508,803 in federal funds is specified to be expended on a Transformation Fund for integrated day activities and supportive employment.
- **RIDE - Individualized Education Programs (IEPs):** The Article provides that \$450,000 and 3.0 FTE positions are allocated to support special education functions that facilitate IEPs and 504 services.
- **RIDE – Learn365RI:** Requires that all unexpended or unencumbered balances from FY2025 relating to the Learn365RI program are automatically reappropriated to the following fiscal year.
- **RIDE - Rhode Island Vision Education and Services Program and Auditory Oral Program:** The Article requires that \$684,000 from the Department of Elementary and Secondary’s administrative share of federal Individuals with Disabilities Education Act funds, be allocated to the Sherlock Center on Disabilities to support the Rhode Island Vision Services Program.

- **RIDE - Education Aid:** The Budget provides that the criteria for the allocation of early childhood funds must prioritize prekindergarten seats and classrooms for four-year-olds with a family income at or below 185.0 percent of federal poverty guidelines and who reside in communities with higher concentrations of low performing schools.
- **Public Safety - Body-worn Camera:** The article includes \$11.5 million of one-time general revenue to support the new statewide body-worn camera program for law enforcement officers. On June 16, 2021, the State's political and law enforcement leadership announced support for a statewide program to put body-worn cameras on every frontline police officer and supervisor in Rhode Island. The statewide program is designed to equip approximately 1,700 of Rhode Island's uniformed patrol officers, across every municipal police department and the Rhode Island State Police, with body-worn cameras. All unexpended or unencumbered balances as of June 30, 2025, shall be reappropriated to FY2026.

FUND TRANSFERS

Article 7, Section 9 of the FY2018 Budget as Enacted (RIGL 35-3-7(a)(2)) requires that when a state budget submitted to the General Assembly includes monetary transfers to the general fund from public corporations, it must be accompanied by alternative funding proposals that may be considered in lieu of the public corporation transfers.

Analyst Note: The Governor's Budget does not contain the alternative proposal language. This typically has appeared in the budget transmittal letter in the past. Instead of removing the fund transfers, the letter indicates that if the State's fiscal condition improves the Governor would supplement educational investments to close the achievement gap with Massachusetts, and invest in primary care providers.

- **Department of Environmental Management - Underground Storage Tank Trust Fund:** The Budget requires the Department of Environmental Management to transfer \$3.0 million from the Underground Storage Tank Trust Fund to the State Controller by June 30, 2025.

Rhode Island has 1,822 registered and active underground storage tanks, 35 more than last year, all of which pose a potential environmental threat if leakage should occur. The Underground Storage Tank (UST) Clean-up Fund was created in 1994 to provide an effective mechanism for USTs owners to comply with financial responsibility requirements and to ensure that the environmental and public health impacts of UST leaks are addressed in an effective and timely manner. This fund is capitalized from a \$0.005 per gallon surcharge on motor fuel to owners/operators of underground storage tanks; however, the surcharge will be suspended once the balance of the fund reaches \$8.0 million and reinstated when falls below \$5.0 million (RIGL 46-12.9-11). Payments from the fund are made to qualified applicants on a reimbursement basis.

Article 3 of the FY2024 Budget as Enacted repealed the Underground Storage Tank Advisory Board. According to the Department of Environmental Management (DEM), the Board was largely defunct. The Board did not have any members and hadn't held any meetings since 2016 when legislation was passed changing the Board from a review to an advisory body and transferring the Board's authority over funding to DEM. Since the Board has been vacant and inactive for years, there was no impact on current activities or expenditures and DEM continues to supervise the clean-up process and insuring that each project meets state requirements.

The first payment was made from the fund in 1997 and since then reimbursements of over \$64.0 million have been made to clean up contamination from 262 UST sites. From FY2019 to FY2024, the fund has experienced average, annual expenditures of \$838,461. In the FY2024 Revised Budget, \$2.0 million from the fund was shifted into general revenues.

UST	Current							AVERAGE	
	Balance (1.27.2025)	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025 (as of 1.27.2025)	FY2019 to FY2024
	\$6,054,088								
Expenditures		\$1,034,157	\$913,690	\$756,260	\$804,406	\$882,077	\$640,177	\$887,609	\$838,461
Receipts		2,108,431	1,830,778	1,767,545	1,838,247	1,331,015	1,318,699	731,433	1,699,119
<i>difference</i>		<i>\$1,074,275</i>	<i>\$917,088</i>	<i>\$1,011,285</i>	<i>\$1,033,842</i>	<i>\$448,938</i>	<i>\$678,522</i>	<i>(\$156,177)</i>	<i>\$860,658</i>
Transfers to the State							<i>(\$2,000,000)</i>		

Source: RIDEM

- **Rhode Island Student Loan Authority:** The article requires the Rhode Island Student Loan Authority to transfer \$2.7 million in FY2025 from their unrestricted fund balance to the General Fund to fund Rhode Island's Dual and Concurrent Enrollment. Pursuant to RIGL 16-100, Rhode Island began offering the Dual Enrollment program, which allows students to take college courses to earn credits at both secondary and higher education institutions. In 2015, the Board of Education adopted provisions that ensure that all Rhode Island high school student have the opportunity to access college level work while still in high school. All three of the State institutions offer dual enrollment courses.

Office of the Postsecondary Commission indicated that the Dual and Concurrent Enrollment has faced a budget gap of \$300,000 in previous fiscal years, but, were able to close that gap with RI Higher Education Assistance Authority (RIHEAA) funds. However, the fund had been depleted in FY2024. The RISLA transfer will close the gap and ensure that the program will continue.

Analyst Note: While the amounts of the RISLA fund transfer and the funding for Dual and Concurrent Enrollment are the same, there is no legislation formally tying the two initiatives.

- **Rhode Island Infrastructure Bank (RIIB):** The article requires the Rhode Island Infrastructure Bank (RIIB) to transfer \$2.0 million to the General Fund by June 30, 2025. RIIB is a quasi-public agency that assists municipalities, businesses, and homeowners with financing infrastructure improvements through a revolving fund. It supports water and wastewater projects, roads and bridges, energy efficiency and renewable energy projects, and brownfield remediation.

According to the Office of Management and Budget, the \$2.0 million represents 6.1 percent of RIIB's unrestricted fund balance of \$32.6 million at the end of FY2024. RIIB indicates that \$16.4 million of that amount consists of long-term loans receivable and capital assets which are not readily available for operations. Moreover, \$11.2 million in reserves are restricted to specific programs at the Bank and are similarly unavailable. RIIB further indicates that only \$8.6 million is in unrestricted cash. This amount serves as the Bank's working capital, ensuring liquidity to cover monthly operating expenses for the current and following fiscal year. It also supports the Bank in delivering no cost technical advisory services to municipalities and enables the interim pre-funding of loans until long-term financing is secured. The proposed transfer of \$2.0 million would come from Bank operating funds which would decrease its working capital position and potentially lessen the Bank's financial flexibility.

- **Department of Revenue – Marijuana Trust Fund:** The article requires the Department of Revenue to transfer \$579,788 from the Marijuana Trust Fund restricted receipt account to the State Controller by June 30, 2025. Pursuant to RIGL 23-28-11.13, restricted receipt accounts were established in the Office of the Attorney General and the Judiciary, appropriating a total of \$1.4 million in restricted receipts. These funds facilitated the implementation of the automatic expungement provision of the Rhode Island Cannabis Act, which authorized the automatic expungement of any convictions for cannabis possession, use, or purchase. Rhode Island expunged more than 23,000 cannabis convictions under the Cannabis Act. All cannabis expungements were completed July 1, 2024.

INTERNAL SERVICE FUNDS

Article 1 authorizes 15 specific, capped internal service accounts to permit reimbursement of costs for work or other services performed by certain departments or agencies for any other department or agency. The FY2018 Budget as Enacted established centralized accounts for each agency and allows the Department of Administration to draw upon these accounts for billable centralized services and deposit the funds into the rotary accounts under the Department of Administration. Reimbursements may only be made up to the expenditure cap for each account, as outlined below.

Internal Service Account	FY2025 Enacted	FY2025 Governor	Change
State Assessed Fringe Benefits	\$36,946,270	\$37,207,570	\$261,300
Administration Central Utilities	30,029,111	29,958,823	(70,288)
State Central Mail	8,419,019	8,487,528	68,509
State Telecommunications	3,748,530	3,791,031	42,501
State Automotive Fleet	15,496,081	20,954,252	5,458,171
Surplus Property	44,789	44,789	-
Health Insurance	272,804,635	272,713,059	(91,576)
Other Post-Employment Benefits	63,854,008	63,854,008	-
Capitol Police	1,466,975	1,589,194	122,219
Corrections Central Distribution Center	7,659,339	8,619,679	960,340
Correctional Industries	8,247,332	8,448,513	201,181
Secretary of State Records Center	1,166,547	1,205,296	38,749
Human Resources Internal Service Fund	17,669,248	18,075,166	405,918
DCAMM Facilities Internal Service Fund	53,327,083	53,946,171	619,088
Information Technology Internal Service Fund	62,092,295	63,523,776	1,431,481
Total	\$582,971,262	\$592,418,855	\$9,447,593

FTE POSITIONS

Article 1 establishes the authorized number of full-time equivalent (FTE) positions for each State department and agency. Departments and agencies may not exceed in any pay period the number of authorized FTE positions shown. The Budget recommends no change in FTE positions as compared to the authorized level set in the FY2025 Budget as Enacted. The following table illustrates the FTE levels by government function:

FTE Positions by Function	FY2025 Enacted	FY2025 Governor	Change to Enacted
General Government	2,570.3	2,570.3	-
Human Services	3,848.5	3,848.5	-
Education	4,269.8	4,269.8	-
Public Safety	3,338.4	3,338.4	-
Natural Resources	471.0	471.0	-
Transportation	755.0	755.0	-
Subtotal	15,253.0	15,253.0	-
<i>Higher Ed. Sponsored Positions</i>	<i>519.8</i>	<i>519.8</i>	<i>-</i>
Total FTE Positions	15,772.8	15,772.8	-

STATE FISCAL RECOVERY FUNDS

Sections 5 and 6 of this article pertain to the authorization and appropriation of the State Fiscal Recovery Fund (SFRF) and Capital Projects Fund (CRF) federal funds.

- Section 5 clarifies that the federal funds do not include federal funds or assistance appropriated, authorized, allocated, or apportioned to the State from the State Fiscal Recovery Fund and Capital Projects Fund pursuant to the American Rescue Plan Act of 2021 for FY2025. The purpose of this language is to specify that these federal funds are not part of the generic federal fund line items and that a specific SFRF or CPF line item, by project, constitutes the authority to expend the SFRF or CPF. The Budget generally does not appropriate federal funds at an individual or specific level. This language

ensures that state agencies are not expending the SFRF or CPF funds under the authority of a general federal fund line item. The section also specifies and describes the SFRF appropriations.

- Section 6 maintains the Pandemic Recovery Office within the Department of Administration is to oversee and ensure compliance with the rules, regulations, and guidance issued by the United States Department of the Treasury of expenditures from the SFRF and Capital Projects Fund. This section extends the quarterly reporting period to January 31, 2025, for the Pandemic Recovery Office to identify programs that are at risk of significant underspending or noncompliance with federal or state requirements. The reports are provided to the chairpersons of the House and Senate Finance Committees. Commencing with the report due on April 30, 2025, the report will be made on a biannual basis until October 31, 2026. The report must include an assessment on how programs that are at risk can be remedied. Lastly the section allows the Governor to reclassify any State Fiscal Recovery Funds that are at risk of forfeiture from the SFRF program to other eligible uses as determined by the U. S. Treasury. The Governor is required to refer the proposal to the General Assembly to go into effect 30-days later, unless formally rejected by the House of Representatives and Senate acting concurrently within those 30-days.



FY2026 BUDGET ARTICLES

Article 1: Relating to Making Appropriations in Support of FY2026

Article 1 outlines the appropriation amounts from all fund sources for FY2026. In most cases, the appropriations are by fund source at the program level in each department or agency. The article includes the FTE position authorizations by department or agency. Other sections of the article outline the use of contingency funds; out-year appropriation changes in Rhode Island Capital Plan Fund projects; expenditure limits for internal service funds; outlines expenditures from the federal American Rescue Plan Act of 2021 and, disbursements of Lottery, Temporary Disability Insurance, and Employment Security. The article also:

- Sets the airport impact aid formula at \$1.0 million.
- Authorizes 15,806.8 FTE positions reflecting a net increase of 34.0 FTE positions, as compared to the authorized level set in the FY2025 Budget as Enacted.
- Details Community Service Objective grant funding recipients and amounts.
- Separates the Office of Energy Resources from the Department of Administration, creating a new, independent agency.
- Separates the Cannabis Control Commission from the Department of Business Regulation, creating a new, independent agency titled the Rhode Island Cannabis Control Commission.
- Requires that all unexpended or unencumbered balances relating to the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island, be reappropriated to FY2027. In addition, the Office of the Postsecondary Commissioner shall provide \$8.3 million to the Rhode Island Promise Scholarship program, and \$5.5 million to the Rhode Island Hope Scholarship Program.
- Caps the amount the Judiciary may charge five state agencies (Public Defender's Office, Office of the Attorney General, Department of Corrections, DCYF, and Department of Public Safety) for public courthouse occupancy costs at \$1.4 million. It requires the Judiciary to provide \$500,000 to the Rhode Island Coalition Against Domestic Violence for domestic abuse court advocacy and requires \$90,000 be provided to the Rhode Island Legal Services to provide housing and eviction defense to indigent individuals.
- Requires that Rhode Island Housing and Mortgage Finance Corporation continue to provide resources to support the Neighborhood Opportunities Program; an amount, however, is not designated. The Article requires a report be provided to the Director of Administration, chair of the Housing Resources Commission, State Budget Officer, and the chairs of the House and Senate Finance Committees on the number of housing units produced and on the amount of funding provided to the program.
- Clarifies that the federal funds do not include the federal funds or assistance appropriated, authorized, allocated, or apportioned to the State from the State Fiscal Recovery Fund and Capital Projects Fund pursuant to the American Rescue Plan Act of 2021. Requires that all unexpended or unencumbered balances relating to the State Fiscal Recovery Fund and Capital Projects Fund be reappropriated to FY2027 and made available for the same purposes.
- Extends the quarterly reporting period to January 31, 2025, for the Pandemic Recovery Office to identify programs that are at risk of significant under spending or noncompliance with federal or state requirements. The reports are provided to the chairpersons of the House and Senate Finance Committees. Commencing with the report due on April 30, 2025, the report will be made on a biannual basis until October 31, 2026. The report must include an assessment on how programs that are at risk can be remedied.
- Allows the Governor to reclassify any State Fiscal Recovery Funds that are at risk of forfeiture from the SFRF program to other eligible uses as determined by the U. S. Treasury. The Governor is required to notify the General Assembly and the proposal will be referred to the General Assembly to go into

effect 30-days later, unless formally rejected by the House of Representatives and Senate acting concurrently within those 30-days.

- Includes the appropriation mechanism necessary for incremental tax revenues collected from State economic activity taxes generated in Pawtucket’s Downtown Redevelopment district to be made available to the City. Legislation enacted in 2019 established several geographical districts within downtown Pawtucket that would constitute the City of Pawtucket’s Downtown Redevelopment project. Any incremental tax revenues generated in these districts related to new economic development are to be made available to the City once an agreement is made between City and the State. This agreement was entered into in December 2020. Since the passage of the legislation, the Commerce Corporation has been certifying these revenues and the Division of Taxation has segregated them into their own account. The language makes the formal appropriation in the Budget to disburse the funds to the City of Pawtucket.
- Requires the Rhode Island Student Loan Authority to transfer \$2.9 million to the State Controller by June 30, 2026.

APPROPRIATIONS

Article 1 makes appropriations from general revenues and authorizes expenditures of federal funds, restricted receipts, and other funds for the fiscal year ending June 30, 2026.

<u>Expenditures by Source</u>	<u>FY2024 Actual</u>	<u>FY2025 Enacted</u>	<u>FY2026 Governor</u>	<u>Change to Enacted</u>
General Revenue	\$5,236.1	\$5,594.9	\$5,743.1	\$148.2
Federal Funds	4,936.5	5,066.5	5,090.2	23.7
Other Funds	2,948.6	3,471.7	3,560.6	88.9
Restricted Receipts	473.7	463.1	446.2	(16.9)
Total	\$13,594.9	\$14,596.3	\$14,840.1	\$243.8

\$ in millions. Totals may vary due to rounding.

In addition, Article 1 provides for the annual appropriation of the Contingency Fund; Temporary Disability Insurance Funds (TDI); Employment Security (UI Trust Fund); CollegeBoundSaver Funds; and, Lottery Division funds for award winnings during FY2026.

Section 1 also provides language directing the disbursement of specific appropriations including:

- **Labor and Training – Direct Care Training:** The article requires \$600,000 in general revenue be used for enhanced training for direct care and support services staff to improve the quality of care for nursing facility residents.
- **EOHHS:** Removes language requiring that \$250,000 of the general revenue appropriation be used for the Hospital Care Transitions Initiative, if the program receives approval for a Medicaid match, and \$275,000 to assist nonprofit nursing facilities transition nursing home beds to assisted living beds.
- **EOHHS:** Removes language requiring that \$250,000 of the federal fund appropriation be used to develop an Olmstead Plan.
- **EOHHS:** Removes language requiring that \$5.0 million of the restricted receipt appropriation be used for Mobile Response and Stabilization Services.
- **BHDDH - DD Consent Decree:** The State has been under a Consent Decree with the United States Department of Justice since 2014, requiring the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) to foster more supportive and less isolated employment opportunities and day services for individuals with intellectual and developmental disabilities. The State has agreed to an action plan to ensure that the requirements of the Consent Decree are fulfilled. Article 1 provides that of both general revenue and federal funds within the Services for the Developmentally Disabled program, an amount to be certified by the Department will be allocated to

direct support professional wage increases. In addition, \$928,200 in general revenues and \$371,800 in federal funds are specified to be expended on a Transformation Fund for integrated day activities and supportive employment.

- **Health:** Ensures that the Office of Policy, Information, and Communication allocates a total of \$400,000 to support the Professional Loan Repayment Program, specifically targeting primary care physicians and pediatricians.
- **RIDE – Learn365RI:** Requires that all unexpended or unencumbered balances from FY2026 relating to the Learn365RI program are automatically reappropriated to the following fiscal year and removes language requiring that at least \$2.0 million of the general revenue appropriation to education aid be allocated to career and technical education to provide funding for new workforce job training.
- **RIDE - Rhode Island Vision Education and Services Program:** The article requires that \$684,000 from the Department of Elementary and Secondary Education’s share of federal Individuals with Disabilities Education Act funds, be allocated to the Sherlock Center on Disabilities to support the Rhode Island Vision Services Program.
- **RIDE - Education Aid:** The article prioritizes the allocation of early childhood funds for prekindergarten seats and classrooms for four-year-olds with a family income at or below 185.0 percent of federal poverty guidelines and who reside in communities with higher concentrations of low performing schools.
- **Transportation- Rhode Restore:** The article provides \$6.5 million of other funds to the Department of Transportation for the Municipal Roads Grant program, now titled the Rhode Restore program. The program provides matching funds to municipalities for maintenance and construction of their roads, sidewalks, and bridges.

INTERNAL SERVICE FUNDS

Article 1 authorizes 15 specific, capped internal service accounts to permit reimbursement of costs for work or other services performed by certain departments or agencies for any other department or agency. The FY2018 Budget as Enacted established centralized accounts for each agency and allows the Department of Administration to draw upon these accounts for billable centralized services and deposit the funds into the rotary accounts under the Department of Administration. Reimbursements may only be made up to the expenditure cap for each account, as outlined below:

Internal Service Account	FY2025 Enacted	FY2026 Governor	Change
State Assessed Fringe Benefits	\$36,946,270	\$37,255,808	\$309,538
Administration Central Utilities	30,029,111	30,366,642	337,531
State Central Mail	8,419,019	9,020,425	601,406
State Telecommunications	3,748,530	3,426,061	(322,469)
State Automotive Fleet	15,496,081	21,610,397	6,114,316
Surplus Property	44,789	44,789	-
Health Insurance	272,804,635	272,933,573	128,938
Other Post-Employment Benefits	63,854,008	63,854,008	-
Capitol Police	1,466,975	1,659,403	192,428
Corrections Central Distribution Center	7,659,339	8,679,440	1,020,101
Correctional Industries	8,247,332	8,477,292	229,960
Secretary of State Records Center	1,166,547	1,231,684	65,137
Human Resources Internal Service Fund	17,669,248	18,711,878	1,042,630
DCAMM Facilities Internal Service Fund	53,327,083	40,492,965	(12,834,118)
Information Technology Internal Service Fund	62,092,295	70,587,805	8,495,510
Total	\$582,971,262	\$588,352,170	\$5,380,908

FTE POSITIONS

Article 1 establishes the authorized number of full-time equivalent (FTE) positions for each State department and agency. Departments and agencies may not exceed in any pay period the number of authorized FTE positions shown. Statewide, the Budget has a net increase of 34.0 FTE positions from the FY2025 Budget as Enacted. The following table lists the FTE amounts by budget function:

FTE Positions by Function	FY2025 Enacted	FY2026 Governor	Change to Enacted
General Government	2,570.3	2,584.3	14.0
Human Services	3,848.5	3,859.5	11.0
Education	4,269.8	4,273.8	4.0
Public Safety	3,338.4	3,343.4	5.0
Natural Resources	471.0	471.0	-
Transportation	755.0	755.0	-
Subtotal	15,253.0	15,287.0	34.0
<i>Higher Ed. Sponsored Positions</i>	<i>519.8</i>	<i>519.8</i>	<i>-</i>
Total FTE Positions	15,772.8	15,806.8	34.0

FUND TRANSFERS

Article 7, Section 9 of the FY2018 Budget as Enacted (RIGL 35-3-7(a)(2)) requires that when a state budget submitted to the General Assembly includes monetary transfers to the general fund from public corporations, it must be accompanied by alternative funding proposals that may be considered in lieu of the public corporation transfers.

Analyst Note: The Governor's Budget does not contain the alternative proposal language. This typically has appeared in the budget transmittal letter in the past. Instead of removing the fund transfers, the letter indicates that if the State's fiscal condition improves the Governor would supplement educational investments to close the achievement gap with Massachusetts, and invest in primary care providers.

Rhode Island Student Loan Authority Fund Transfer

- The article requires the Rhode Island Student Loan Authority to transfer \$2.9 million in FY2026 from their unrestricted fund balance to the General Fund to fund Rhode Island's Dual and Concurrent Enrollment. This is in addition to a proposed \$2.7 million transfer in the current year. Pursuant to RIGL 16-100, Rhode Island began offering the Dual Enrollment program, which allows students to take college courses to earn credits at both secondary and higher education institutions. In 2015, the Board of Education adopted provisions that ensure that all Rhode Island high school student have the opportunity to access college level work while still in high school. All three of the State institutions offer dual enrollment courses.

Office of the Postsecondary Commission indicated that the Dual and Concurrent Enrollment has faced a budget gap of \$300,000 in previous fiscal years, but, were able to close that gap with RI Higher Education Assistance Authority (RIHEAA) funds. However, the fund had been depleted in FY2024. The RISLA transfer will close the gap and ensure that the program will continue.

COMMUNITY SERVICE OBJECTIVES

The FY2017 Budget as Enacted changed the Community Service Objective (CSO) Grants program. Previously, CSO grants were funded in executive agency budgets, but were not specifically delineated in the appropriations act. The program now consists of two components: line-item grant awards, and pool grants. Line-item grants are identified in the appropriations act and include a brief description of the grant purpose. Pool grants will be allocated by executive branch agencies either by formula, or through a competitive process. State agencies will manage the application, award, and reconciliation processes for the awards. Consistent with previous practice, the awards may be subject to audits by the Bureau of Audits.

The FY2025 Budget as Enacted includes \$14.2 million in general revenue for CSO grant awards across 15 state agencies. The FY2026 Budget includes \$13.9 million in general revenue in FY2026, a decrease of \$335,000 from the previously enacted budget.

Agency	Grant Recipient	FY2025 Enacted	FY2026 Governor	Change
Executive Office of Commerce	Polaris Manufacturing Technical Assistance Program	\$500,000	\$500,000	\$0
Executive Office of Commerce	Chafee Center at Bryant	476,200	476,200	-
Executive Office of Commerce	Urban Ventures	140,000	140,000	-
Executive Office of Commerce	East Providence Waterfront Commission	50,000	50,000	-
Executive Office of Commerce	Blackstone Valley Visitor Center	75,000	75,000	-
Labor and Training	Year Up	200,000	200,000	-
Secretary of State	Rhode Island Historical Society	125,000	125,000	-
Secretary of State	Newport Historical Society	18,000	18,000	-
Secretary of State	RI Council for the Humanities	100,000	100,000	-
Secretary of State	We the People Civics Challenge	50,000	50,000	-
Secretary of State	RI Black Heritage Society	25,000	25,000	-
OHHS	Linn Health and Rehabilitation	200,000	-	(200,000)
Health	Gloria Gemma Breast Cancer Research	-	50,000	50,000
Human Services - Healthy Aging	Diocese of Providence - Elder Services	325,000	325,000	-
Human Services - Healthy Aging	Alliance for Long Term Care Ombudsman Services	40,000	40,000	-
Human Services - Healthy Aging	Elderly Housing Security	85,000	-	(85,000)
Human Services - Healthy Aging	Elderly Nutrition	50,000	50,000	-
Human Services - Healthy Aging	Meals on Wheels	630,000	630,000	-
Human Services - Healthy Aging	Senior Center Support	1,400,000	1,600,000	200,000
Human Services	Coalition Against Domestic Violence	400,000	400,000	-
Human Services	Project Reach - Boys and Girls Club	450,000	450,000	-
Human Services	Day One	300,000	300,000	-
Human Services	RI Community Food Bank	800,000	550,000	(250,000)
Human Services	Crossroads Rhode Island	500,000	500,000	-
Human Services	Institute for the Study and Practice of Nonviolence	250,000	250,000	-
Human Services - Veterans Services	Operation Stand Down	50,000	50,000	-
Human Services - Veterans Services	Veterans' Organizations	200,000	200,000	-
Human Services - Veterans Services	Veterans Services Officers Program	100,000	100,000	-
Human Services	Community Action Fund	600,000	600,000	-
Human Services	United Way's 211 System	200,000	200,000	-
Human Services	Higher Ground International	125,000	125,000	-
Human Services	Refugee Dream Center	50,000	50,000	-
Human Services	Substance Use and Mental Health Leadership Council of RI	100,000	100,000	-
Human Services	Center for Southeast Asians	25,000	25,000	-
Human Services	Crossroads RI Women's Shelter	360,000	360,000	-
Education	Hasbro Children's Hospital - Hospital School	90,000	90,000	-
Education	Child Opportunity Zones	395,000	395,000	-
Education	City Year - Whole School Whole Child Program	130,000	130,000	-
Office of Postsecondary Commissioner	Onward We Learn	455,000	455,000	-
Office of Postsecondary Commissioner	Best Buddies Rhode Island	75,000	75,000	-
Office of Postsecondary Commissioner	RI School for Progressive Education	200,000	100,000	(100,000)
Office of Postsecondary Commissioner	College Visions	-	50,000	50,000
University of Rhode Island	Small Business Development Center	700,000	700,000	-
University of Rhode Island	Institute for Labor Studies and Research	125,000	125,000	-
University of Rhode Island	Special Olympics Rhode Island	50,000	50,000	-
Arts Council	WaterFire Providence	400,000	400,000	-
Arts Council	Other Grants	200,000	200,000	-
Historical Preservation	Fort Adam's Trust	30,000	30,000	-
Historical Preservation	Rhode Island Slave History Medallions	25,000	25,000	-
Historical Preservation	Other Grants	17,000	17,000	-
Corrections	Crossroads Rhode Island	1,050,000	1,050,000	-
Judicial	Rhode Island Coalition Against Domestic Violence	500,000	500,000	-
Judicial	Rhode Island Legal Services	90,000	90,000	-
Public Safety	Family Services of RI GO Team Program	400,000	400,000	-
Environmental Management	Wildlife Rehabilitators Association of RI	100,000	100,000	-
Environmental Management	Conservation Districts	180,000	180,000	-
Total		\$14,211,200	\$13,876,200	(\$335,000)

CAPITAL APPROPRIATIONS

Article 1 authorizes amounts from the Rhode Island Capital Plan (RICAP) Fund, not otherwise appropriated, to be expended during the fiscal years ending June 30, 2027, June 30, 2028, June 30, 2029, and June 30, 2030. These amounts supersede appropriations provided for FY2026 within the FY2025 Budget as Enacted.

Subject to final General Assembly approval, any unexpended or unencumbered funds from the RICAP Fund project appropriations in excess of \$500 may be reappropriated to the next fiscal year and made available for the same purpose. Any remaining funding less than \$500 may be reappropriated at the discretion of the State Budget Officer.

STATE FISCAL RECOVERY FUNDS

Sections 17, 18, and 19 of this article pertain to the authorization and appropriation of the State Fiscal Recovery Fund (SFRF) and Capital Projects Fund (CRF) federal funds.

- Section 17 clarifies that the federal funds do not include federal funds or assistance appropriated, authorized, allocated, or apportioned to the State from the State Fiscal Recovery Fund and Capital Projects Fund pursuant to the American Rescue Plan Act of 2021 for FY2026. The purpose of this language is to specify that these federal funds are not part of the generic federal fund line items and that a specific SFRF or CPF line item, by project, constitutes the authority to expend the SFRF or CPF. The Budget generally does not appropriate federal funds at an individual or specific level. This language ensures that state agencies are not expending the SFRF or CPF funds under the authority of a general federal fund line item. The section also specifies and describes the SFRF appropriations.
- Section 18 requires that all unexpended or unencumbered balances relating to the SFRF and Capital Projects Fund, be reappropriated to the ensuing fiscal year and made available for the same purposes.
- Section 19 maintains the Pandemic Recovery Office within the Department of Administration is to oversee and ensure compliance with the rules, regulations, and guidance issued by the United States Department of the Treasury of expenditures from the SFRF and Capital Projects Fund. This section extends the quarterly reporting period to January 31, 2025, for the Pandemic Recovery Office to identify programs that are at risk of significant under spending or noncompliance with federal or state requirements. The reports are provided to the chairpersons of the House and Senate Finance Committees.

Commencing with the report due on April 30, 2025, the report will be made on a biannual basis until October 31, 2026. The report must include an assessment on how programs that are at risk can be remedied. Lastly the section allows the Governor to reclassify any State Fiscal Recovery Funds that are at risk of forfeiture from the SFRF program to other eligible uses as determined by the U. S. Treasury. The Governor is required to notify the General Assembly and the proposal will be referred to the General Assembly to go into effect 30-days later, unless formally rejected by the House of Representatives and Senate acting concurrently within those 30-days.

Article 2 – Relating to State Funds

This article amends various statutes related to State funds and financing. Specifically, the article:

- Expands the eligibility of projects able to receive funding from the Rhode Island Infrastructure Bank’s Municipal Road and Bridge Revolving Fund.
- Increases the State’s indirect cost recovery rate to 15.0 percent.
- Suspends the statutory transfer of excess revenues to the Supplemental State Budget Reserves and Employee Retirement System of Rhode Island for FY2024.
- Establishes a restricted receipt account at the Rhode Island State Psychiatric Hospital (RISPH) to facilitate the use of federal Medicare Part D reimbursements. The RISPH was opened in October 2022 as a separately licensed psychiatric facility to bring the patient counts at Eleanor Slater Hospital (ESH) into compliance following an issue with the Center for Medicare and Medicaid Services (CMS) Institute of Mental Disease (IMD) exclusion regulations.

FISCAL IMPACT

Initiative	FY2025		FY2026	
	Revenues	Expenditures	Revenues	Expenditures
Municipal Road and Bridge Revolving Fund	\$0	\$0	\$0	\$0
Indirect Cost Recovery Rate Change	-	-	6,832,419	-
Supplemental State Budget Reserve Account and State Retirement Fund	43,275,920	-	-	-
Medicare Part D Account	-	-	-	-
Total	\$43,275,920	\$0	\$6,832,419	\$0

The fiscal impact of Article 2’s changes are summarized in the following table. For more details, please refer to the analysis and background section.

ANALYSIS AND BACKGROUND

Municipal Road and Bridge Revolving Fund

RIGL 24-18-7 establishes the Municipal Road and Bridge Revolving Fund and grants authority to the Rhode Island Infrastructure Bank for its administration. The Rhode Island Infrastructure Bank (RIIB) was established by the Rhode Island General Assembly in 1989 as the Clean Water Finance Agency. In 2013, the General Assembly established the Municipal Road and Bridge Revolving Fund to provide municipalities with low-cost financial assistance for infrastructure projects.

Currently, projects that require financial assistance are evaluated by the Department of Transportation through a “Project Evaluation Criteria” which determines a project’s eligibility, as well as a rank, in which, financial assistance shall be awarded. The criteria consider several factors such as the extent to which the project generates economic benefits, the extent to which the project will be able to proceed at an earlier date, the cost effectiveness of the project, as well as the likelihood that the project will increase safety. Following the evaluation by the Department, approved projects are placed in ranked order on the “Project Priority List.” The law explicitly forbids projects not listed from receiving financial assistance.

Analyst Note: In FY2024, the General Assembly created the Municipal Roads Grant program at the Department of Transportation which provided \$27.0 million of federal State Fiscal Recovery Funds (SFRF) to municipalities for infrastructure projects. While similar, this program is distinct from the Municipal Road and Bridge Revolving Fund program.

Article Changes: The article expands the eligibility for approved projects to receive matched funds through the RIIB. Section 1 amends RIGL 24-18-7, authorizing the RIIB to issue financial assistance for approved projects, regardless of their Project Priority List status, if the funding is to provide match to other federal, state or local funds. Section 5 amends RIGL 45-12-33, authorizing municipalities to issue bonds or other instruments of indebtedness to receive loans from the Municipal Road and Bridge Revolving Fund.

Indirect Cost Recovery Rate Change

State law permits the assessment of an indirect cost recovery charge on most state restricted receipt accounts, in order to support the administrative overhead costs associated with the collection of funds and administration of the accounts. RIGL 35-4-27 enumerates those restricted receipts exempted from this assessment. Section 2 of this article increases the indirect cost recovery charge provisions on restricted receipt accounts from 10.0 percent to 15.0 percent, matching the new federal rate that went into effect on October 1, 2024. All existing exempt accounts will remain exempt. This is projected to increase general revenue receipts by \$6.8 million in FY2026, and increasing to \$7.0 million, based on inflationary growth rate (less food and energy) in FY2027.

Adopted REC FY2026		Projected New			
ICR Receipts	ICR	Gross Receipts	New ICR	ICR Receipts	Change
\$13,664,838	10.0%	\$136,648,380	15.0%	\$20,497,257	\$6,832,419

Source: State Budget Office

The article also transfers three existing exempted restricted receipt accounts from the Department of Administration to the proposed Office of Energy Resources; and, adds an account for the Rhode Island Cannabis Control Commission to the list of exempt accounts.

- **OER Reconciliation Funding:** The article includes the OER Reconciliation Funding account to the list of restricted receipt accounts under the Office of Energy Resources that are exempt from the 15.0 percent indirect cost recovery charge on most state restricted receipt accounts.
- **RGGI Executive Climate Change Coordinating Council Projects:** The article adds the Executive Climate Change Coordinating Council Projects to the list of restricted receipt accounts under the Office of Energy Resources that are exempt from the 15.0 percent indirect cost recovery charge on most state restricted receipt accounts.
- **Electric Vehicle Charging Stations Operating and Maintenance Account:** The article adds the Electric Vehicle Charging Stations Operating and Maintenance Account to the list of restricted receipt accounts under the Office of Energy Resources that are exempt from the 15.0 percent indirect cost recovery charge on most state restricted receipt accounts.
- **Clean Transportation:** The article adds the Clean Transportation account to the list of restricted receipt accounts under the Office of Energy Resources that are exempt from the 15.0 percent indirect cost recovery charge on most state restricted receipt accounts.

Supplemental State Budget Reserve Account and State Retirement Fund

Section 3 establishes that from excess revenues from FY2024 the State Controller shall not transfer 50.0 percent of the excess general revenue, net of the transfer to the State Budget Reserve and Cash Stabilization account, to the Supplemental State Budget Reserve account and 50.0 percent to the State Employees' Retirement System to support the State pension system.

The FY2024 Budget as Enacted established the Supplemental State Budget Reserve and required that the State Controller transfer 50.0 percent of the excess general revenue, net of the transfer to the State Budget Reserve and Cash Stabilization account, to the Supplemental State Budget Reserve account. The FY2024 Budget as Enacted also transferred \$55.0 million in surplus funding into the State Supplemental Budget Reserve Account.

In June 2024, the General Assembly enacted 2024-S-3152 and 2024-H-7927A which allows financial institution taxpayers (banks) to choose how they apportion their net income beginning in Tax Year 2025. This legislation was estimated to reduce revenue by \$7.7 million in FY2025. To offset this loss the legislation also includes a one-time suspension of the statutorily-required general revenue transfer to the Supplemental Rainy-Day Fund for surplus revenues (from FY2023 into FY2024). The suspension was estimated to increase available revenues in FY2024 by \$6.5 million.

Passage of this article would reverse the transfer of \$21.6 million to the ERSRI pension fund and \$21.6 million to the Supplemental State Budget Reserve account in FY2025, and increase the available fund balance in the Governor's recommended budget by \$43.3 million.

In addition, in this section, the duties of the State Controller are amended to include oversight of the Office of Risk Management, which previously fell to the Division of Capital Asset Management and Maintenance (DCAMM).

Article 3 – Relating to Government Reform and Reorganization

Article 3 makes several changes to the organization of state government. Specifically, the article:

- **Hemp Growth Act:** Amends the statutory language in RIGL 2-26, substituting ‘commission’ for ‘department’, and ‘chairperson’ for ‘director’, completing the transition of regulatory charge from the Department of Business Regulation to the Cannabis Control Commission. The article also incorporates RIGL 28-5.1-14, titled Equal Opportunity and Affirmative Action, as a technical change to the statute.
- **Rhode Island Cannabis Act:** Amends RIGL 21-28.11-4, the Rhode Island Cannabis Act, charging the Commission with the authority to designate an administrative hearing officer, and ensures that the transfer of regulatory authority of industrial hemp occurs concurrently with the transfer of regulatory authority of medical marijuana.
- **Instruction in Jiu-Jitsu or Karate:** Repeals RIGL 5-43-1, and 5-43-2, eliminating municipal authority to offer licenses and charge fees up to \$25 for instruction in jiu-jitsu and karate, and eliminates the \$20 fine in which municipalities could charge anyone offering instruction in jiu-jitsu and karate without sufficient licensing.
- **Office of Internal Audit and Program Integrity:** Amends multiple sections of general law to update the change in name of the office from the Office of Internal Audit to the Office of Internal Audit and Program Integrity, to better describe the scope and responsibilities of the Office’s functions to investigate fraudulent activities and to prevent and detect mismanagement of public funds.
- **Rhode Island Paint Recycling Program:** The article repeals the paint recycling program through RIGL 23-24.12. Pursuant to the article, the collection of the paint stewardship fee would end on August 1, 2025, and approval from the Department of Environmental Management (DEM) would be required for any program expenditures after that date. The Governor asserts that the program is a burden to Rhode Island businesses and notes that Massachusetts does not impose a similar fee. Connecticut, Vermont, and Maine have similar programs.
- **Procurement Assessment Fee:** Establishes a 0.33 percent administrative fee be assessed on all state contracts beginning on January 1, 2026, reducing the current 1.0 percent administrative fee on master price agreements (MPA) to 0.33 percent. Revenue from the fee would be restricted to support the operations of the Division of Purchases.
- **Office of Risk Management:** Amends general law to modify the duties of the Department of Administration’s Division of Capital Asset Management and Maintenance (DCAMM) to no longer include oversight of the Office of Risk Management.
- **Office of Energy Resources:** Amends the filing date of the Office of Energy Resources’ annual report from March 1 to June 30 of each year. The article also eliminates a provision referencing the Energy Efficiency Resource Management Council, as the council submits its own annual report and amends RIGL 42-140-3 and RIGL 42-140-7 to eliminate outdated statutory references.
- **State Facilities Benchmarking and Performance Standards Program:** Amends RIGL 42-6.2 entitled the “2021 Act on Climate,” to establish the State Facilities Benchmarking and Performance Standards Program, requiring state agencies, beginning March 1, 2025, to measure and report, to the Office of Energy Resources, the annual energy usage and greenhouse gas emissions for state-owned, or state occupied facilities.
- **Rhode Island Integrated Data Systems Act:** Amends the title of the Rhode Island Longitudinal Data Systems Act to the Rhode Island Integrated Data Systems Act. Section 24 combines the Rhode Island Longitudinal Data System and the Executive Office of Health and Human Services (EOHHS) Ecosystem to form the Rhode Island Integrated Data System (RIIDS). Additionally, this section merges

the governing boards of RILDS and the Ecosystem, creating a unified governance board which is charged with improving transparency for both state analysts and outside researchers. Section 24 ensures that all State agencies participate in the federated data system, sharing data to the greatest extent possible.

FISCAL IMPACT

Passage of Article 3 will impact both general revenue and restricted receipt expenses of the State, and may impact local revenue collections.

Office of Internal Audit and Program Integrity: Article 3 includes language to better describe the scope and responsibilities of the Office's functions to investigate fraudulent activities. The Budget includes \$350,406 in annual recurring general revenue expenditures to support the salaries and benefits of two new FTE positions

- **Procurement Assessment Fee:** Article 3 establishes a 0.33 percent administrative fee to be assessed on all state contracts beginning on January 1, 2026, and reduces the current 1.0 percent administrative fee on master price agreements (MPA) to 0.33 percent. The FY2026 Budget includes a reduction of \$500,000 in general revenue expenditures due to the shift of costs to restricted receipts. Restricted receipt revenue will decrease by \$387,787 in FY2026 from the FY2025 enacted level due to the decrease in the MPA fee and the staggered rollout of the new fee to only contracts that renew or commence after January 1, 2026. According to the Budget Office, it will become revenue positive beginning in FY2027 with a rough revenue estimate of \$1.1 million for FY2027.
- **State Facilities Benchmarking and Performance Standards Program:** Article 3 amends RIGL 42-6.2 to establish the State Facilities Benchmarking and Performance Standards Program. The Budget includes \$139,069 in restricted receipts to support an additional 1.0 FTE position within the Office of Energy Resources to administer and facilitate the collection of data for this program.
- **Instruction in Jiu-Jitsu and Karate Licensing:** Article 3 repeals municipal authority to offer licenses and to charge fees for instruction in Jiu-Jitsu or Karate, including a licensing fee of up to \$25, and to charge a fine of up to \$20 on anyone found to be teaching Jiu-Jitsu or Karate without proper licensing. However, the local fiscal impact is unknown at this time.

ANALYSIS AND BACKGROUND:

Hemp Growth Act

The article amends RIGL 2-26, substituting 'commission' for 'department', and 'chairperson' for 'director', completing the transition of regulatory charge from the Department of Business Regulation to the Cannabis Control Commission. The article also incorporates RIGL 28-5.1-14, titled Equal Opportunity and Affirmative Action, as a technical change to the statute.

The Office of Cannabis Regulation has overseen the regulation of hemp, medical marijuana, and compassion center licensing since 2016. However, pursuant to the Rhode Island Cannabis Act, the regulatory oversight of cannabis, including hemp, medical marijuana, and compassion center licensing, is to be transferred to the Cannabis Control Commission once the Commission's adult use regulations become finalized. Section 1 of Article 3 amends the statutory language in RIGL 2-26, the Hemp Growth Act, to transfer regulatory review from the Department of Business Regulation (DBR) to the Cannabis Control Commission.

State employees performing hemp-related functions are housed under DBR's Office of Cannabis Regulation (OCR). This amendment will transfer OCR employees to the Commission. According to Office of Management and Budget, if regulatory review of hemp is not amended, the Department will continue to have authority of regulatory review, risking fragmented operations and inconsistent policies.

Rhode Island Cannabis Act

Section 4 amends the Rhode Island Cannabis Act, confirming its authority to appoint an administrative officer to conduct hearings and make recommendations to the Commission in contested cases. The officer would essentially act as a judge, resolving disputes related to the Commission. This position would provide an unbiased review of the dispute, evaluating evidence, and report back to the Commission with a recommendation. Section 4 also ensures the transfer or regulatory review of hemp, aligning with Section 1 of Article 3 and the Hemp Growth Act.

Instruction in Jiu-Jitsu or Karate

Article 3 repeals municipal authority to offer licenses and charge fees for instruction in Jiu-Jitsu or Karate and eliminates municipal authority to impose a fine for offering instruction in Jiu-Jitsu or Karate without a license. RIGL 5-43-1 allows municipalities to charge a licensing fee of up to \$25, while RIGL 5-43-2 allows municipalities to charge a fine of up to \$20 on anyone found to be teaching Jiu-Jitsu or Karate without proper licensing. Article 3 repeals both the licensure fee and penalty fines.

Office of Internal Audit and Program Integrity

The article amends multiple sections of general law to update the change in the name of the office from the Office of Internal Audit to the Office of Internal Audit and Program Integrity (OIAPI), to better describe the scope and responsibilities of the Office's functions to investigate fraudulent activities and to prevent and detect mismanagement of public funds. According to the Office of Management and budget, some of the specific language regarding public assistance was intended to make clear that the OIAPI also has authority in these areas in addition to the EOHHS Medicaid Program Integrity Unit.

The primary new responsibilities that OIAPI receives are the ability to issue administrative subpoenas, with the written approval of the Department of Administration director, for records and testimony relevant to conducting audits and investigations, and the authority to initiate civil recovery actions to recover assets obtained through fraudulent means.

According to the OMB, the new language provides the option to petition Superior Court through the Attorney General or to do so directly if a person does not comply with an administrative subpoena. This would provide OIAPI the ability to petition the court directly to be more efficient. This proposal includes \$350,406 in annual recurring expenditures, (\$299,967 general revenue and \$50,439 federal funds), to support the salaries and benefits of two new FTE positions, of which one position will focus on supporting Office of Internal Audit and Program Integrity's fraud prevention and detection mission through complex analytics.

Rhode Island Paint Recycling Program

The article repeals the paint recycling program through RIGL 23-24.12. Pursuant to the article, the collection of the paint stewardship fee would end on August 1, 2025, and approval from the Department of Environmental Management (DEM) would be required for any program expenditures after that date. The Governor asserts that the program is a burden to Rhode Island businesses and notes that Massachusetts does not impose a similar fee. Connecticut, Vermont, and Maine have similar programs.

Currently, a third-party organization, known as PaintCare, represents paint manufacturers in operating the paint recycling program, and setting recycling fees to fund operating expenses as well as cash reserves. PaintCare operates programs in ten states and the District of Columbia, and is planning programs in Illinois and Maryland. The program in Rhode Island began in June 2014. The fee is \$0.35 on pint and quart containers, \$0.75 on gallon containers, and \$1.60 on five-gallon containers. Based on the 2023 Annual Report, the program has 25 drop-off sites around the State, including 21 retailers and four transfer stations, which collected 78,417 gallons of paint. The program collected \$813,414 in revenue from the fee on approximately 1.3 million gallons of paint sales, while expenses including paint transportation and processing, communications, and administration totaled \$880,623. The program ended the year with net assets totaling \$745,760.

The article requires PaintCare to submit a plan to dismantle the program to DEM by September 30, 2025. This plan must include a financial audit of the program as of August 1, 2025. Once the plan is approved by DEM, in consultation with the Department of Revenue, PaintCare will immediately begin implementation.

PaintCare is further required to transfer any remaining program funds to the Rhode Island Resource Recovery Corporation (RIRRC) by December 31, 2025, for use in educating the public about the cessation of the program and available options for safely disposing of paint.

Analyst Note: The recycling program was established as an extended producer responsibility program intended to require producers to bear significant responsibility for the environmental impacts of their products particularly in the final stage of the product's life, after consumption. The program was not intended as a profit generator.

Procurement Assessment Fee

Article 3 establishes a 0.33 percent administrative fee to be assessed on all state contracts beginning on January 1, 2026, and reduces the current 1.0 percent administrative fee on master price agreements (MPA) to 0.33 percent. Revenue from the fee would be restricted to support the Division of Purchases, such as implementing and operating technology for the submission and processing of bids, and other costs related to state procurement including staffing.

- The FY2026 Budget includes a reduction of \$500,000 in general revenue expenditures due to the shift of costs to restricted receipts. Restricted receipt revenue will decrease by \$387,787 in FY2026 from the FY2025 enacted level due to the decrease in the MPA fee and the staggered rollout of the new fee to only contracts that renew or commence after January 1, 2026. According to the Budget Office, it will become revenue positive beginning in FY2027 with a rough revenue estimate of \$1.1 million for FY2027.

Office of Risk Management

The article amends RIGL 42-11-2.9 to modify the duties of the Department of Administration's Division of Capital Asset Management and Maintenance (DCAMM) to no longer include oversight of the Office of Risk Management.

Analyst Note: Article 2 transfers the oversight of the Office of Risk Management to the list of duties of the State Controller.

Office of Energy Resources

The article amends the filing date of the Office of Energy Resources' annual report from March 1 to June 30 of each year. The article also eliminates a provision referencing the Energy Efficiency Resource Management Council, as the council submits its own annual report and amends RIGL 42-140-3 and RIGL 42-140-7 to eliminate repealed or outdated statutory references.

RIGL § 42-140-3.9 and RIGL § 42-140.3.14 are amended to reflect that legislation creating the renewable energy coordinating board was repealed in 2015. In addition, RIGL § 42-140-7(a) is amended because the provisions from 2006 were never implemented and are outdated since the OER and staffing capabilities was restructured in 2012, and the renewable energy related funds task was completed in 2008. Lastly, RIGL § 42-140-7(b) is amended to reflect that the transfer of funds was completed in the 2008-2009 time period. The language is no longer relevant.

State Facilities Benchmarking and Performance Standards Program

Article 3 amends RIGL 42-6.2 entitled the "2021 Act on Climate," to establish the State Facilities Benchmarking and Performance Standards Program, requiring state agencies, beginning March 1, 2026, to measure and report, to the Office of Energy Resources, the annual energy usage and greenhouse gas emissions for state-owned, or state occupied facilities. The Office of Energy Resources will use the collected data to develop performance standards by 2028, to guide emission reductions, with compliance

deadlines extending through 2050. The standards will be overseen by the Executive Climate Change Coordinating Council.

The Budget includes \$139,069 in restricted receipts to support an additional 1.0 FTE position within the Office of Energy Resources to administer and facilitate the collection of data for this program.

Rhode Island Integrated Data Systems Act

Article 3 makes several amendments to the Rhode Island Longitudinal Data Systems Act, merging the Rhode Island Longitudinal Data System (RILDS) with the Executive Office of Health and Human Services Ecosystem, renaming the act the Rhode Island Integrated Data Systems Act.

The amendments also merge the governing boards of the RILDS and the Ecosystem, creating one governing board charged with improving transparency and accessibility of data, ensuring that data is accessible to state analysts, and improving data availability to external researchers.

These amendments follow the recommendations from the November 2023 legislative report titled, “Artificial Intelligence and Data Centers of Excellence”, which recommended combining the governance of the Ecosystem and RILDS to improve program analysis, transparency, and inter-departmental information sharing. Additionally, merging the two data systems will allow the State to access additional Medicaid grant funding, approved by the Centers for Medicare and Medicaid Services. These additional funds will be allocated towards the creation of data infrastructure for secure data sharing mechanisms.

This amendment requires an additional 6.0 FTE positions within the Department of Administration, the Office of the Postsecondary Commissioner (OPC), and the Executive Office of Health and Human Services (EOHHS). RIIDSA will be a federated data system that unifies governance across the Ecosystem and RILDS, but for budgetary purposes the Ecosystem will continue to exist within EOHHS and the RILDS will continue to exist within OPC. Now they’ll both be governed by an interagency board co-chaired by the Secretary of Health and Human Services and the Commissioner of Postsecondary Education.

Article 4: Relating to Debt Management Act Concurrent Resolutions

Pursuant to RIGL 35-18, the Public Corporation Debt Management Act, any financing leases or other guarantees entered into by an elected or appointed State official must have prior approval of the General Assembly. This article authorizes the issuance of \$151.6 million in revenue bonds for the Health and Counseling Center and the Memorial Union at the University of Rhode Island (URI).

FISCAL IMPACT

This article authorizes the issuance of \$151.6 million in revenue bonds for two projects at the University of Rhode Island (URI), titled the Health and Counseling Center – Auxiliary Enterprise, and Memorial Union – Auxiliary Enterprise.

Proposed Debt Authorization						
Revenue Bonds	Department	Principal	Interest	Total Debt	Annual Debt	Term of Loan
					Service	(years)
Health and Counseling Center - Auxiliary Enterprise	URI	\$33.6	\$44.4	\$78.0	\$2.6	30.0
Memorial Union - Auxiliary Enterprise	URI	118.0	154.0	272.0	9.1	30.0
Total	URI	\$151.6	\$198.4	\$350.0	\$11.7	30.0

\$ in millions. Totals may vary due to rounding.

ANALYSIS AND BACKGROUND

Health and Counseling Center – Auxiliary Enterprise

The article amends a previous authorization for the design and construction of a new combined Health and Counseling Center (HCC). The center is intended to support the physiological and psychological needs of the University of Rhode Island student population. The new authorization, which was originally approved in FY2020 Budget as Enacted and then amended in the FY2022 Budget as Enacted, approves principal financing up to \$33.6 million for the Health and Counseling Center – Auxiliary Enterprise project, increasing the financing by another \$4.6 million. Debt service payments will continue to be funded from student fees associated with the respective auxiliary enterprise. Total debt service on the bond is not expected to exceed \$2.6 million annually and \$78.0 million in the aggregate, assuming an average interest rate of 6.5 percent over 30 years

The project combines and co-locates health services and the counseling center into a single facility, following national trends that improve care provided to students and reduces institutional risks by fostering communication and availability of appropriate providers. Currently, the Health Center is located in the Potter Building and the Counseling Center is located in Roosevelt Hall, creating barriers to holistic care. Combining the two facilities will improve the University’s ability to meet the psychological and physical needs of the students and patients.

In FY2022, the University indicated that the project had been delayed 19 months as a direct result of the impact of COVID. The Health Services Staff had turned their focus to address the pandemic and were not available to assist in the design process. In the University’s FY2026-FY2030 Capital Improvement Priorities (CIP), the University indicates that the project has once again been delayed due to the need to construct more student housing. The project had restarted in Fall 2024, has completed the schematic design phase, and has an estimated completion date of FY2028.

In order to counteract some of the COVID-related and time delays, the HCC was reimagined to minimize cost increases. The University reduced the size of the building by almost 20.0 percent, and increased University funds from \$8.0 million to \$12.0 million. The additional \$4.0 million in funding covered almost half of the increase, and the reduction in size further offset the price escalation. As a result, the revenue bond increased by 15.9 percent.

Memorial Union – Auxiliary Enterprise:

The article amends a previous authorization for the renovation and expansion of the Memorial Union. The new authorization, which was originally approved in the FY2020 Budget as Enacted, and then amended in the FY2022 Budget as Enacted. It approves principal financing up to \$118.0 million for the Memorial Union, increasing financing by \$60.4 million from the FY2022 Budget as Enacted. Debt service payments will continue to be supported by revenues derived from student fees and retail lease payments associated with the respective auxiliary enterprises. Total debt service on the bond is not expected to exceed \$9.1 million annually and \$272.0 million in the aggregate, assuming an average interest rate of 6.5 percent over 30 years.

The project repositions the Memorial Union to cultivate student success, engagement, community, and learning. Additionally, the renovation will include code required work. The current student union no longer meets the needs of the existing student body, and showed several deficiencies when compared to national benchmarks. With the renovations, the new Memorial Union will fall within 10.0 percent of national averages, while exceeding national averages in key spaces such as event and student collaboration spaces.

In FY2022, the University indicated that the project was delayed one year due to avoid issuing the new bonds at the same time as the bonds for the Combined Health and Counseling Center in order to ease the burden of increased debt service. The project was delayed an additional three years due to COVID and the impact of auxiliary funding need to pay for the initial design of the project. The project's new budget reflects an expected start date in Fall 2024, and an estimated completion date in FY2029.

While the Memorial Union experienced the same market shift as the Health and Counseling Center, the University experienced different circumstances to navigating the increase in project costs. The University was unable to minimize the size of the Memorial Union, while still meeting the students needs. Additionally, the University needed to address some critical needs throughout the building that could not wait for the project to begin, reducing University fund contributions. The University originally planned to contribute \$11.0 million, but is now contributing \$8.0 million. As a result, the revenue bond increased by 104.9 percent.

Article 5: Relating to Taxes and Fees

This article modifies several state taxes, credits, and sunsets various fees that impact businesses. These changes include:

- **Digital Advertising Tax:** Establishes a new 10.0 percent flat tax to be levied on gross revenue from digital advertising that is sourced in Rhode Island.
- **Sales Tax Adjustment – Car Tax State Aid Program:** Eliminates the annual sales tax growth adjustment that is provided to municipalities as part of the Motor Vehicle Excise Tax State Aid program.
- **Cigarette Tax Increase:** Increases the excise tax on cigarettes by \$0.50 per pack.
- **Electric Vehicle Fee:** Establishes a new \$150 annual fee for battery electric vehicles and a new \$75 annual fee for plug-in hybrid vehicles.
- **Real Estate Conveyance Tax Changes:** Increases the real estate conveyance tax (RECT) on properties valued over \$800,000 from 0.92 percent to 1.25 percent of the sales price, with additional funding dedicated to homelessness assistance.
- **Whole-Home Short-Term Rentals Tax:** Establishes a new 5.0 percent tax on whole-home short-term rentals, with additional funding dedicated to homelessness assistance.
- **Expansion of Jobs Development Assessment to Non-Profit Employers:** Subjects non-profit employers with 500 or more employees, to the Job Development Assessment (JDA).
- **Sales Tax Exemption - Firearm Safety and Storage Devices:** Establishes a sales tax exemption for firearm safety and storage products.
- **Tax Expenditure Changes:** Sunsets various underutilized tax expenditures while modifying others.
- **Financial Institution Data Matching Program:** Authorizes the Division of Taxation to establish a new compliance tool that matches data on non-compliant taxpayers with that of financial institutions.
- **DMV Technology Surcharge:** Increases the technology surcharge imposed by the Division of Motor Vehicles (DMV) on registry transactions by \$1.00, from \$2.50 to \$3.50.
- **Elimination of Home Occupation Fees:** Prohibits municipalities from establishing and enforcing restrictions, regulations, permit, or licenses related to home-based businesses whose activity is strictly that of a W-2 employee, full-time contractor, or does not entail any public-facing or outside activity.

FISCAL IMPACT

The fiscal impact of Article 5’s general revenue changes are summarized in the first table below. Restricted receipt revenues are summarized in the second table. For more detail see below in the analysis and background section.

General Revenue Impact

Initiative	FY2026		FY2027
	Revenues	Expenditures	Revenues
Digital Advertising Tax	\$9,464,191	\$568,059	\$19,617,375
State Aid to Municipalities - Car Tax - Sales Tax Adjustment	-	(9,700,000)	-
Financial Institution Data Matching Program*	5,250,000	-	8,000,000
Cigarette Tax Increase	4,376,899	-	3,338,569
Electric Vehicle Fee	90,497	-	267,166
Sales Tax Exemption - Firearm Safety Devices	(85,714)	-	(115,438)
Tax Expenditure Changes	219,874	-	557,648
Total	\$19,315,747	(\$9,131,941)	\$31,665,320

* According to the Department of Revenue any expenditures related to the data match proposal would primarily be based on contingency. The note there would likely be a small licensing fee that the Division would absorb in its existing budget.

Restricted Receipt Impact

Initiative	FY2026	FY2027	Fund
Real Estate Conveyance Tax Changes	\$2,319,394	\$3,393,278	Housing Resources and Homelessness Fund
Expansion of JDF Assessment to Non-Profit Employers	2,306,000	2,420,000	Jobs Development Fund
	244,000	253,000	Unemployment Insurance Fund
Whole-Home Short-Term Rental Tax*	2,099,687	4,703,831	Housing Resources and Homelessness Fund
Electric Vehicle Fee	1,719,439	5,076,149	Highway Maintenance Account
DMV Technology Surcharge	1,550,000	1,550,000	DMV IT Account

* This initiative also has \$465,675 in personnel and operating expenditures in FY2026

ANALYSIS AND BACKGROUND

Digital Advertising Tax

Article 5 imposes a new tax on a company's annual gross revenue derived from digital advertising services in Rhode Island. The initiative is estimated to generate \$9.5 million in FY2026 based on a January 1, 2026 effective date. This grows to \$19.6 million in FY2027 with a full year of the tax.

The digital advertising gross revenues tax (DAT) is equal to 10.0 percent of the assessable base for a taxpayer with annual gross revenues exceeding \$1.0 billion. The article also prohibits a business that derives income from digital advertising services in Rhode Island from directly passing on the cost of the tax to a customer who purchases the digital advertising by means of a separate fee, surcharge, or line-item. Businesses with annual gross revenues below \$1.0 billion are exempt from the tax. Taxpayers must apportion their digital advertising revenue based on the number of devices accessing the advertising in Rhode Island compared to the total number accessing it outside of the state.

The Governor's proposal is based on Maryland's digital advertising tax, the only state currently with one, but has some important differences meant to address potential federal legal challenges.

Article 5 Changes: In addition to the imposition of the new tax as described above, the article establishes the statutory elements necessary to implement the tax. These include the following:

- **Definitions:** Article 5 defines key terms related to digital advertising taxation that are then used to elaborate the imposition, administration, and enforcement of the new tax.
 - **Digital Advertising Services:** Article 5 defines "digital advertising services" as those that occur on a digital interface, including advertisements in the form of banner advertising, search engine advertising, interstitial advertising, and other comparable advertising.
 - **Digital Interface:** A "digital interface" means any type of software, including a website, part of a website, or application, that a user is able to access.

- **Assessable Base:** For purpose of Article 5, the “assessable base” means annual gross revenue derived from digital advertising services in Rhode Island. “Annual gross revenue” is income before expenses and taxes and “users” are individuals who access a digital interface with a device.
- **Person:** Also, for purposes of Article 5 a “person” is defined as any individual, partnership, association, corporation, estate, trust, fiduciary, limited liability company, limited liability partnership, or any other legal entity.

Analyst Note: On February 3, 2025, the Governor requested an amendment to Article 5 (GBA 2) intending to exempt broadcasters and news media entities from the DAT. It does this by adding them to the definitions in Section 17 and then clarifying the digital advertising services definition does not mean advertisement services on digital interfaces owned by or operated on behalf of such entities. According to OMB there the GBA does not result in a change in the fiscal impact because the impact estimate is based on Maryland’s model, which also exempts broadcast and news media entities.

- **Administration:** Article 5 details how digital advertising taxpayers are to file returns, make payments and other processes to comply with the new tax. These provisions include:
 - **Payment Schedule:** Taxpayers with a DAT liability are required to make estimated DAT payments to the Division of Taxation according to the following schedule:

Due Date	Amount
Apr. 15th	25.0%
June 15th	50.0%
Sept. 15th	75.0%
Dec. 15th	100.0%

They are also required to complete and file a final annual return by April 15 following the close of the tax year (first filing would be April 15, 2027). Filing of returns and payments are required to be made electronically. Delinquent payments result in additional liability based on the statutory interest rate (2.0 percent above prime).

- **Extensions and Refunds:** The Tax Administrator is authorized to grant reasonable extension of time for filing returns an any person may file a claim for a refund (within a three-year period) in the event of an overpayment.
- **Hearings, Records, Rules and Regulations:** Article 5 permits any taxpayer aggrieved under the digital advertising tax statutes to request a hearing. The article outlines the hearing procedures and allows for decisions made by the Tax Administrator to be appealed to district court. The article authorizes the tax administrator to promulgate rules and regulations and requires taxpayers to maintain records related to their returns.
- **Enforcement and Penalties:** The article authorizes Taxation to determine the amount of a digital advertising tax liability for any taxpayer failing to file a return as proscribed by law. Penalties for willfully failing to file a return or make payment include:
 - The addition of 5.0 percent of the liability if the failure to file is less than a month, with the addition of another 5.0 percent for each additional month (or fraction) the failure continues. The total penalty cannot exceed 25.0 percent.
 - The addition of 0.5 percent of the amount of the tax, if the failure to make payment is less than a month, with another 0.5 percent for each additional month (or fraction) the failure continues. Similarly, the total penalty cannot exceed 25.0 percent.

- If the failure is due to fraud, 50.0 percent of the deficiency is added to the tax (this is in lieu of the penalties above). If payment is made with a bad check, 1.0 percent of the amount of the check is added to the tax.

State DAT Comparison and Federal Litigation:

Maryland’s legislature enacted the first in the nation digital advertising tax in 2021. The tax applies to companies with worldwide annual gross revenues of at least \$100.0 million. Maryland assess the tax based on the following tiers:

Gross Revenue	DAT Rate
\$100M ≤ X ≤ \$1.0B	2.5%
\$1.0B ≤ X ≤ \$5.0B	5.0%
\$5.0B ≤ X ≤ \$15B	7.5%
X ≥ \$15B	10.0%

The tax is prohibited from being passed on to consumers through a separate, itemized tax charge, similar to the Article 5 proposal.

California considered legislation in 2023 that would impose a 5.0 percent tax on digital advertising services to fund youth mental health services. Nebraska also considered a 7.5 percent tax on businesses with over \$1.0 billion in gross revenue. These proposals have not been adopted by the state legislatures as of this time.

- **Litigation:** Several lawsuits have been filed in state and federal court regarding Maryland’s digital advertising tax. Plaintiffs in the federal case argue that tax’s tiered structure and the passthrough provisions are unconstitutional, violating the Commerce Clause and First Amendment. They also argue that the tax violates the federal Internet Tax Freedom Act and that the DAT amounts to double taxation. The U.S. District Court initially ruled that this challenge was barred by the federal Tax Injunction Act. The Fourth Circuit upheld the ruling in part, but allowed the passthrough provisions to move forward and remanded the case back to the U.S. District Court in July 2024.

Analyst Note: By using a flat rate for the digital advertising tax, the Governor’s proposal attempts to address commerce clause arguments raised against Maryland. The passthrough provision, however, remains in litigation.

Fiscal Impact: The new digital advertising tax is estimated to generate \$9.5 million in FY2026 based on a January 1, 2026 start date. The revenue is estimated to grow to \$19.6 million with a full year of effect in FY2027. The Office of Revenue Analysis used actual digital advertising tax collection data from Maryland to arrive at these estimates. The Maryland law and the Rhode Island proposal differ slightly, notably in that the proposal uses a flat tax rate and Maryland employs tiered rates. ORA assumes, however, that the difference between the two relative to revenue would be minimal based on a Maryland fiscal note that indicates that 90.0 percent of large companies that receive digital advertising revenue have global revenue over \$15.0 billion. ORA scaled-down Maryland’s collections of \$82.5 million, using population and internet use assumptions.

The Governor recommends 1.0 Taxpayer Service Specialist and 1.0 Tax Aide I along with \$218,059 in additional personnel expenditures and \$350,000 in operations costs to implement the new tax.

Sales Tax Adjustment – Motor Vehicle Excise Tax State Aid Program

The Governor proposes to eliminate the adjustment that grows the motor vehicle excise tax reimbursement by the growth of state sales tax collections for FY2026 and beyond.

Background: In FY2023, the General Assembly eliminated local motor vehicle excise taxes (“car taxes”) throughout the State. This was the culmination of an extended phase-out period that began with the Motor

Vehicle and Trailer Excise Tax Elimination Act of 1998 (MVET Act), was paused for seven years, was reinstated in FY2018, and then finally completed in FY2023, a year earlier than originally contemplated. Throughout the phase-out, the State has provided municipalities with general revenue-funded formula aid that increasingly offset losses in local revenue. The final annual aid distribution amounts by municipality total \$234.7 million (equal to the FY2024 levy) and are codified in RIGL 44-34.1-2.

Current law (RIGL 44-34.1-2 (c)) also provides that beginning in FY2026, the car tax reimbursement provided to municipalities will include an annual adjustment indexed to growth in the state sales tax. This adjustment was originally enacted to mitigate potential foregone revenue loss subsequent to the elimination of the car tax due to changes in the economy. As sales tax revenue grows (or decreases), the State reimbursement to municipalities grows (or decreases), proportionately.

The calculation for the adjustment is provided in RIGL 44-34.1-2 (c) and the table to the right illustrates how the reimbursement would grow given the FY2024 actual sales tax revenue and the November 2024 Revenue Estimating Conference estimates for FY2025 sales tax estimates. Each municipality would receive a portion of the growth proportional to their total excise tax reimbursement in FY2024.

Variable	Value	Growth
FY2024 MVET Reimbursement	\$234,712,307	
FY2024 Sales Tax	1,635,427,555	
Sale Tax Expressed as Thousandths of a %	233,633	
Thousandths/Cent in FY 2024 MVET Reimbursement	1,005	
FY2025 MVET Reimbursement	234,712,313	
Change in YOY MVET Reimbursement	-	
FY2025 Sales Tax	1,704,000,000	4.19%
Sale Tax Expressed as Thousandths of a %	243,429	
Thousandths/Cent in FY 2024 MVET Reimbursement	1,005	
FY2026 MVET Reimbursement	244,553,648	
Change in YOY MVET Reimbursement	\$9,841,335	
FY2026 Sales Tax	1,760,400,000	3.31%
Sale Tax Expressed as Thousandths of a %	251,486	
Thousandths/Cent in FY 2024 MVET Reimbursement	1,005	
FY2027 MVET Reimbursement	252,648,027	
Change in YOY MVET Reimbursement	\$8,094,378	

Article 5 Changes: Article 5 makes statutory changes that permit the sales tax adjustment to take place and be distributed in FY2025, and then locks in the reimbursement to either the FY2024 distribution amount or the FY2025 amount, whichever is higher.

Analyst Note: The reason why the distribution amount received by a municipality in FY2025 may be slightly lower despite growth in the sales tax is related to the nature of the calculation, which requires rounding the distribution to the nearest 0.01 percent. This rounding requirement in some instances may decrease a distribution in comparison to the FY2024 amount.

Fiscal Impact: The annual sales tax growth adjustment does not have a fiscal impact until FY2026. The out-year impact is summarized in the following table. It is estimated using the sales tax collections estimates included in the five-year forecast in the Governor’s FY2026 Budget recommendation.

Scenario	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Sales and Use Growth Forecast	-	4.2%	3.3%	1.6%	1.3%	3.3%
Motor Vehicle Aid w/Adjustment	\$234.7	\$234.7	\$244.6	\$252.6	\$256.7	\$260.0
Motor Vehicle Aid w/o Adjustment	234.7	234.7	234.7	234.7	234.7	234.7
Change	-	-	(\$9.8)	(\$17.9)	(\$22.0)	(\$25.2)

\$ in millions

Cigarette Tax Increase

Article 5, section 8 increases the excise tax on cigarettes by \$0.50 per pack, which raises the tax from \$4.50 to \$5.00 per pack of twenty. Section 9 requires that floor stock tax is assessed at the same rate per pack of

cigarettes. The additional excise, floor, and associated sales taxes from this change are estimated to generate a net increase of \$4.4 million in revenue based on a September 2, 2025, start date.

Background: Rhode Island levies taxes on cigarettes sold or held in the State. Cigarettes are taxed at \$4.50 per pack of twenty, or the equivalent of \$0.21 per cigarette. Dealers and distributors are required to purchase cigarette stamps which are then affixed to packages of cigarettes and provide proof of payment. Stamp rolls are discounted for bulk purchases as a means of compensating dealers for the costs associated with affixing the tax stamps.

When tax increases occur, existing stocks of cigarettes that remain unsold in stores may be assessed a floor stock tax. Taxes are due upon purchase of the tax stamps. Sales and use taxes are also assessed upon tobacco products and are applied after the inclusion of the tobacco taxes into the price. The most recent tax increase occurred on September 1, 2024, when the excise tax increased by \$0.25 from \$4.25 to \$4.50 per pack.

At \$4.50 per pack, Rhode Island has the third highest state cigarette excise tax rate in the nation, with New York and Maryland having higher taxes (excluding local taxes). However, the total cost of a pack of cigarettes can vary based on minimum markup and other pricing provisions. A comparison of per-pack costs is included in the section below.

State	Average Retail Price Per Pack (Including taxes)	Cigarette Excise Tax Per Pack	Excise Tax Rank*	State Sales Tax Rate	State Sales Tax Per Pack	Total State Tax Per Pack	Total Tax Rank*
New York	\$14.55	\$5.35	1st	4.0%	\$0.56	\$5.91	1st
Rhode Island†	\$13.84	\$5.00	2nd	7.0%	\$0.91	\$5.91	1st
Maryland	\$14.17	\$5.00	2nd	6.0%	\$0.80	\$5.80	2nd
Rhode Island	\$13.26	\$4.50	3rd	7.0%	\$0.87	\$5.38	3rd
Connecticut	\$13.24	\$4.35	5th	6.4%	\$0.79	\$5.14	4th
Massachusetts	\$12.54	\$3.51	6th	6.3%	\$0.74	\$4.25	6th
Vermont	\$11.91	\$3.08	9th	6.0%	\$0.67	\$3.75	10th
Maine	\$10.52	\$2.00	20th	5.5%	\$0.55	\$2.55	19th
New Hampshire	\$9.34	\$1.78	26th	0.0%	\$0.00	\$1.78	33rd
North Dakota	\$8.24	\$0.44	49th	5.0%	\$0.39	\$0.83	50th
National Average	\$9.74	\$1.97	-	5.3%	\$0.50	\$2.47	-

Source: Data provided by Office of Revenue Analysis and the Campaign for Tobacco Free Kids

* Highest Tax = 1

† Proposed increase

Article 5 Changes: Section 8 amends RIGL 44-20-12, increasing the excise tax levied on cigarettes by \$0.50 per pack of cigarettes, and raising the total tax from \$4.50 to \$5.00 per pack, equating to a \$0.25 tax on each cigarette. Section 9 amends 44-20-12.8, increasing the cigarette floor stock tax by an equivalent amount on all inventory in possession of distributors and dealers on September 2, 2025.

Fiscal Impact: ORA estimates that the tax increase in Article 5 will generate \$4.4 million in FY2026 and \$3.3 million in FY2027, assuming an implementation date of September 1, 2025. The \$1.0 million decrease in revenue from FY2026 to FY2027 can be attributed to a negative year-over-year growth rate and floor tax revenue collected in FY2026. To account for the normal decline in smoking behavior, ORA used a -10.2 percent year-over-year growth rate. Additionally, the FY2026 revenue estimate includes \$1.3 million in floor tax revenue that will not occur in FY2027.

Revenue Item	FY2026	FY2027
Cigarette Excise Tax	\$3.3	\$3.7
Cigarette Floor Tax	1.3	-
Sales and Use Tax	(0.3)	(0.3)
Total	\$4.4	\$3.3

\$ in millions. Totals may vary due to rounding

Source: Office of Management and Budget

According to ORA, the total retail price will increase by \$0.58, from \$13.26 to \$13.84 per individual pack. This amount is \$1.30 more than the total retail price in Massachusetts, \$0.60 per pack above Connecticut, and \$4.10 above the national average. Floor stock tax is assessed at the same rate per pack of cigarettes sold. The fiscal impact includes estimates for the additional excise, floor, and associated sales taxes from the change in Article 5. In addition, ORA considers the elasticity of the price of cigarettes when making the estimates. The \$0.50 excise tax increase amounts to an 11.1 percent price increase. Applying elasticity from decreased demand, as calculated from previous tax increases, results in a net estimated revenue increase of 4.2 percent.

Electric Vehicle Fee

Section 3 requires a biennial registration fee for electric vehicles to be assessed and deposited to the Rhode Island Highway Maintenance Account (HMA). The fee will initially be \$300 for battery electric vehicles and \$150 for hybrid vehicles; however, the legislation requires a CPI-U adjustment every two years. The Budget assumes total revenue of \$1.8 million in FY2026 as a result of the fee, with \$1.7 million remaining in the HMA and \$90,497 deposited to the general fund.

Background: The State’s infrastructure projects and transportation agencies are partially funded by revenue levied on the sale of gasoline. The motor fuel tax rate is adjusted for inflation biennially and will increase by one cent to \$0.385 per gallon on July 1, 2025, from the current rate of \$0.375 per gallon (including RIPTA’s \$0.005 share of the \$0.01 environmental fee). The November 2024 estimate by the Office of Revenue Analysis (ORA) indicates the State will collect motor fuel revenues of \$163.6 million in FY2025 and \$163.4 million in FY2026, reflecting a \$160,714 year-over-year decrease, despite the one-cent increase. The following tables illustrate the motor fuel tax disposition and projected revenue for FY2025 and FY2026.

Motor Fuel Tax Disposition (cents)	FY2025	FY2026
DOT share	21.25¢	22.25¢
RIPTA Statutory Transfer	9.25	9.25
RITBA	3.50	3.50
Debt Service on GARVEE Bonds	2.00	2.00
OHA Transfer (.79 to RIPTA)	1.00	1.00
Environmental Fee (RIPTA Share)	0.50	0.50
Total	37.5¢	38.5¢

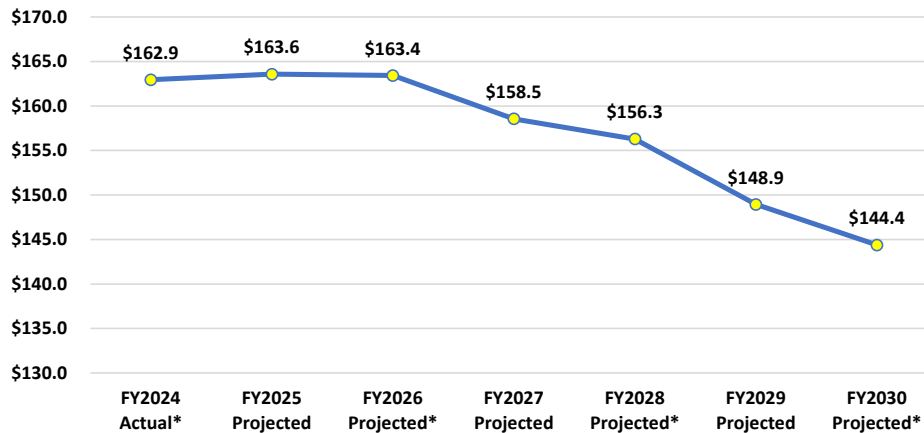
Source: ORA, November 2024

Motor Fuel Revenue Projections	FY2025 Projected	FY2026 Projected
DOT share	\$92.7	\$94.4
RIPTA Statutory Transfer	40.3	39.3
RITBA	15.3	14.9
Debt Service on GARVEE Bonds	2.2	2.1
OHA Transfer (.79 to RIPTA)	4.4	4.2
Environmental Fee (RIPTA Share)	8.7	8.5
Total	\$163.6	\$163.4

\$ in millions
Source: ORA, November 2024

Drivers of both electric vehicles and gasoline-powered vehicles equally benefit from infrastructure projects funded by motor fuel revenue but do not equally contribute, as electric vehicles do not require gasoline. Motor fuel revenue has significantly decreased while the adoption of electric vehicles has increased. The following graph illustrates FY2024’s motor fuel tax revenue and ORA’s November 2024 projection through FY2030, years marked with an asterisk indicate a projected \$0.01/gallon increase to the motor fuel tax.

Motor Fuel Tax Revenue



\$ in millions.

Source: Office of Revenue Analysis, November 2024

*Indicates a year with a projected tax increase

Rhode Island is one of 11 states that do not require owners of electric vehicles to pay a special registration fee. Of the 39 states that do require a special payment for electric vehicles, seven, such as Texas and Hawaii, also levy fees on owners of hybrid cars. New Hampshire and Vermont are the only New England states that require a special registration for electric vehicles, and neither require payment for hybrids. The following table compares the fees in surrounding states.

State	No Fees	EV Only Fee	EV & Hybrid Fee
Connecticut	✓		
Delaware	✓		
Illinois			✓
Maine	✓		
Massachusetts	✓		
New Hampshire		✓	
New York	✓		
Rhode Island	✓		
Virginia			✓
Vermont		✓	

Source: National Conference of State Legislatures

Article 5 Changes: The article amends RIGL 31-6-1 to require an inflation-adjusted fee to be assessed on both electric and hybrid vehicles every two years. OMB estimates that the average passenger car pays \$150 in motor fuel tax each year, or \$300 over two years. The article requires battery electric vehicles, which are defined as vehicles that operate solely by use of a battery, to be subject to a new \$300 registration fee every two years. Additionally, hybrid electric vehicles, which are defined as vehicles that deliver power to wheels solely by a battery but also incorporate the use of fuel to power a combustible engine, will be subject to \$150 fee every two years. The additional revenue will be deposited to the HMA, which partially funds the State’s transportation programs alongside transferring 5.0 percent of collections to the general fund, pursuant to RIGL 39-18.1-4.

To account for inflation, the article requires the fee to be biennially adjusted by the same percentage as the gas tax and rounded to the nearest dollar, starting on July 1, 2027. The Office of Revenue Analysis indexes the gas tax every two years with calculations based on a single year increase to the CPI-U. For example, the \$0.01 increase to the gas tax in FY2026 reflects the change in CPI-U from September 2023 to September 2024. The following table illustrates the fees and taxes that owners of gas-powered vehicles pay across a two-year period, in addition to the proposed fees to be paid by owners of electric vehicles.

Biennial Fees and Taxes	Gas Vehicle	Hybrid Vehicle	Battery Vehicle
Weight Based Registration Fee	\$80.00	\$80.00	\$80.00
RIDOT Surcharge	30.00	30.00	30.00
DMV Technology Fee	2.50	2.50	2.50
Electric Vehicle Fee	-	150.00	300.00
Motor Fuel Tax*	300.00	150.00	-
Total Fees Paid in 2 Year Period	\$412.50	\$412.50	\$412.50

* Motor Fuel Tax is an estimate provided by ORA

Fiscal Impact: The fees imposed on electric vehicles in the article are estimated to collect \$1.8 million in FY2026, of which, \$1.7 million will remain in the HMA and \$90,497 will be deposited to the general fund, reflecting the 5.0 percent HMA general fund transfer required by RIGL 39-18.1-4. The Budget Office estimates \$5.3 million in total collections for FY2027, with \$5.1 million remaining in the HMA and \$267,166 deposited to the general fund.

Real Estate Conveyance Tax Changes

Article 5 provides a new funding stream to support homelessness services by directing revenue generated from an increase in the real estate conveyance tax (RECT) to that purpose.

Background: In 2021, the General Assembly provided dedicated funding for affordable housing development by increasing the State’s real estate conveyance tax (RECT) on transactions valued above \$800,000 and directing the marginal new income to a new Housing Production Fund. Portions of the RECT also were and continue to be used to support the State’s distressed communities and other housing-related programming.

Real Estate Conveyance Tax: The State imposes a tax on each deed, instrument, or writing by which interests in real estate are conveyed to a purchaser when the value of the transfer is greater than \$100. The tax rate is \$2.30 for each additional \$500 in value, or 0.46 percent. For transactions valued \$800,000 and above, the RECT rate applied to the value above that amount doubles from \$2.30 to \$4.60 per each \$500. The distribution of the RECT is shown below:

Fund	Portion < \$800K	Portion > \$800K
	Per \$500	Per \$500
State	\$1.20	\$1.20
General Revenue	0.44	0.44
Distressed Communities	0.30	0.30
Housing Resources and Homelessness Fund	0.30	0.30
Housing Production Fund	0.16	2.46
Local Government	1.10	1.10
Total	\$2.30	\$4.60

Tax payments are due upon the making, execution, delivery, acceptance, or recording of the instrument of conveyance. The municipality where the real estate is located collects the fee at the time the deed is recorded and then remits the State share on a monthly basis. The State collects the fee directly when the transaction involves the sale or transfer of ownership interest in a real estate company. Collections are shared between the State and the municipality in which the property is situated.

State Comparisons: Massachusetts has a real estate conveyance tax of \$2.28 per \$500 (0.456 percent). Connecticut’s tax is 0.75 percent for residential real estate below \$800,000, 1.25 percent for property above \$800,000 but below \$2.5 million. The tax is 2.25 percent on transactions valued above \$2.5 million.

Article 5 Changes: Section 10 of Article 5 amends the real estate conveyance tax statute RIGL 44-25-1.

- **Real Estate Conveyance Tax Increase:** For residential real estate transactions valued above \$800,000 a new tax is imposed (in addition to two described above) on the amount above the first \$800,000. The new tax is applied at a rate of \$1.65 per \$500, or fractional part of it (0.33 percent).
- **Real Estate Conveyance Tax Distribution:** The section further adjusts the distribution of the revenue derived from the RECT. Because the section directs the Tax Administrator contribute all of the revenue from the new tax to the Housing Resources and Homelessness Fund restricted receipt account, its share per \$500 on the amount \$800,000 and above increases from \$0.30 to \$1.95.

Fund	Current		Article 5	
	Portion < \$800K Per \$500	Portion > \$800K Per \$500	Portion < \$800K Per \$500	Portion > \$800K Per \$500
State	\$1.20	\$3.50	\$1.20	\$5.15
General Revenue	0.44	0.44	0.44	0.44
Distressed Communities	0.30	0.30	0.30	0.30
Housing Resources and Homelessness Fund	0.30	0.30	0.30	1.95
Housing Production Fund	0.16	2.46	0.16	2.46
Local Government	1.10	1.10	1.10	1.10
Total	\$2.30	\$4.60	\$2.30	\$6.25

Fiscal Impact: Based on the changes to the RECT as shown above, the following illustrates the impact Article 5 would have on real estate tax liabilities at various sales values:

Real Estate Value	Tax Liability (Current)	Tax Liability (Article 5)	Change
\$350,000	\$1,610	\$1,610	0.0%
700,000	3,220	3,220	0.0%
900,000	7,820	10,460	33.8%
1,750,000	11,730	14,370	22.5%

- **Housing Resources and Homelessness Funding:** The ORA estimates that the additional revenue generated by a new 0.33 percent tax applied to the portion of residential real estate transactions above \$800,000 is \$2.3 million in Housing Resources and Homelessness Funds in FY2026 and \$3.4 million in FY2027 based on an October 1, 2025, start date.

The ORA used FY2024 real estate conveyance tax collection data related to the Housing Production Fund revenue stream to estimate collections estimate for the new tax. This was adjusted for the lower tax rate and the RECT growth rate adopted by the November 2024 Revenue Estimating Conference.

Whole-Home Short-Term Rental Tax

Article 5 provides another new funding stream to support homelessness services by directing revenue generated from a new 5.0 percent whole-home short-term rental tax to that purpose.

Background: Rhode Island levies three types of taxes on hotels, collectively referred to as “lodging taxes,” on temporary lodging accommodations. These taxes are levied individually based on the type of hotels identified in the Rhode Island general laws. Included in the definition of hotel is a short-term (less than 30 consecutive days) rental house such as available through services such as AirBnB and VRBO. The lodging taxes include:

- **5.0 percent Hotel Tax:** The State levies a 5.0 percent gross receipts tax, known as the hotel tax, on charges for occupancy of any space furnished in buildings or structures with a minimum of three rooms that are kept, used, maintained, advertised, or held out to the public to be a space where living quarters are supplied for pay for transient use (30 days or less). Proceeds from this tax are distributed among

state tourism districts, municipalities, state general revenue, and economic development, convention, and visitor agencies, both state and regional. When a house or condominium is rented *in its entirety* for less than 30 days it is exempt from the hotel tax.

- **1.0 percent Occupancy Tax:** In addition to these taxes, a local “occupancy tax” of 1.0 percent is charged, administered, and collected by the Division of Taxation. This tax is fully allocated to the city or town in which the lodging rental is located. A house or condominium rented *in its entirety* for less than 30 days is required to collect the occupancy tax.
- **7.0 percent Sales Tax:** The sales and use tax, equivalent to 7.0 percent of the retail sales price of certain goods, is applied to the sale price of a hotel room. Sales taxes are deposited as state general revenue. A house or condominium rented *in its entirety* for less than 30 days is required to collect the sales and use tax.
- **Distribution of Taxes:** Sales and use tax revenue is deposited as general revenue. The Division of Taxation collects the occupancy tax on behalf of all municipalities except Newport and is responsible for dispersing it. The hotel tax is distributed according to the following table:

Location of Room Rental/ State Hotel Tax Recipient	Share of Hotel Tax (5.0 %)
Providence	
Providence Convention Authority	30.0%
City of Providence	25.0%
RI Commerce Corporation	21.0%
Providence Warwick Convention Visitors Bureau	24.0%
General Revenue	0.0%
Warwick	
Warwick Department of Economic Development	30.0%
City of Warwick	25.0%
RI Commerce Corporation	21.0%
Providence Warwick Convention Visitors Bureau	24.0%
General Revenue	0.0%
Omni Hotel (Providence)	
Providence Convention Authority	30.0%
RI Commerce Corporation	50.0%
Providence Warwick Convention Visitors Bureau	20.0%
General Revenue	0.0%
Statewide District*	
Municipality of Room Rental	25.0%
RI Commerce Corporation	70.0%
Providence Warwick Convention Visitors Bureau	5.0%
General Revenue	0.0%
All Other Locations in the State	
Regional Tourism District of Room Rental	45.0%
Municipality of Room Rental	25.0%
RI Commerce Corporation	25.0%
Providence Warwick Convention Visitors Bureau	5.0%
General Revenue	0.0%

**Rooms rentals in Cranston, Foster, Johnston, N. Providence, Scituate, and W. Warwick*

Article 5 Changes: Section 7 of Article 5 amends the hotel tax statute (RIGL 44-18-36.1) by adding a new whole home short-term rental tax, distinct from the hotel tax, that is levied on whole house short-term rentals. The tax levied at 5.0 percent of gross receipts from rental charges. Section 4 of the Article directs the proceeds from the whole home short-term rental tax to be deposited into the State’s Housing Resources and Homelessness Fund restricted receipt account.

Fiscal Impact: The ORA estimates that the new whole home short-term rental tax will yield \$2.1 million in Housing Resources and Homelessness Funds in FY2026, and \$4.7 million in FY2027 based on a January 1, 2026, start date.

ORA used FY2026 projected collections for the 1.0 percent occupancy tax estimated by the Department of Revenue's Division of Municipal Finance and scaled it to 5.0 percent to calculate its estimate for the whole home short-term rental tax in FY2026 and then adjusted for the partial year implementation.

Job Development Fund Tax

Section 1 subjects non-profit employers with 500 or more employees to the Job Development Fund (JDF) assessment. The assessment is estimated to collect \$2.6 million in new revenue for FY2026.

Background: Since 1989, Rhode Island employers have paid a Job Development Assessment to support workforce development activities. Under current law, private sector, for-profit, employers pay a 0.21 percent Job Development Fund (JDF) tax on the first \$29,200 of their employees' earnings. The revenue collected through the JDF tax supports the Rhode Island Governor's Workforce Board, in addition to other employment services and unemployment insurance administration, managed by the Department of Labor and Training. RIGL 28-43-8.1 requires the contributions to be paid by each employer, but the language does not include assessments for nonprofit organizations.

Article 5 Changes: The article amends RIGL 28-43-8.1 requiring employers to pay assessments notated in the chapter, at the time and in the manner prescribed by the Director of the Department of Labor and Training. The article also adds language to RIGL 28-43-29, subjecting nonprofit organizations with 500 or more employees to the JDF assessment and authorizes the Director of the Department of Labor and Training to promulgate rules and regulations regarding the administration of the assessment. The article further exempts governmental entities from the JDF assessment.

Fiscal Impact: The assessment required in the article is estimated to collect \$2.6 million in additional revenue for the State, of which, \$2.3 million will be dedicated to the Job Development Fund and \$244,000 will go to the Unemployment Trust Fund as required by statutory formula. The Department indicates that approximately 25 nonprofit organizations will be subject to the JDF assessment.

Sales Tax Exemption - Firearm Safety Devices

The article exempts firearm safety and storage devices from the state's 7.0 percent sales and use tax. For purposes of exemption the following terms are defined in Section 6 of Article 5:

Firearm Safety Device: Firearm safety device means a device that, when installed on a firearm, is designed to prevent the firearm from being operated without first deactivating the device, or a device to be equipped or installed on a firearm that is designed to prevent the operation of the firearm by anyone who does not have authorized access to the firearm.

Firearm Storage Device: Firearm storage device means a container or enclosure that is designed and marketed for the principle purpose of safely storing or displaying a firearm and that is secured by a combination lock, key lock, or lock based on biometric information which, once locked, is incapable of being operated without the combination, key, or biometric information, respectively.

Fiscal Impact: The ORA estimates that exempting firearm safety and storage devices from the 7.0 percent sales and use tax would result in loss of \$85,714 in revenue in FY2026 and a loss of \$115,438 in FY2027 based on an October 1, 2026, start date.

The ORA used information from a FY2023 fiscal note on similar legislation proposed in Tennessee as a starting point for the estimate. ORA used firearm safety and sales data and population data from Tennessee and scaled them down to arrive at an estimate of FY2023 device sales in Rhode Island. ORA adjusted for the prevalence of gun ownership for each state and then grew the numbers by personal consumption growth since FY2023 to get a FY2026 estimate.

Tax Expenditure Changes

Article 5 makes various changes to several tax expenditures.

Background: Tax expenditures are legal mandates that provide preferential tax treatment to taxpayers that meet the eligibility requirements of the mandates. According to the Office of Revenue Analysis 2024 Tax Expenditures Report, there are no less than 227 tax expenditure items authorized by General Assembly as of January 1, 2023. The report indicates that for the most recent complete data which is 2020 and 2021, the estimated total revenue forgone due to these expenditures was \$2.56 billion and \$2.83 billion, respectively.

Nonetheless, according to ORA, there are certain tax expenditures that are significantly underutilized or obsolete. The Governor is recommending that these tax expenditures not be reauthorized.

Article 5 Changes:

- **Research and Development Tax Expenditures Changes:** Section 12 of the Article makes several changes to the State’s research and development (R&D) tax expenditures. These include:
 - **R&D Credit for Qualified Research Expenses - Carryforward:** Extending the period of time that R&D expense tax credits may be carried forward by a taxpayer from seven years to fifteen. The State allows a taxpayer to claim a credit against certain business taxes for certain research expenses. Unused amounts of the credit earned in a taxable year may be carried forward up to seven succeeding tax years. The Governor recommends extending this carryforward period to fifteen, bringing Rhode Island in line with Massachusetts and Connecticut. ORA indicates that there is no fiscal impact.
 - **New R&D Facilities Deduction/Property Credit - Sunset:** Sunsetting the New R&D Facilities Deduction and Property Credit as of January 1, 2026. The State has allowed eligible taxpayers to deduct expenditures related to the development of any new tangible property related to research and development, including construction and acquisition costs. Eligible taxpayers may also claim a 10.0 percent credit against certain business taxes for tangible property primarily used for R&D. Taxpayers must choose either the deduction or the credit. According to the ORA, these tax expenditures are underutilized, as fewer than 30 taxpayers were projected to claim the deduction in 2024. The fiscal impact of repealing them is shown below.

Tax Expenditure	FY2026	FY2027
Deduction	\$136,993	\$273,984
Property Credit	74,842	149,683
Total	\$211,835	\$423,667

- **Small Business Investment Deduction/Modification - Sunset:** Section 15 of the Article sunsets the Small Business Investment Deduction and Modification as of January 1, 2026. Taxpayers may take a deduction or modification to offset their business or income tax liability if they have made a qualifying investment in a certified venture capital partnership. According to the Office of Revenue Analysis (ORA) this is an underutilized tax expenditure. The revenue impact of repealing this tax expenditure is \$6,551 in FY2026 and \$13,102 in FY2027.
- **Jobs Growth Act - Sunset:** Section 5 of the Article sunsets the Job Growth Act (JGA) tax incentive as of January 1, 2026. The JGA incentive allows eligible employees of qualified companies lower their adjusted gross income for tax purposes by up to 50.0 percent of their income earned from bonuses. According to ORA, the modification is taken by fewer than 10 taxpayers annually. The revenue impact of eliminating this underutilized tax expenditure for FY2026 is \$1,489 and is \$2,979 in FY2027.
- **Specialized Mill Building Investment Tax Credit – Sunset:** Section 11 of the Article sunsets the obsolete Specialized Mill Building Investment Tax Credit as of January 1, 2026. The State has provided a credit

of 10.0 percent of the rehabilitation and reconstruction costs of a certified rehabilitated mill building. The credit was associated with the Mill Building and Economic Revitalization Act, which sunset in 2009. ORA indicates the credit has not been used since tax year 2019. There is no revenue impact.

- **Welfare Bonus Tax Credit - Sunset:** Section 14 of the Article sunsets the Welfare Bonus Tax Credit as of January 1, 2026. The State has provided employers participating the Welfare Bonus Program (WBP) a credit equal to \$250 per eligible employee. The WBP was created to provide payments to individuals who came off welfare (Aid to Families with Dependent Children, or AFDC). The credit was designed to incentivize employers to hire previous welfare recipients. AFDC was replaced in 1997 by Temporary Assistance for Needy Families (TANF) through federal legislation making the tax credit statutorily obsolete. ORA indicates that there have been no credits issued since at least TY2019. There is not a fiscal impact.
- **Small Business Capital Investment Wage Credit - Sunset:** Section 14 of the Article sunsets the Small Business Capital Investment Wage Credit as of January 1, 2026. The State has provided eligible entrepreneurs of qualifying businesses a tax credit for 3.0 percent of employee wages in excess of the \$50,000. According to the ORA, this credit is statutorily obsolete. There has been no activity related to this tax expenditure since at least TY2019. There is no fiscal impact.

Fiscal Impact: The ORA estimates the following impact of the tax expenditures changes described above:

Tax Incentive	FY2026	FY2027
New R&D Facilities Deduction/Property Tax Credit - Sunset	\$211,835	\$423,667
New R&D Facilities Deduction/Property Tax Credit - Carryforward	-	-
Small Business Investment Deduction/Modification - Sunset	6,551	13,102
Jobs Growth Act Tax - Sunset	1,489	2,979
Specialized Mill Building Investment Tax Credit - Sunset	-	-
Welfare Bonus Tax Credit - Sunset	-	-
Small Business Capital Investment Wage Credit - Sunset	-	-
Total	\$219,875	\$439,748

Financial Institution Data Matching Program

Article 5 authorizes the Division of Taxation to implement a new compliance tool that matches data on non-compliant taxpayers with that of financial institutions.

Background: In order enforce Rhode Island tax laws, the Division of Taxation is authorized to levy bank accounts of non-compliant taxpayer to collect taxes and penalties. According to the Division, this process involves manually contacting each potential financial institution to discover whether an account exists prior to a levy be applied to it. Financial institutions are not required to cooperate with this effort.

According to Taxation, there are 34 financial institutions in Rhode Island that participate in some form of data matching with other states and that there are 22 states that have compulsory tax debt financial institution data matching programs that use contingency-based contractors and require bank participation. The State currently authorizes financial institution data matching to secure child support compliance.

Article 5 Changes: Section 16 of Article 5 amends RIGL 44-53 related to the Division of Taxation's levying powers by adding a new section that authorizing a financial institution data match system for state tax collection purposes. The sections specifically;

- Requires the Division to develop and operate the data match system. A third party may be designated by the Tax Administrator to do this on the behalf of the Division subject to confidentiality and disclosure restrictions.

- Requires all financial institutions doing business in the state to develop, in conjunction with the Division and its designated third party, a data matching system to facilitate the identification and seizure of non-exempt financial assets of delinquent taxpayers as identified by the Division or its designee. The section permits a bank to use its existing data match system if it is used to facilitate data matching and debt seizure for child support in Rhode Island.
- Requires financial institutions to report data matching information to the Division at least quarterly, including delinquent taxpayers' names, addresses, social security numbers, account numbers, and balances. The section also provides the financial institutions with legal protections associated with the disclosure of this information to Taxation.
- Prohibits the financial institution and the third party from disclosing information exchanged in the data match system unless authorized by the tax administrator. It includes penalties in the event this is violated.
- Allows the financial institution to disclose to its account holders that Taxation has the authority to request this information for those that are delinquent taxpayers.

Fiscal Impact: The ORA estimates that the data matching program will yield an additional \$5.3 million in general revenue in FY2026, and \$8.0 million in FY2027, based on an October 15, 2026, program start date. The estimate is further broken down by tax type:

Tax	FY2026	FY2027
Personal Income	\$2,216,590	\$3,377,660
Corporate Tax	1,073,532	1635858
Sales Tax	1,550,607	2,362,830
Other	409,271	623,651
Total	\$5,250,000	\$8,000,000

Analyst Note: Section 16 of Article 5 has an effective date of July 1, 2025. The Division of Taxation indicates that it is working on a Request for Proposal ahead of the start of FY2026, and then award and contract with a vendor as soon as possible after receiving authorization. The realization of revenue collection would be delay to October based on the timeline to stand up the program.

According to the Division of Taxation, its compliance unit is already engaged in matching data with financial institutions, only that it is done manually. It indicates that there are no additional personnel costs associated with the initiative. Operationally, there would be a small licensing and administration cost for utilizing the system each year, on a contingent fee basis.

DMV Technology Surcharge

Under current law the Division of Motor Vehicles (DMV) is authorized to charge a \$2.50 surcharge on every DMV fee transaction. Prior to FY2023 all or portions of the surcharge revenue was shared with the state's Information Technology Investment Fund out of which large IT projects were financed. Since then law all surcharge revenue is deposited into a restricted receipt account within the DMV. Funds generated through the surcharge are specifically used to pay the original and ongoing costs associated with the DMV's information technology system, known as the Rhode Island Modernization System, or RIMS. According to DMV officials, the costs related to the ongoing maintenance of RIMS, including upgrading to new releases, are expected to outpace the revenue from the surcharge.

DMV Surcharge Revenue vs. IT Expenditures

Fiscal Year	RIMS Expenditures	IT Contracted Services	Total IT Expenditures	\$2.50 Surcharge Revenue	Rev. vs. Exp.	\$3.50 Surcharge Revenue	Rev. vs. Exp.
FY2016	\$1,804,937	\$0	\$1,804,937	\$2,186,713	\$381,776	\$2,186,713	\$381,776
FY2017	4,222,897	-	4,222,897	2,201,946	(2,020,951)	2,201,946	(2,020,951)
FY2018	183,735	-	183,735	2,183,401	1,999,666	2,183,401	1,999,666
FY2019	-	-	-	2,339,398	2,339,398	2,339,398	2,339,398
FY2020	1,219,689	-	1,219,689	2,533,970	1,314,281	2,533,970	1,314,281
FY2021	2,877,674	617,727	3,495,401	3,577,658	82,257	3,577,658	82,257
FY2022	2,940,400	622,683	3,563,083	3,579,341	16,258	3,579,341	16,258
FY2023	3,004,540	647,394	3,651,934	3,676,244	24,310	3,676,244	24,310
FY2024	3,070,127	581,786	3,651,913	3,874,226	222,313	3,874,226	222,313
FY2025	4,804,590	357,656	5,162,246	3,874,226	(1,288,020)	3,874,226	(1,288,020)
FY2026	4,948,728	357,656	5,306,384	3,874,226	(1,432,158)	5,423,915	117,531
FY2027	5,097,190	357,656	5,454,846	3,874,226	(1,580,620)	5,423,915	(30,931)
FY2028	5,250,105	357,656	5,607,761	3,874,226	(1,733,535)	5,423,915	(183,846)
FY2029	5,407,608	357,656	5,765,264	3,874,226	(1,891,038)	5,423,915	(341,349)

Prior to FY2023 all or portions of the surcharge went to the ITIF

FY16 - FY17 DOR/DMV used surcharge revenue to pay settlement w/ Hewlett Packard resulting from RIMS litigation

FY18 - FY19 all collections were sent to ITIF

FY20 - FY22 \$1.50 of the \$2.50 were sent to ITIF

FY23 we started retaining all \$2.50

Article 5 Changes: Section 2 of Article 5 increases the technology surcharge from \$2.50 to \$3.50 by amending RIGL 31-2-27.

Fiscal Impact: According to the Office of Management and Budget, the dollar increase is estimated to generate \$1.6 million in restricted receipt revenue in FY2026 based on a July 1, 2025, start date.

Elimination of Home Occupation Fees

According to the OMB, the Governor recommends making certain changes to zoning statutes that would preemptively prohibit municipalities from regulating remote work occurring in a person's residence or other space in the community. Section 18 of Article 5 contains these amendments, which do not have a fiscal impact.

Background: RIGL 45-24 governs how municipalities may establish zoning ordinances. The statute includes general provisions on permitted uses of land within a zoning use district. As part of these provision the statute identifies several uses that are permitted in all residential zoning use districts in a municipality and in all industrial/commercial zoning districts. These uses include households, community residences, and family daycare homes. This designation prohibits municipalities from establishing and enforcing restrictions, regulations, permit, or licenses related to these uses.

Furthermore, under the statutory definitions section of the chapter (RIGL 45-24-31), "Home Occupation" is defined as "any activity customarily carried out for gain by a resident, conducted as an accessory use in the resident's dwelling unit".

Article 5 Changes: Section 18 of Article 5 adds remote work to the list of unrestricted uses across residential and industrial/commercial zoning districts, by amending RIGL 45-24-37(b). Remote work is defined as:

- **Remote Work:** Work flexibility arrangement under which a W-2 employee or full-time contractor routinely performs the duties and responsibilities of such employee's position from an approved worksite other than the location from which the employee would otherwise work. Remote work shall not include activities that:
 - Relate to the sale of unlawful goods and services;
 - Generate on-street parking or a substantial increase in traffic through the residential area;

- Occur outside of the residential dwelling;
- Occur in the year or;
- Are visible from the street

Article 5 also clarifies the definition of “home occupation [RIGL 45-24-31(35)] which contains the general definitions under the zoning statute. Specifically, it clarifies that the definition of “home occupation” does include remote work (as defined above).

Article 6: Related to Economic Development

This article reauthorizes various economic development incentives managed by the Rhode Island Commerce Corporation. It also repeals the authorization of municipalities to license retail holiday sales and makes opting out of certain service contracts easier to consumers. Specifically, the article:

- **Reauthorization of Incentives:** Reauthorizes the EOC’s incentive programs for an additional year by extending the statutory sunset provisions placed on them from December 31, 2025, to December 31, 2026. It also permanently eliminates the sunset for the Small Business Assistance Program Act, and does not extend the sunset for the P-Tech program, effectively ending the program on December 31 of this year.
- **Deregulation of Retail Sales on Holidays:** Deregulates retail sales operations on legal holidays, other than Christmas and Thanksgiving, by eliminating holiday operations licensing.
- **“Cooling Off” Protections Related to Certain Businesses:** Simplifies how a consumer may be able to opt out of contracts with health clubs and dating services by adding e-mail as an allowed form of contract termination communication.

FISCAL IMPACT

There is no direct quantifiable impact in terms of expenditures or revenue related to the initiatives and amendments contained within Article 6. The repeal of holiday business licensing would negatively impact most municipal revenues, but the magnitude is unknown. The Governor’s recommended FY2026 Budget does include changes in expenditures related to several of the economic development incentives addressed in the article. These are summarized in the following table.

Incentive	FY2026	FY2026 v. FY2025
	Governor	Enacted
Rebuild RI	\$10.1	\$0.0
Wavemaker Fellowship	1.0	(3.1)
Innovate RI	0.3	0.3
Innovation Initiative	-	(1.0)
Main Streets Revitalization	-	(1.0)
Small Business Assistance	-	-
First Wave Closing Fund	-	-
I-195 Redevelopment Fund	-	-
Total	\$11.4	(\$4.8)

\$ in millions

ANALYSIS AND BACKGROUND

Reauthorization of Incentive Programs

Background: The General Assembly enacted a suite of economic development incentives in its 2015 session. To ensure its prerogative of overseeing the effectiveness of these incentives, the General Assembly originally authorized them for only two years by establishing a sunset date of December 31, 2018. Since then several incentives have not been reauthorize, but the majority have been extended six times, most recently by the FY2025 Budget as Enacted. Most of the remaining incentive programs are currently set to expire on December 31, 2025. In 2024, the General Assembly extended the authorization of the Air Services Development Fund through the end of 2027.

Article 6 Changes: Article 6 reauthorizes the following incentives through December 31, 2026.

- Stay Invested in RI Wavemaker Fellowship
- Rebuild RI
- Rhode Island Tax Increment Financing
- Tax Stabilization Incentive
- First Wave Closing Fund
- I-195 Redevelopment Project Fund
- Main Street Rhode Island Streetscape Improvement Fund
- Innovation Initiative
- Rhode Island Qualified Jobs Incentive

P-TECH: The High School, College, and Employer Partnerships program, also known as P-TECH is set to sunset on December 31, 2025. The article does not extend the authorization of this program. P-TECH creates long-term partnerships between high schools, colleges, industry associations, and businesses. Students enrolled in P-TECH programs take college-level courses while in high school, benefit from internships and mentoring, and graduate with a high school diploma and an industry-approved associate degree. Business partners help design the program and ensure that changing industry needs are addressed in the curriculum.

According to Commerce, allowing the program to sunset is intentional. The program hasn't been funded in several years and, with new opportunities in the career and technical education space, new work-based learning efforts, and the implementation of the Promise Scholarship since its inception, additional funding for the program may be duplicative of those new efforts. Furthermore, according to Commerce, the existing P-TECH partnerships are transitioning to a completely self-funded model by the end of 2025 and continue to be successful, yielding strong results for students.

Small Business Assistance Program: The article permanently authorizes the State's Small Business Assistance Program by repealing its December 31, 2025, sunset. The Budget includes \$2.0 million in FY2025, consistent with the enacted level, for the State's Small Business Assistance Program (SBA). The SBA program was established to help small businesses (under 200 employees) gain access to capital. Grants are capped at \$750,000. According to the Executive Office of Commerce, the program offers more operating flexibility than the long-standing Small Business Loan Fund, which is subject to federal regulations from the U.S. Economic Development Administration. The Commerce Corporation partners with private lending institutions to administer the applications and program. According to the EOC, 303 loans have been made resulting in 370 jobs and more than 50.0 percent have gone to minority- or woman-owned businesses.

The 2018 General Assembly increased the amount of Small Business Assistance program funds available for "micro loans" (\$2,000 to \$25,000) from 10.0 percent to 25.0 percent. These loans may be used to provide:

- Additional capital to businesses;
- Direct lending for subordinated and mezzanine debt (debt that is associated with acquisitions and buyouts where it may be used to prioritize new owners ahead of existing owners in case of bankruptcy, or be used to convert a debt into a stock option); or
- Collateral support and enhancement.
- The following table shows the lenders, awards, and total loans originated to date:

Lender	SBA Award	Total Loans Originated
<i>Traditional Lending</i>		
BDC Capital	\$986,412	\$16,526,562
Business Development Co of RI	2,308,000	6,863,285
Community Investment Corporation (CIC)	1,010,125	5,074,805
South Eastern Economic Devel. Corp (SEED)	2,131,400	5,930,143
<i>Subtotal</i>	<i>\$6,435,937</i>	<i>\$34,394,795</i>
<i>Micro Lending</i>		
CIC Microloans	699,800	1,378,600
CWE Microloans	159,000	159,000
SEG Microloans	287,750	296,500
Rhode Island Black Business Association	167,200	207,450
<i>Subtotal</i>	<i>\$1,313,750</i>	<i>\$2,041,550</i>
Total	\$7,749,687	\$36,436,345

Deregulation of Retail Sales on Holidays

The article deregulates retail sales operations on legal holidays except on Christmas and Thanksgiving.

Background: RIGL 5-23 governs commercial business taking place on an official state holiday. It authorizes municipalities to establish a license that is required to be obtained by a business in order to operate on a holiday (other than Christmas and Thanksgiving). Municipalities do so through ordinances enacted by town or city council and are permitted to set a fee of their choosing. The statute also outlines what types of businesses are exempt, how employees must be paid, how licenses must be displayed, and the penalties allowed for infractions.

Certain defined businesses are allowed to operate on holidays, including Christmas and Thanksgiving, under the law, and these carveouts remain under the Governor’s proposal. These include:

- Pharmacies
- Food establishments that employ fewer than six employees per shift
- Florists and nurseries
- Bakeries

According to the Department of Revenue’s Division of Municipal Finance, there 31 municipalities have established a holiday business license. The fees ranged from \$5 (Burrillville) to \$125 (East Providence). ([Municipal License and Permit Fees August 2024](#))

Article 6 Changes: Sections 1 and 2 of Article 6 repeals the statutory authorizing provisions that allow municipalities to establish and administer the holiday license on holidays other than Christmas and Thanksgiving. It also makes technical changes that realign the statute to accommodate the repeal.

“Cooling Off” Protections Related to Certain Businesses

The article simplifies how a consumer may be able to opt out of contracts with health clubs and dating services. These opt out provisions are commonly referred to as “cooling off” protections.

Health Clubs: RIGL 5-50 governs the operation of health clubs within the state and provides for certain consumer protections relating to the termination of contracts. Under current law, an individual who has entered into a contract with a health club in the state has the right to cancel the contract under certain conditions and if done so according to specific methods. Cancellation or modification conditions include such things as if the individual or the health club facility relocates more than 15 miles from each other, if the facility does not open, if the individual becomes significantly physically or medically disabled (contract

is suspended during the injury to resume when its medically possible). An individual has an unconditional right to cancel the contract up until midnight of the 10th day after the contract. However, to do so, he or she must notify the health club in writing and in person or by mail.

Dating Services: RIGL 5-78 governs the operation of dating services within the state. Similar to health clubs, the statute provides cooling off protections that allows an individual to opt out of contracts up to midnight of the 3rd business day after it was entered into. Notification of the desire to cancel the contract must be made in writing and delivered by certified or registered mail to the address provided in the contract.

Article 6 Changes: Section 3 of Article 6 expands the methods of notifying an individual's desire to cancel a contract with a health club or a dating services within those initial allowable cancellation periods to include the sending of an electronic mail message to the club at an email address that is required to be specified in the contract.

Article 7: Relating to Education

This article modifies the education aid funding formula by increasing the student success factor weight from 40.0 percent to 43.0 percent for those districts with a pre-kindergarten through 6th grade poverty density at or above 60.0 percent. In addition, the article caps the local tuition reduction for charter schools, state schools, and mayoral academies to 14.0 percent and amends the process for creating or expanding a mayoral academy by providing that, while the founding board of trustees for the academy must be chaired by the mayor of a participating city or town, upon completion of the first charter term and an approved renewal, any member may be elected by the board to serve as chair.

FISCAL IMPACT

The article increases state education aid to districts by \$10.7 million.

Based on FY2025 data, the local tuition reduction cap imposed by the article would have increased local tuition costs by \$1.6 million (illustrative example).

ANALYSIS AND BACKGROUND

The article makes the following changes to education aid :

Education Aid

The article modifies the education aid funding formula by increasing the student success factor weight from 40.0 percent to 43.0 percent for those districts with a pre-kindergarten through 6th grade poverty density at or above 60.0 percent. This is the poverty density indicator used in calculating the state share ratio for a district.

The amendment impacts five districts in FY2026: Central Falls, Newport, Pawtucket, Providence, and Woonsocket, as well as those charter and state schools with students from these districts.

The five districts would receive an additional \$7.9 million from the change, while charter and state schools would increase by another \$2.8 million.

Local Tuition Reduction Cap

To address “the budgetary uncertainty that current law creates for local districts, charter schools, and mayoral academies”, beginning in FY2026, the article caps the reduction in local tuition to charter schools and mayoral academies at 14.0 percent. For illustrative purposes, the table at right shows additional costs for districts had the cap been in place in FY2025. FY2026 costs to districts from the proposal are unknown at this time.

Currently, under RIGL 16-7.2-5, sending districts pay tuition for resident students who attend charter and state schools. The tuition is equivalent to the local, per-pupil cost as calculated by dividing the local appropriation to education from property taxes, minus debt service and capital projects, by the number of resident, full-time equivalent students in the district, including charter and state-school students. The per-pupil amount is then reduced by the greater of:

- 1. 7.0 percent of the district’s per-pupil funding, or

Article 7 Fiscal Impact

District	3.0% Additional SSF
Central Falls	\$544,152
Newport	200,801
Pawtucket	1,443,255
Providence	4,278,415
Woonsocket	1,404,602
District Total	\$7,871,225
Charter Schools	2,519,512
Davies	82,207
Met School	127,731
Nowell Academy	41,297
Urban Collaborative	42,687
Youth Build Academy	34,041
Total	\$10,718,700

Article 7 - Local Tuition Reduction Capped at 14.0 Percent (Based on FY2025 Date)

District	Local Tuition Costs
Jamestown	\$880
Johnston	3,903
Woonsocket	737,170
Bristol-Warren	-
Exeter-West Greenwich	-
Foster-Glocester	-
Central Falls	859,214
District Total	\$1,601,167

Source: Rhode Island Department of Education

2. the district's per-pupil cost of certain, unique expenditures, such as non-public textbooks and retiree health benefits, minus the average charter school per-pupil cost for these items, as reported in the uniform chart of accounts.

If a district triggers option 2, then there is an additional reduction for tuition payments to mayoral academies where teachers do not participate in the state teacher's retirement system equal to the per-pupil cost of the unfunded liability for the preceding year.

There is a two-year lag in the data such that FY2025 tuition rates are based on FY2023 contributions and expenditures.

The following table shows the districts that have triggered the Option 2 reduction in the last five years, as well as the FY2025 charter and state school enrollment for these districts and the average tuition reduction over the five-year period.

Districts	FY2025 Enrollment		FY2021 through FY2025		
	Charter and State Schools	Mayoral Academy	Number of Times Triggered Option 2	Average Charter and State School Tuition Reduction	Average Mayoral Academy Tuition Reduction
Jamestown	12		5	-15.9%	
Johnston	81		4	-11.5%	
Newport	31		3	-9.3%	
North Providence ¹	127	133	1	-10.8%	-10.8%
Pawtucket ¹	1,382	1,064	1	-8.9%	-34.8%
Woonsocket ¹	332	518	3	-17.1%	-51.9%
Bristol-Warren	29		3	-10.8%	
Exeter-West Greenwich	57		3	-8.4%	
Foster-Glocester	2		5	-14.5%	
Central Falls ¹	1,065	682	2	-13.1%	-32.5%

¹ District is currently within the catchment area of a mayoral academy.

Mayoral Academies

The article amends the process for creating or expanding a mayoral academy by providing that, while the founding board of trustees for the academy must be chaired by the mayor of a participating city or town, upon completion of the first charter term and an approved renewal, any member may be elected by the board to serve as chair. Based on information provided by the Office of Management and Budget, the amendment is intended to provide Mayoral Academies the flexibility to choose the governance that best meets the needs of the students served.

Article 8: Relating to Medical Assistance

This article modifies current laws governing the Hospital Licensing Fee (HLF), nursing home and hospital payments, Disproportionate Share Hospitals (DSH), inflationary increases for Home and Community Based services (HCBS), and the annual Medicaid Resolution.

FISCAL IMPACT

The article continues the Hospital Licensing Fee (HLF) into FY2026 and shifts the base year for nongovernmental hospitals into 2023. In addition, the article eliminates the Upper Payment Limit (UPL) payment to hospitals and the inflationary increase to Home and Community Based Services (HCBS) providers, and freezes rate increases to nursing homes and hospitals at the state revenue growth level of 2.3 percent. Disproportionate Share Hospitals (DSH) payments are carried into FY2026 and capped at \$13.9 million, including a limit of \$12.9 million for government-owned hospitals and \$1.0 million for other participating hospitals. Through the annual Medicaid Resolution, the article directs the Secretary of the Executive Office of Health and Human Services to implement state plan amendments needed to establish an interprofessional consultation (e-Consult) program effective October 1, 2025.

The article increases state revenue by \$16.8 million and reduces costs by \$49.8 million, including \$19.6 million in general revenue.

Article 8 Fiscal Impact			
	Revenues	Expenditures	
	General Revenue	General Revenue	All Funds
Increased HLF revenue	\$16.8	\$0.0	\$0.0
Eliminate Upper Payment Limit (UPL)	-	(6.7)	(18.3)
Eliminate Inflationary increase in HCBS	-	(4.3)	(10.1)
DSH payments	-	(3.6)	(7.8)
Medicaid Rate Reduction for Nursing Facility	-	(3.2)	(7.7)
Medicaid Rate Reduction for Hospitals	-	(1.7)	(5.3)
e-Consults Program	-	(0.1)	(0.5)
Net Impact	\$16.8	(\$19.6)	(\$49.8)

\$ in millions. Total may not add due to rounding

ANALYSIS AND BACKGROUND

Hospital Licensing Fee (HLF)

The article includes technical amendments to remove outdated language and continue the HLF fee into FY2026. In FY2026, the base year for nongovernmental hospitals is shifted into 2023, consistent with government-owned hospitals, and hospitals are required to pay the tax prior to June 25 of the fiscal year, instead of June 30. In addition, the article changes the hospitals required to pay the HLF to those licensed on or before July 1, 2024, instead of July 1, 2022. The HLF is estimated to generate \$215.7 million in FY2025, consistent with the enacted budget, and \$232.5 million in FY2026, an increase of \$16.8 million.

The federal government allows states to assess taxes on health care provided the taxes are broad-based, uniformly imposed throughout a jurisdiction, and do not violate the hold harmless provisions specified in federal regulation. These taxes include revenue from patient care activity but exclude non-patient enterprises such as research, academic activity, or investment earnings. Rhode Island assesses a number of provider taxes, including a hospital licensing fee (HLF) authorized by RIGL 23-17-38.1. The HLF must be authorized annually.

The FY2024 Budget as Enacted amended the HLF to bring the fee into compliance with federal Centers for Medicare and Medicaid Services (CMS) requirements. The new calculation separates inpatient and outpatient hospital license fees, providing a three-tier structure within each. Pursuant to federal requirements, the total tax revenue from the fees cannot exceed 6.0 percent of net patient services revenue for each of the in-patient and outpatient service types. The percentages are applied to a hospital’s inpatient and outpatient net patient-services revenue for the first hospital fiscal year ending on or after January 1, 2022.

Hospital Tax Tiers			
	Inpatient	Outpatient	
Tier	Tax Rate	Tax Rate	Hospital Types Included in Tier
I	13.12%	13.30%	Hospitals that do not meet the description of Tiers II or III, including Bradley, Butler, Kent, Newport
II	2.63%	2.66%	<ul style="list-style-type: none"> Acute care hospitals with high Medicaid/Uninsured costs, including Landmark, OLF, RIH, RWMC, and W&I Independent Hospitals not part of a multi-hospital system, such as South County Hospital
III	1.31%	1.33%	Medicaid designate "low volume" hospitals, such as Westerly, Rehabilitative Hospitals, and the Rehabilitative Hospital of RI

Upper Payment Limit (UPL): Section 5 of the article eliminates the UPL to hospitals for in-patient and outpatient services to Medicaid participants that was established to ensure that Medicaid rates are comparable to Medicare rates, beginning in FY2026. The Governor asserts that the State-Directed Payment (SDP) program established in FY2024 sufficiently addresses hospital rate disparities. In FY2026, the SDP program is budgeted at \$333.8 million, including \$99.2 million in general revenue. Eliminating UPL payments would reduce general revenue expenditures by \$6.7 million (\$18.3 million all funds).

Home and Community Based Services (HCBS): Since home-care providers are included in the biennial rate review process conducted by the Office of the Health Insurance Commissioner (OHIC), section 6 of the article eliminates the annual rate increase provided in statute. Home care was the only provider type included in the rate review that was also receiving a secondary rate adjustment. The inflationary rate is applied to the base rate for home-care providers, home nursing care providers, and hospice providers to deliver Medicaid fee-for-service personal care attendant services, skilled nursing and therapeutic services, and hospice. This proposal is estimated to generate \$4.3 million in general revenue savings (\$10.1 million all funds).

Inflationary Increases for Home Care Providers	
Date	Increase
1-Jul-20	3.40%
1-Jul-22	2.43%
1-Jul-23	2.29%
1-Jul-24	0.12%
1-Oct-24 (OHIC)	15.8% to 74.28% based on code ¹

¹ Rate Increases compared to July 1, 2024, and exclude home hospice care. There was no inflationary increase in FY2021.

Source: Office of Management and Budget

Pursuant to federal regulation, home hospice care rates cannot be lower than Medicare rates; consequently, the rates are reviewed by EOHHS annually and adjusted as necessary.

Disproportionate Share Hospitals (DSH)

The Disproportionate Share Hospitals (DSH) payments are required under federal statute and intended to offset uncompensated care costs for hospitals in order to improve access for Medicaid and uninsured patients, as well as improving the financial stability of safety-net hospitals. The article adds a base year to allow payments in FY2026, amends payments for FY2025 and FY2026. In FY2025, the article provides an aggregate limit of \$27.7 million in DSH payments, while capping the allowable payment to government-owned hospitals at \$12.9 million. The cap represents an increase of \$2.6 million in general revenue (\$5.9 million all funds) relative to the FY2025 Budget as Enacted and the November 2024 Caseload Estimating Conference (CEC).

In FY2026, the article requires EOHHS to submit a state plan amendment to the federal government to limit aggregate DSH payments to \$13.9 million, including a limit of \$12.9 million for government-owned hospitals and \$1.0 million for other participating hospitals. This limit represents a decrease of \$3.6 million in general revenue (\$7.8 million all funds). Payments to both government-owned and other participating hospitals must be made by June 30, 2026, and are conditioned upon approval by the Secretary of the United

States Department of Health and Human Services of all state plan amendments necessary to secure the benefit of federal financial participation for the DSH payments in FFY2026.

Analyst Note: In FY2026, the budget includes the shift of \$13.7 million in all funds from DSH to the State Directed Payment (SDP) program, resulting in a general revenue savings of \$1.8 million due to the more favorable federal match in the SDP program.

Medicaid Rates for Nursing Facilities and Hospitals

As a cost containment measure for FY2026, sections 3 and 4 of the article reduce the annual inflationary increases on rates paid to hospitals and nursing homes to 2.3 percent to match state revenue growth. Current law, which requires rate changes based on national price indices, would have increased payments to hospitals by 3.4 percent for fee-for-services and 2.9 percent for managed care, while nursing facility payments were set to increase by 4.2 percent. This recommendation reduces general revenue expenditures by \$4.9 million (\$13.0 million in all funds), relative to the adopted November Caseload Estimating Conference (CEC) estimates, and provides an increase of \$67.8 million in all funds, relative to the FY2025 revised recommendation.

History of Rate Adjustments and State Revenue Growth

Hospitals		Nursing Facilities		State General Revenue Growth	
Date	Rate Increase ¹	Date	Rate Increase	Fiscal Year	Percentage Growth
SFY2021	2.6%	1-Oct-20	2.4%	2021	9.1%
SFY2022	2.4%	1-Oct-21	2.7%	2022	17.4%
SFY2023	5.0%	1-Oct-22	4.0%	2023	0.1%
SFY2024	4.1%	1-Oct-23	6.9%	2024	3.0%
SFY2025	3.3%	1-Oct-24	14.5%	2025	3.5%
Average	3.5%		6.1%		6.6%

¹ for Inpatient and Outpatient services

In addition, the article expands the list of direct-care workers eligible for increased compensation based on the application of the inflationary increase. Under current law, 80.0 percent of any rate increase resulting from the application of the inflation index must be dedicated to increasing compensation for eligible direct-care staff. The article expands the eligible staff to include the director of nursing services; registered nurses and licensed practical nurses with administrative duties; nurse aides in training; certified occupational therapy assistants; licensed respiratory therapists; maintenance staff; social workers; and activities directors and aides.

This amendment is related to changes to the minimum staffing requirements in section 2 of Article 10.

Analyst Note: RIGL 40-8-19 provides that 80.0 percent of rate increases from certain rate increases must be used to increase compensation for eligible direct-care workers. It is not clear if the 2.3 percent rate increase provided in this article would qualify, since the statute states that the rule applies to subsections (a)(2)(i) and (a)(2)(ii) while the current increase is provided in subsection (a)(2)(vi).

Third-Party Liability

Medicaid is a payer of last resort; consequently, third party payers such as private insurance, Medicare, or employer-sponsored insurance should be exhausted before Medicaid is billed. To comply with federal requirements, section 2 of the article prevents third-party payers from denying a claim based solely on the failure to obtain prior authorization, and requires that the insurers accept authorization provided by the state Medicaid program as authorization that the service is covered.

In addition, the article requires health insurers and liable third parties to respond to claim inquiries within 60 business days after receiving written documentation from the Medicaid recipient, and updates agency references.

Long-Term Care Services: Section 7 of the article eliminates “preventative services” and “preventative” level of care from Medicaid long-term care services and supports; however, these services are provided under “core services”. Under current law, “preventative services” is defined as “homemaker services, minor environmental modifications, personal care assistant services, and respite.” The Center for Medicare and

Medicaid Services (CMS) informed EOHHS that retaining “preventative” level of care in the State’s waiver would necessitate complex tracking and reporting requirements.

Primary Care Rate Review: The article amends RIGL 42-14.5-2.1, the Rhode Island Health Care Reform Act of 2004 – Health Insurance Oversight, to define “primary care services”, and include it in the Social and Human Services Rate Review process conducted by the Office of the Health Insurance Commissioner on a biennial basis. The report will be published September 2027.

Amendments to the Rhode Island Medicaid Reform Act Resolution

The article establishes the legal authority for the Secretary of the Executive Office of Health and Human Services (EOHHS) to review and coordinate amendments to the Medicaid State plan and category II and III changes in the demonstration “with potential to affect the scope, amount, or duration of publicly-funded health care services, provider payments or reimbursement, or access to or the availability of benefits and services provided by Rhode Island general and public laws”. In FY2026, the article authorizes the Secretary of Health and Human Services to seek federal approval for the following changes:

- Alignment of nursing facility and hospital rate increases with state revenue growth;
- Elimination of annual rate increases for home care services;
- Elimination of the hospital upper payment limit payments;
- Establishment an interprofessional consultation (e-Consults) program, effective October 1, 2025.

Article 9: Relating to Leases

This article authorizes two lease agreements for the renewal of office and operating spaces for the Department of Children, Youth, and Families, and the Rhode Island Emergency Management Agency. Pursuant to RIGL 37-6-2(d), leases meeting certain conditions require the approval from the General Assembly.

FISCAL IMPACT

State Agency	Renewal or New Lease	Location	Sq. Ft.	Lease Term	Aggregate Rent	Max. Annualized	Current Lease Expires
Children, Youth, and Families	Renewal	101 Friendship Street, Providence	99,500	10-years	\$23,919,517.90	\$2,293,826.79 *	November 30, 2025
Emergency Management Agency	Renewal	2700 Plainfield Pike, Cranston	73,770	10-years	\$7,188,368.21	\$718,836.82 **	July 31, 2025

*Annual base rent is not to exceed \$2,293,826.79 in the first five (5) years and \$2,490,076.79 in the remaining years six (6) through ten (10)
**This number represents the expected annual value based on the provided aggregate rent. The article does not provide a max annualized amount at this time.

ANALYSIS AND BACKGROUND

The article authorizes two lease agreements pursuant to RIGL 37-6-2(d), which requires the approval of the General Assembly for any new or extended lease or rental agreements with a term of five (5) years or longer where the State is the tenant and the aggregate rent during the proposed term is more than five hundred thousand dollars (\$500,000).

For agreements meeting these specifications, the law states that the State Properties Committee must submit a resolution including the following information: the purpose of the lease or rental agreement, the agency's current lease or rental costs, the expiration date of the present lease or rental agreement when applicable, the total range of costs of a new lease or rental agreement, the proposed term length of a new agreement, and the location and current owner of the property.

The article authorizes the following two lease renewal agreements.

Department of Children, Youth, and Families – 101 Friendship Street, Providence

The article authorizes the Department of Children, Youth, and Families to renew its current lease with Provident Property, LLC, for a term not to exceed ten years. The current lease for 99,500 square feet of office space is set to expire on November 30, 2025. The property is located at 101 Friendship Street, Providence, and is currently used as the main office space for the Department. The article stipulates that the aggregate fixed rent is not to exceed \$2.3 million in the first five years and \$2.5 million in the second five years, for a total aggregate fixed rent of up to \$23.9 million over the ten-year period.

Rhode Island Emergency Management – 2700 Plainfield Pike, Cranston

The article authorizes a lease agreement for warehouse space to be administered by the Rhode Island Emergency Management Agency (RIEMA). The article authorizes the renewal of the existing lease of 73,770 square feet of warehouse space located at 2700 Plainfield Pike in the City of Cranston and owned by EIM Plainfield Pike LLC. The existing lease expires on July 31, 2025, and the warehouse needs continue. The lease terms state that the length of the lease is not to exceed 10 years and the aggregate base rent is not to exceed \$7.2 million.

The warehouse space has been co-administered between the Department of Administration and RIEMA as part of the State's pandemic response using federal funding from ARPA SFRF for the storage of personal protection equipment (PPE) and other necessary COVID-19 response related supplies. The FY2023 Budget as Enacted included \$2.0 million in federal funding from ARPA SFRF for this purpose. The FY2024 Budget as Enacted included an appropriation of \$1.4 million, and the FY2025 Budget as Enacted included \$778,347, for a total appropriation of \$4.2 million.

Article 10: Relating to Medical Assistance

This article modifies Rhode Island’s minimum staffing law, the Certificate of Need processes within the Department of Health (RIDOH), and creates a Baby Bond Trust within the Office of the General Treasurer.

FISCAL IMPACT

Certificate of Need: While changes to the Certificate of Need process could have a direct impact on revenues, the impact is unknown at this time. OMB included a savings of \$173,608 in general revenue related on the reduction of 1.0 FTE position at the Department of health (DOH). The Department indicates that they will be able to absorb the responsibilities of the position through consolidation and streamlining within the program.

Nursing Home Minimum Staffing: According to the OMB, the revenue loss resulting from the dissolution of the monetary penalties that are applied to nursing homes in violation of Rhode Island’s minimum staffing laws is estimated to be approximately \$60.0 million. However, these fees were suspended by the Governor’s Executive Order 24-09 on May 24, 2024, and were not included in revenue forecasts.

Baby Bonds: The proposed amendment has no fiscal impact in FY2026; however, in FY2027, there is a projected \$750,000 general revenue loss related to the Baby Bonds, and \$500,000 outyear impact.

ANALYSIS AND BACKGROUND

Certificate of Need (CON) Process:

A Certificate of Need (CON) process is a regulatory mechanism for approving major capital expenditures and projects for certain health care facilities. In Rhode Island, the Department of Health must approve the creation of new health care facilities or the expansion of an existing facilities services. According to the National Conference of State Legislatures, the primary goal of the CON process is to control healthcare costs by restricting duplicative services and determining whether new capital expenditures meet a community need.

Article 10 makes multiple amendments to the CON process. According to OMB and DOH, the changes aim to encourage new market entrants, reduce regulatory barriers, and increase healthcare access - especially within underserved populations. The amendments are meant to streamline the process by reducing the scope of what is subject to the process and reduce administrative burden at the Department. OMB indicates that these changes may reduce revenue from applications. However, they expect a broader positive impact on healthcare services in RI, including reduced costs, improved healthcare access, and stimulating market competition.

The specific amendments to the CON process include:

- Increasing the application fee from \$20,000 to \$50,000
- Establishing exemptions for projects, and funding approved by the General Assembly
- Removing the requirement that the Department must provide written notification and rationale as to why an expeditious review was denied
- Deferring to the Department’s rule and regulations for procedures related to expeditious reviews instead
- Removes the provision allowing open public meetings

Analyst Note: It is unclear whether the intent is to discontinue public meetings on the topic or if this simply removes language allowing for them.

- Removes the biannual review process

- Increasing the timeline in which the Director shall issue their decision from five to ten days.

Regulated Facilities and Activities: Article 10 also makes amendments to facilities and activities regulated under the Certificate of Need. The following table illustrates the Article 10 changes to facilities regulated under the CON process.

Facilities Regulated Under Certificate Of Need Process	
RIGL 23-15-2	Article 10 Change
Hospitals	No Change
Nursing Facilities	No Change
Inpatient Rehabilitation Centers	No Change
Free-standing Emergency Care Facilities	No Change
Hospice Provider	Removed
Home Care Provider	Removed
Drug/alcohol Abuse Treatment Centers	Removed
Certain facilities providing surgical treatment to patients not requiring hospitalization (surgi-centers, multi-practice, physician ambulatory-surgery centers and multi-practice, podiatry ambulatory-surgery centers)	Removed
Inpatient Hospice Care	Removed
Home Nursing Care Provider	Removed

The amendment also narrows the activities regulated under the CON process, removing acquisitions by or on behalf of health maintenance organizations, increases in capital expenditures resulting in the addition of health services, bed reclassifications in nursing homes, any health services that are not offered on a regular basis, and predevelopment activities. The CON process will now regulate the following activities:

- Construction, development, or establishment of a new healthcare facility
- Any capital expenditure exceeding \$50.0 million
- Any increase in bed capacity in a licensed hospital
- Any new or expanded service in the following areas: cardiac catherization, obstetrics, open heart surgery, organ transplant, and neonatal intensive care services.

The Department emphasizes that there will be no adverse impact on patient care, as the facilities and professions the proposal removes will continue to be regulated under the initial licensing process. The amendment seeks to right-size the CON process by limiting the number of facilities and services covered to those with the greatest potential to impact the statewide healthcare system. These changes will align Rhode Island's policies with other states, and encourage new entrants in the healthcare market.

Furthermore, tomb cites a comprehensive study from Georgia State University that found subjecting home care facilities to the CON process resulted in higher Medicaid costs for home health services and limits access to home health services. The study also found that fewer Medicaid beneficiaries utilized home health services as the CON process led to lower levels of competition. According to the Department, these changes could potentially positively impact the home care and nursing home industries. Although nursing homes and home care services are already overwhelmed, the elderly population is expected to increase significantly. According to the Office of Healthy Aging's 2020 Healthy Aging Data Report, one in four Rhode Island residents will be over the age of 85, and as of 2020, residents 60 years or older comprised 23.0 percent of the population.

Capital Threshold: Additionally, the article establishes a capital threshold of \$50.0 million for CON review. Currently, RIGL 23-15-2 lists four different capital expenditure thresholds which are dependent on the project a healthcare facility invests in. The amendment will simplify the statute by establishing one

threshold of \$50.0 million for every regulated activity. Article 10 further simplifies the statute by amending the definition of new healthcare equipment, narrowing the definition to linear accelerators, and positron emission tomography, only.

Review and Approval Process: The amendment restructures the review and approval process, changing criteria in which the health services council previously used for recommendations, now focusing on criteria related, but not limited to, affordability, accessibility, innovation, and quality standards - all of which can be defined in regulations adopted by the Department of Health. Removing the previous criteria will increase productivity and efficiency to the process.

Other aspects of the amendment include technical changes such as removing redundant and outdated language.

Nursing Home Minimum Staffing Levels:

Article 10 also makes several changes to RIGL 23-17-5, entitled ‘Rights of Nursing Home Patients’, intended to alleviate the strain on nursing home resources. Specifically, the article increases the definition of “direct caregiver” to include director of nursing services, and RNs and LPNs with administrative duties. The amendment also increases the direct hours of nursing care per resident from 3.58 hours to 3.81 hours. However, it decreases the time in which direct care is provided by a certified nursing assistant from 2.6 hours to 2.2 hours.

Penalties and Fines: The amendment waives all fines prior to the third quarter of FY2025, and implements a new penalty structure beginning July 1, 2025. Article 10 implements a fine of up to \$1,000 per day in a quarter in which the facility fails to comply with the minimum nursing staff requirement. The Department of Health may reduce the penalty to \$250 a day at its discretion. According to the Office of Management and Budget, the estimated net costs of compliance enforcement fines would have totaled approximately \$60.0 million.

Fine Exemption: The Article also introduces exemptions to these fines. The Department may waive the penalties in circumstances where mitigating factors exist. The Article defines mitigating factors as an extraordinary circumstance facing the facility, or an acute labor supply shortage of nurse aides, certified nursing aides, licenses practical nurses, or registered nurses.

Direct Care Waiver: Article 10 also introduces a waiver of minimum direct care staffing requirements for organizations who are unable to meet the requirement. Waivers are granted by the Director of the Department of Health for periods up to one year and will be assessed on the following criteria:

- Acuity levels of residents and how stable those acuity levels are based on the case of mixed residents
- Documented evidence of the facilities’ inability to meet the minimum staffing requirements, despite their best efforts, such as offering competitive wages for nursing staff
- Whether the facility has undergone a system-wide culture change
- The quality performance of the nursing facility, as evidenced by a four- or five-star rating from the centers for Medicare and Medicaid

The Director may consult with the Department of Labor and Training concerning labor availability in connection with any waiver request. The legislation does not indicate any processes extending beyond evaluated criteria related to the waiver. However, the legislation charges the Department with the authority to promulgate rules and regulations related to Minimum Staffing Levels.

Rhode Island Baby Bond Trust

Article 10 establishes a new Rhode Island Baby Bond Trust program to be administered by the Office of the General Treasurer. The purpose is to provide a \$3,000 trust for each Rhode Island child (beneficiary)

born on or after January 1, 2026, to a family enrolled in the Rhode Island Works Program. The Department of Human Services shall notify the Office of the General Treasurer when a designated beneficiary (child) is born or enrolled in the Rhode Island Works Program.

Commencing July 1, 2026, the General Treasurer will deposit revenues from the State's Unclaimed Property program into the Trust for each designated beneficiary, and shall administer and invest the Trust's funds until the child's 18th birthday. When the child reaches age 18 and has been a resident of the State for the previous two-years, they will be eligible up to age 35 to withdraw the funds and proceeds for use on eligible expenses, such as continuing education in the State, ownership on a home or business in Rhode Island, or investment in personal capital or financial assets designed to provide long term wealth.

Unclaimed property consists of money and other assets that are considered lost or abandoned after an owner cannot be located for a specific period of time. It includes bank accounts; stocks and bonds; wages; refunds; safe deposit boxes; insurance payments; gift certificates; credit memos; account receivable credits and payables, etc. The State General Fund receives an annual transfer of a portion of unclaimed property receipts. The transfer to the State general fund is the total revenues from sales of unclaimed property, minus personnel costs of the unclaimed property program; administrative costs of the program; claims paid in the current year; and liability holdback.

Based on Rhode Island demographics and projected RI Works eligibility participation, the Budget Office estimates that approximately 165 babies born each year would be eligible to receive the \$3,000 Baby Bond, which has an estimated cost of \$500,000 per year. Because the transfer of funds from the Unclaimed Property program does not begin until FY2027, there is no fiscal impact to FY2026, and that the impact to general revenue in FY2027 would be \$750,000 with an annual revenue loss of approximately \$500,000 per year thereafter.

Article 11 – Relating to Assault Weapons

Article 11 adds RIGL 11-47.2, which takes effect upon passage and restricts the purchase, sale, transfer, possession, and manufacturing of assault weapons. The article defines what constitutes an assault weapon and provides regulations for individuals who may lawfully possess one. The legislation provides a pathway for current owners to register their guns, in addition to rules for the weapon's use, storage, and transfer. The article also contains severability language, where if a particular provision is determined to be invalid, the remaining provisions continue to be upheld.

Background: In 1994, President Bill Clinton signed a 10-year federal ban on assault weapons which expired in September 2004, following its sunset provision. There are currently 10 states that have statutes banning assault weapons, three of which have banned firearms containing specific features and the remaining seven states have banned features in addition to specific types and models. Hawaii, Maryland, and New York have a features-banning approach, restricting types of guns with features that are deemed to be military-style or particularly dangerous. An example would be banning a semi-automatic rifle with a bayonet mount that can accept a detachable magazine. Connecticut, Massachusetts, California, Delaware, Illinois, New Jersey, and Washington have all banned firearms with specific features but have also restricted specific types and models, such as a Colt AR-15.

Fiscal Impact: Article 11 has no fiscal impact on the FY2025 or FY2026 Budgets. While not part of Article 11, under Article 5 the Governor proposes to exempt firearm storage and safety products from the State's sales tax.

Analysis: Article 11 restricts the purchase, sale, transfer, possession, and manufacturing of assault weapons, except any weapon lawfully possessed on the article's effective date. The article defines 14 terms, including secure storage, threaded barrel, and assault weapon. Similar to New York and Maryland, the article defines an assault weapon as a semi-automatic rifle, semi-automatic pistol, shotgun, or firearm that has specific features viewed to be military-style or particularly dangerous. For example, the article bans semi-automatic pistols with threaded barrels and the ability to accept detachable magazines.

The article provides exceptions for individuals who lawfully possess an assault weapon on the article's effective date, as well as for federally-licensed firearm dealers, law enforcement officers and agencies, as well as for active duty service members. Individuals who lawfully possess an assault weapon on the article's effective date have one year to either register the weapon, render the weapon permanently inoperable, surrender the weapon to a police department or gun buy-back program, or sell the assault weapon to a federally-licensed firearm dealer. An owner registering their weapons must submit a registration statement, complete a fingerprint-supported criminal background check, and pay a \$25 registration fee assessed per person registering one or more guns. If an owner chooses to render their weapon permanently inoperable, the owner must file a certification, under penalty of perjury, indicating the date the weapon was altered. The article does not require law enforcement to confirm weapons rendered inoperable, as the owner has filed a certification. The article further provides rules and regulations surrounding the use, storage, and transfer of lawfully possessed weapons. The article also contains severability language, where if a particular provision is determined to be invalid, the remaining provisions will continue to be upheld.

Article 12 - Relating to Effective Date

This article provides that the Act will take effect on July 1, 2025, except as otherwise provided herein.

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