How Rhode Island Compares

State and Local Revenues and Expenditures

March 2021

RIPEC

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I. Introduction

In annually crafting their budgets, state and local governments make a series of significant policy choices as to how revenues will be raised and spent. These decisions most directly relate to the availability of resources and the needs of a community, but also reflect a community's history, demographics, culture, values, and competing interests. Policy decisions on taxing and spending ultimately have important economic and social consequences for individuals, businesses, nonprofit organizations, and government itself.

Across the United States, state and local governments vary significantly in terms of their taxing and spending policies. Comparisons among state and local governments with respect to taxing policies can provide valuable insight for policymakers given the regional and national competition among states for investment and growth. Similarly, comparing government spending can highlight policy priorities and reveal areas for potential efficiencies.

This report, "How Rhode Island Compares," uses the most recent available state and local revenue and expenditure data—for fiscal year (FY) 2018—to compare the Ocean State to the rest of the country and to the New England region.[1] To provide historical context and a sense of Rhode Island's taxing and spending trajectory, this report also shows how the state's revenues and expenditures changed between FY 2013 and FY 2018.

To accurately compare state and local government revenues and expenditures, this report utilizes data compiled by the U.S. Census Bureau in its *Annual Survey of State and Local Government*, the only nationwide, comprehensive source on local and state finances. In addition, "How Rhode Island Compares" utilizes annual personal income data from the U.S. Bureau of Economic Analysis and annual population estimates from the U.S. Census Bureau to calculate revenues and expenditures in personal income and per capita terms. Total revenue and expenditure figures are useful for assessing finances within a single state over time but are less useful in making comparisons across states of different sizes. Analyzing revenues and expenditures relative to population and income allows for a more constructive analysis of how taxing and spending by state and local governments align and diverge across revenue streams and expenditure categories.[2]

By calculating revenues and expenditures on both a per capita and per $1,000 of personal income basis, this report provides two common denominators for comparisons across states. Per capita figures traditionally are used in discussions around state financial data to inform both the ability to raise revenues and the need to fund services based on population. Calculations based on per $1,000 of personal income measure taxing and spending related to a state's ability to pay, with personal income most closely aligned with taxation systems.[3] Importantly, the pace of growth in personal income has greatly exceeded population growth in both Rhode Island, and the United

[1] For Rhode Island—and for every state but Alabama, Michigan, New York, and Texas—the fiscal year runs from July 1 to June 30. FY 2018 began on July 1, 2017 and ended on June 30, 2018.
[2] Tandberg, David. A, and Sophia A. Laderman, Evaluating State Funding Effort for Higher Education, June 2018.
[3] Ibid.

States. As a result, revenues and expenditures may increase on a per capita basis while decreasing on a personal income basis between two points in time.[4]

In addition to this introduction, there are three sections in "How Rhode Island Compares." In Section II, this report first provides, regional, national, and historical comparison of all sources of Rhode Island's state and local revenues and then offers comparative analysis of revenues from taxes, which are by far the largest single revenue source for state and local governments. Likewise, Section III analyzes all expenditures in regional, national, and historical context before providing comparative analysis of expenditure categories from largest to smallest. Finally, this report provides commentary on Rhode Island's revenue and spending patterns for consideration by state and local policymakers.

[4] In Rhode Island, personal income increased by 18.1 percent, from $48.7 billion to $57.6 billion, between 2013 and 2018. In that same time, the state's population grew by 0.1 percent, from 1.05 million to 1.06 million. Nationally, personal income grew from $14.1 trillion to 17.8 trillion, a 25.8 percent increase, while the U.S. population grew from 313.2 million to 324.3 million, a 3.5 percent increase.

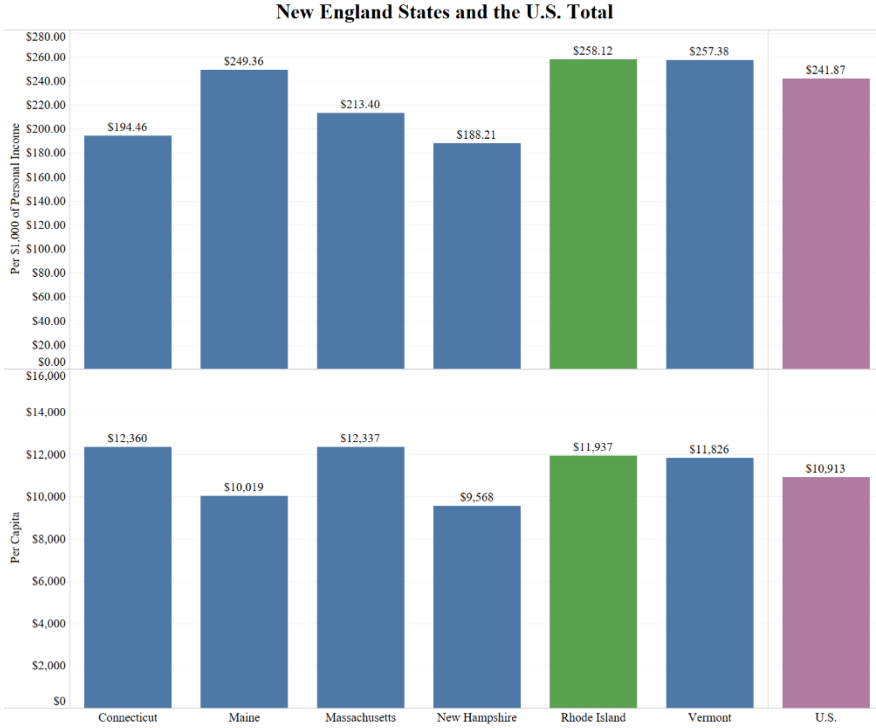
II. Revenues

For purposes of this report, revenues are funds received by a government from all external sources, net of refunds and other correcting transactions. Revenues are composed of four major categories: taxes, intergovernmental, non-general, and charges and miscellaneous general revenues.[5] Taxes are further divided into four categories: property, income, general sales, and other. Intergovernmental revenues are transfers made from one government body to another, primarily from federal to state or local government, and from state to local government. To prevent the duplication of revenues in this report, state transfers to local governments are not included in intergovernmental revenues.[6]

<u>Sources of Revenues</u>

In Rhode Island, state and local revenues for FY 2018 totaled $13.6 billion. Figure 1, which depicts total state and local revenues on per capita and personal income bases for New England states and the U.S. average in FY 2018, highlights that the Ocean State's revenues are slightly higher than the national average, and highest in New England on a per income basis and third highest in per capita terms. Nationally, Rhode Island's FY 2018 revenues respectively rank 18th and 26th on per capita and personal revenue bases.

Figure 1
FY 2018 Total Revenues
Per $1,000 of Personal Income and Per Capita
New England States and the U.S. Total



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

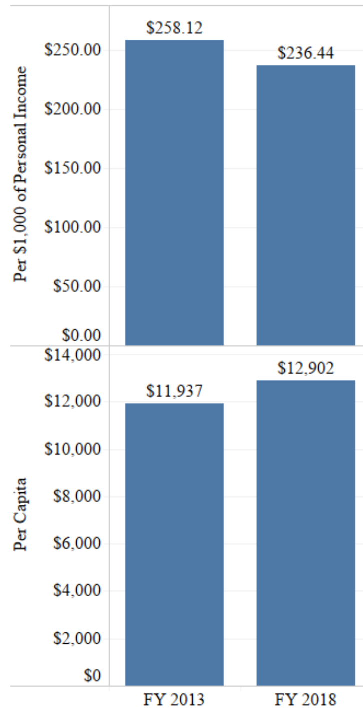
[5] Census Bureau, *Annual Survey of State and Local Government Finance Glossary*.
[6] Ibid. For this report, duplicative intergovernmental revenues have been removed. Duplicative revenues include state aid to cities and towns, and local payments to state governments.

Click [*here*]() *for a 50-state breakdown of total revenues on both a personal income and per capita basis.*

Total revenue growth in Rhode Island was relatively slow between FY 2013 and FY 2018. In that period, Rhode Island experienced an 8.2 percent increase in state and local revenues, from $12.6 billion to $13.6 billion. Comparatively, total collections in the U.S. grew by 18.9 percent. Figure 2 shows that Rhode Island revenues increased on a per capita basis but decreased in terms of personal income between FY 2013 and FY 2018.

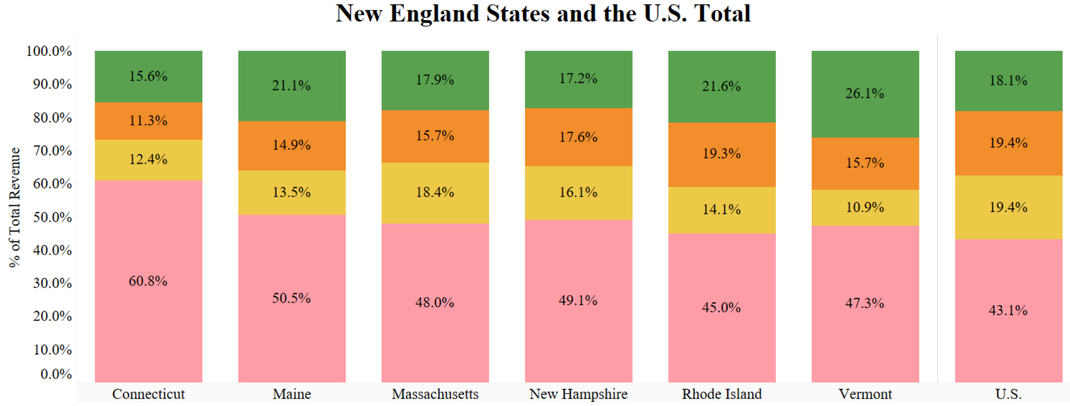
Revenues derived from taxes comprise the largest category of total state and local revenues both in the U.S. and New England. New England states are generally more reliant on taxes relative to other categories of revenue than the nation, though the Ocean State is closest in the region to the national average, with taxes making up 45.0 percent of total state and local revenues in FY 2018, as compared to the U.S. total of 43.1 percent. Importantly, while Rhode Island is less reliant on taxes than other New England states, it is particularly reliant on lottery revenues as compared to other states, both in New England and around the country.[7] Figure 3 depicts revenue sources for New England states and the U.S. for FY 2018.

Figure 2
Rhode Island Total Revenues Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

Figure 3
FY 2018 Revenue Sources
New England States and the U.S. Total



Source: U.S. Census Bureau, Annual Survey of State and Local Government; RIPEC calculations

- Intergovernmental Revenue
- Charges and Misc. General Revenue
- Non-General Revenue
- Tax Revenue

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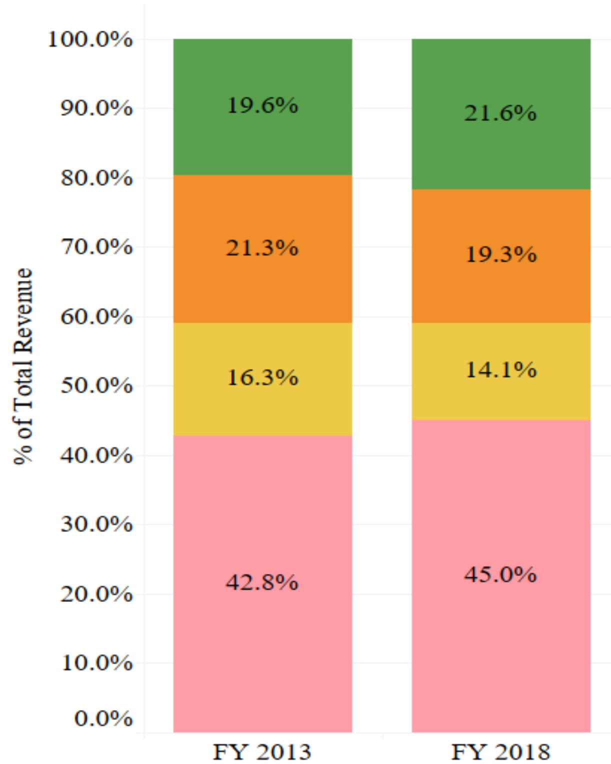
[7] In 2017, the 44 states that garnered lottery revenues derived an average of one percent of general revenues from that source. Olivia Berlin and Jackson Brainerd, "[Keeping State Lottery Revenue Alive]()," National Conference of State Legislatures, September 2017. In contrast, lottery revenues made up 10.7 percent of Rhode Island's general revenues in its FY 2020 budget. R.I. OMB, [FY 2020 Budget as Enacted Executive Summary](); RIPEC calculations.

Click [here](#) to see a full 50-state breakdown of revenue sources as a percent of total revenue.

Figure 4
Rhode Island Sources of Revenue
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; RIPEC calculations

While Rhode Island is less reliant on taxes than other states in the region, Figure 4 shows that the Ocean State's tax reliance grew from FY 2013 to FY 2018, increasing from 42.8 percent to 45.0 percent of total revenues. Intergovernmental transfers also increased as a share of total revenues, from 19.6 percent in FY 2013 to 21.6 percent in FY 2018. In contrast, both non-general revenues and charges and miscellaneous revenues decreased as a share of total revenues in that five-year span. Non-general revenues include utility, liquor store, and insurance trust revenues. Miscellaneous revenues are defined as any revenues other than taxes or intergovernmental.[8] Importantly, lottery revenues (a type of miscellaneous revenue) decreased as a share of Rhode Island's general fund in this same period, from 11.4 percent in FY 2013 to 9.3 percent in FY 2018.[9]

Taxes

Rhode Island's tax revenues are greater than that of the U.S. on a per capita basis (by 7.1 percent) and in terms of personal income (by 7.6 percent) but are relatively standard for New England. Of the six New England states, Rhode Island has the fourth highest tax collections when measured on both per capita and personal income bases.

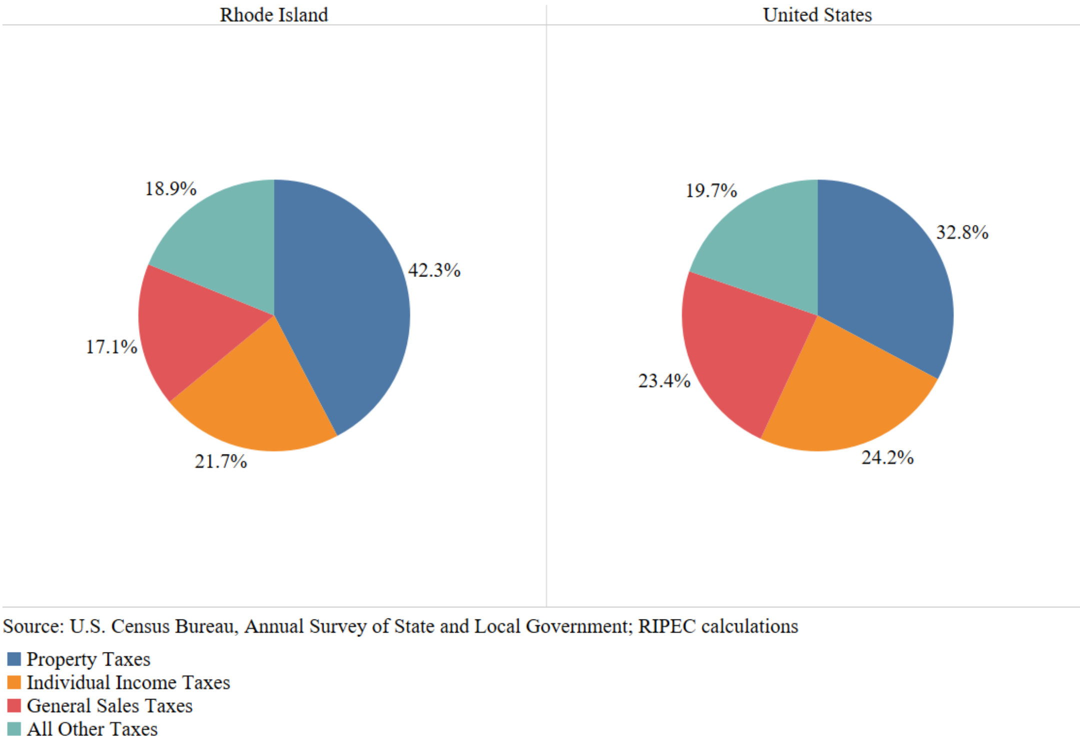
Property taxes comprise the largest component of total state and local tax revenues both in Rhode Island and the U.S., but Rhode Island is significantly more reliant on property tax revenue than the national average; 42.3 percent of the Ocean State's total state and local tax revenues come from property taxes, as compared to the national total of 32.8 percent. In contrast, less of Rhode Island's total tax revenues are derived from individual income taxes (21.7 percent) than is the case for the nation (24.2 percent). The same is true regarding sales taxes, which comprise 17.1 percent of

[8] Insurance trust revenues include unemployment, employee retirement, and workman's comp insurance. Rhode Island does not take in any liquor store revenues, but a significant minority of states do. U.S. Census Bureau, Annual Survey of State and Local Finances, Glossary.

[9] May 2019 Revenue Estimating Conference Report; May 2015 Revenue Estimating Conference Report; RIPEC calculations.

Rhode Island's total tax revenues, compared to 23.4 percent for the U.S. Figure 5 depicts the breakdown of state and local tax revenues for Rhode Island and the U.S. for FY 2018.

Figure 5
FY 2018 Tax Revenue Breakdown
Rhode Island and the U.S. Total



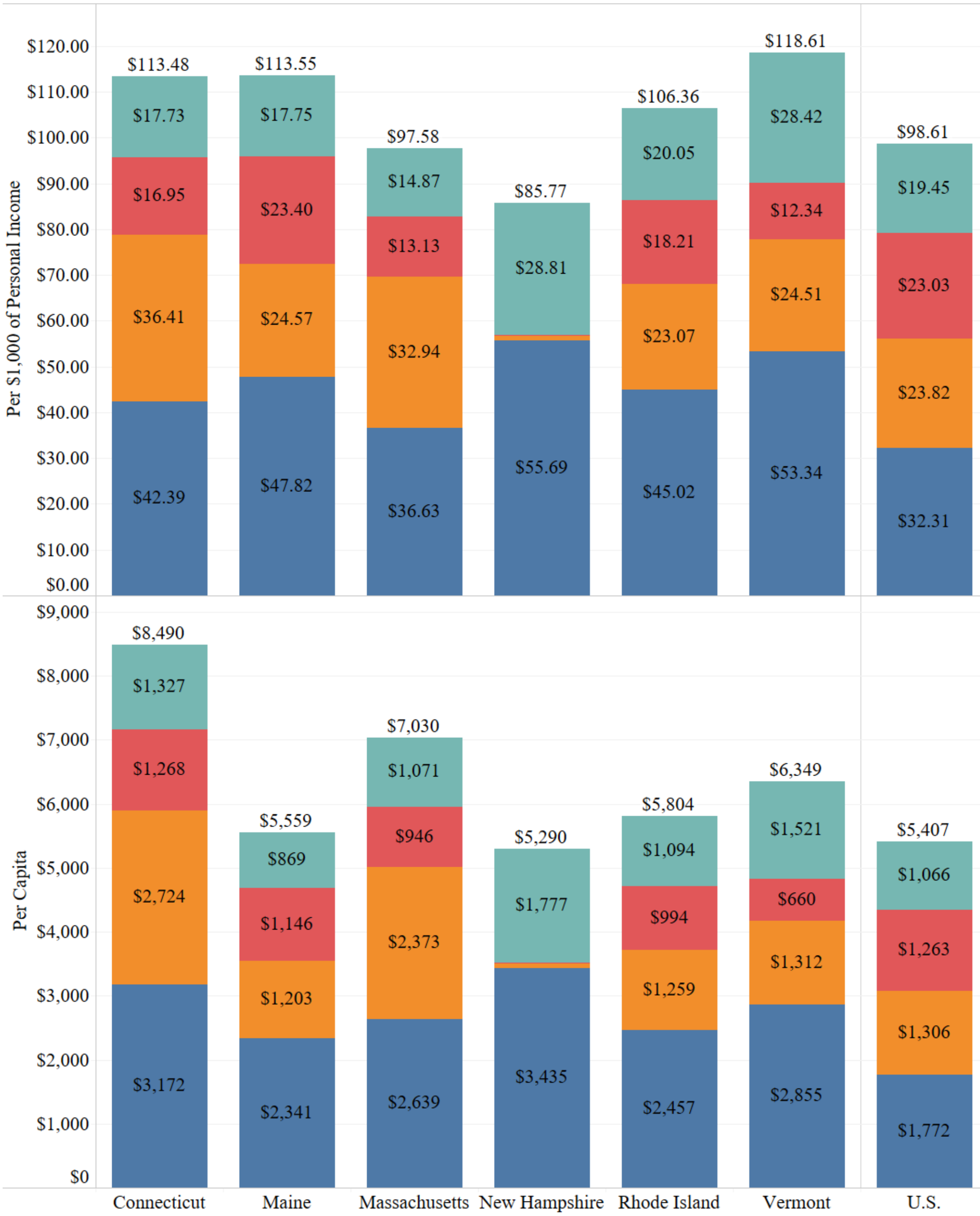
Source: U.S. Census Bureau, Annual Survey of State and Local Government; RIPEC calculations

Rhode Island's reliance on property taxes may be outsized when compared to the nation but it is typical for the New England region. In fact, the Ocean State's property tax revenues are the second lowest in New England on a per capita basis and third lowest when measured as a share of personal income. Every state in New England relies on property tax collections more than the nation overall.[10] In contrast to its position relative to the U.S., Rhode Island's individual income tax revenues are on the lower end when compared to the region, with the Ocean State ranking fourth on a per capita basis and fifth on a personal income basis; only New Hampshire, which does not apply a standard individual income tax, collects less on a personal income basis. Rhode Island ranks second highest in the region in general sales tax collections on a personal income basis and third highest in per capita terms. Figure 6 illustrates the breakdown of tax revenue categories on a per income and per capita basis for New England states and the U.S. for FY 2018.

Click here to see a 50-state breakdown of revenues on both a personal income and per capita basis.

[10] New Hampshire has a far higher reliance on property tax revenues because it has no general sales tax and very limited taxation of individual income (the state taxes interest and dividends but does not tax wages or salaries).

Figure 6
FY 2018 Tax Collections
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita

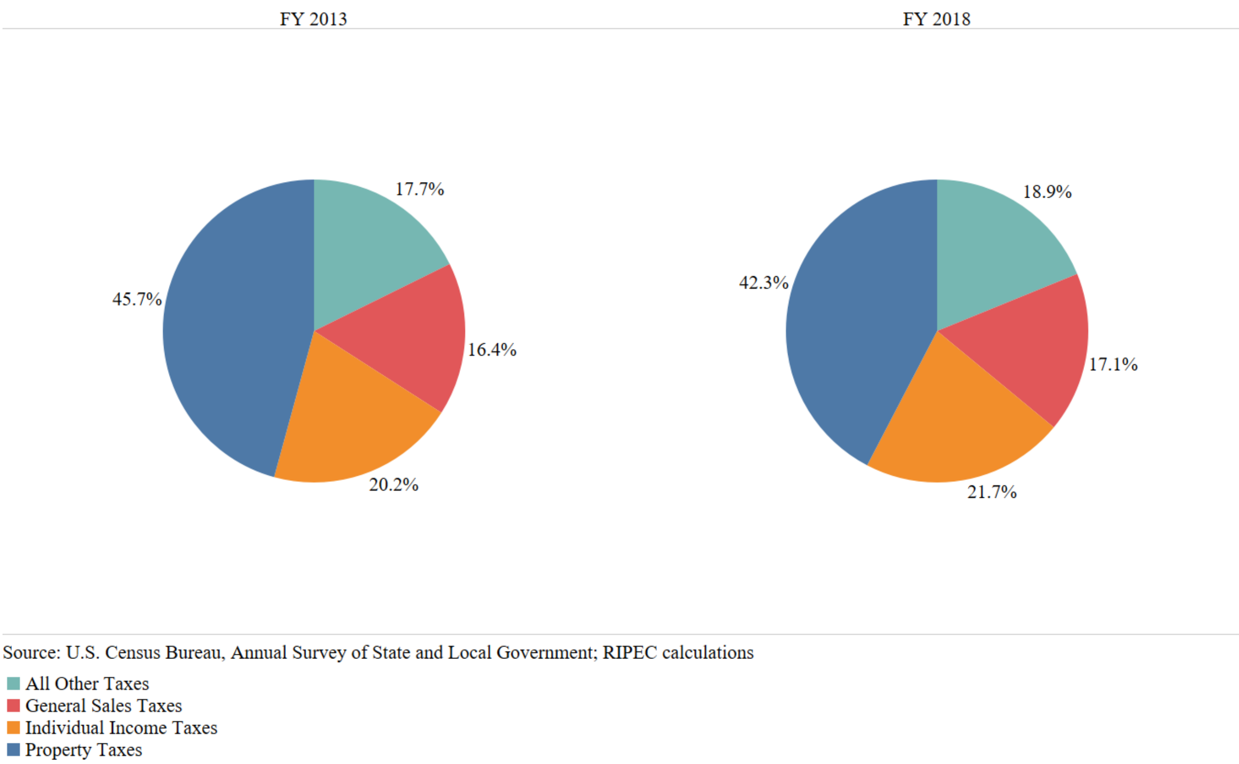


Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

- All Other Taxes
- General Sales Taxes
- Individual Income Taxes
- Property Taxes

While Rhode Island has a relatively high reliance on property tax revenue, that reliance decreased significantly between FY 2013 and FY 2018, with the share of total tax revenues attributable to property tax falling from 45.7 percent to 42.3 percent. All other forms of taxation have increased as a share of total tax revenues. Nominally, total property tax revenues grew by 5.3 percent between FY 2013 and FY 2018, while income tax revenues grew by 22.0 percent, sales tax revenues grew by 19.1 percent, and all other tax revenues grew by 21.1 percent. Significantly, the decrease in property tax as a proportion of Rhode Island's state and local revenues is in large part due to the introduction of an education funding formula in 2010. Local property taxes are the primary means through which local governments fund elementary and secondary education in the Ocean State, and there has been a significant, year-over-year increase in the proportion of state dollars used for K-12 education in relation to local expenditures since the formula went into effect.[11] Figure 7 shows how the breakdown in Rhode Island's total state and local tax revenues shifted between FY 2013 and FY 2018.

Figure 7
Rhode Island Tax Revenue Breakdown
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; RIPEC calculations

[11] In FY 2012, the state share of public school expenditures in Rhode Island was 35.0 percent and by FY 2017 that figure had increased by more than five percentage points, to 40.5 percent. Conversely, the local share of public school expenditures fell three percentage points over the same period, from 55.2 percent in FY 2012 to 52.2 percent in FY 2017. R.I. House Fiscal Advisory Staff, Rhode Island Education Aid, September 2019.

III. Expenditures

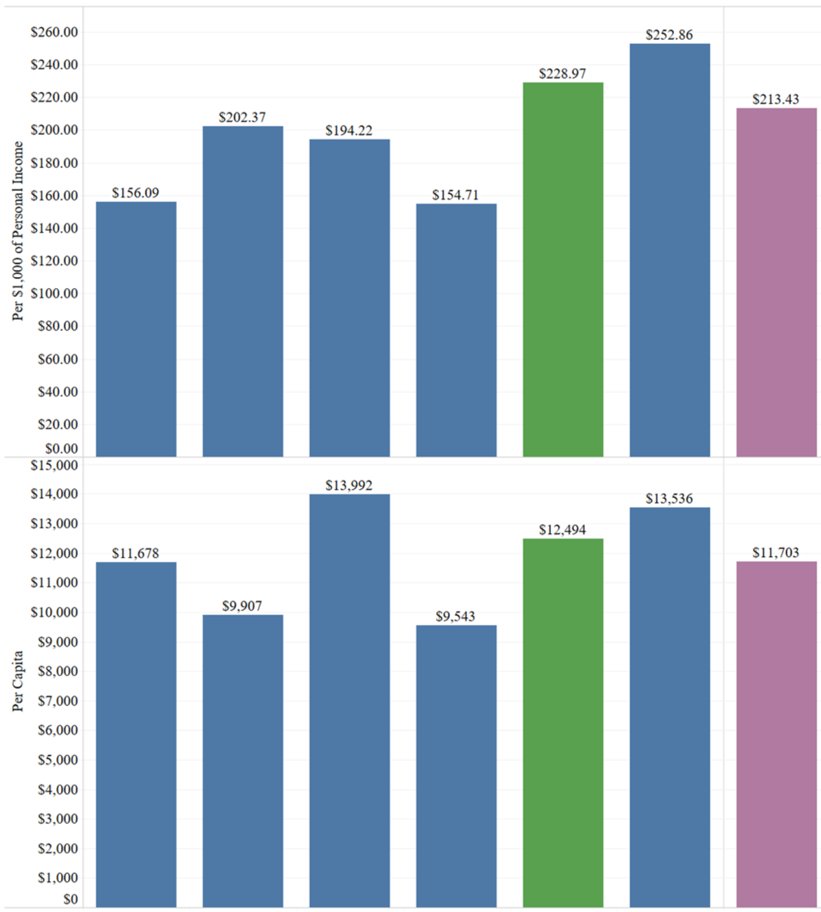
Government expenditures, as defined by the Census Bureau, exclude "funds paid out for retirement of debt, investment in securities, extension of credit or as agency transactions."[12] For the purposes of this report, expenditures are broken down into seven major categories: education, social services and income maintenance, public safety, government administration and interest on general debt, transportation, environment and housing, and other.[13]

<u>Total Expenditures</u>

Total Rhode Island state and local expenditures in FY 2018 of $13.2 billion are somewhat high when compared to the region and nation on per capita and personal income bases. Rhode Island's expenditures are 7.0 percent higher on a per income basis and 6.5 percent higher in per capita terms than those of the U.S. overall. On a per income basis, Rhode Island has the second highest expenditures in New England, exceeded only by Vermont, and on a per capita basis it ranks third, behind Massachusetts and Vermont. Figure 8 shows total expenditures for the New England states and the U.S. for FY 2018.

Click here for a 50-state breakdown of total expenditures on both a personal income and per capita basis.

Figure 8
FY 2018 Total Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita



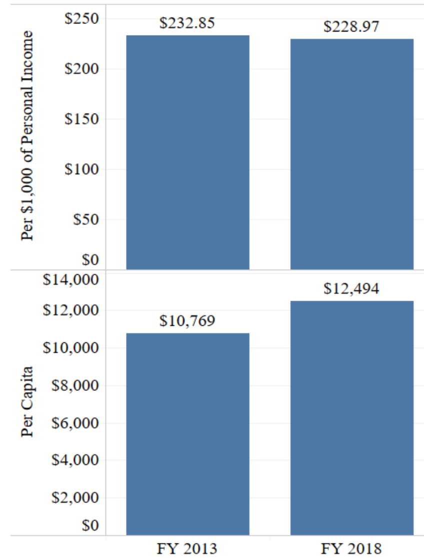
Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

[12] Census Bureau, Annual Survey of State and Local Government Finance Glossary.

[13] The education category includes library expenditures and is called "education and libraries" in Census Bureau data, but because libraries make up a very small portion of expenditures in this category, this report simply refers to this category of expenditures as "education"; in FY 2018, library expenditures made up 1.1 percent of total education and library expenditures in Rhode Island and 1.2 percent in the U.S.

While Rhode Island's total expenditures exceed that of the U.S. on per capita and per income bases, they increased at a slower pace; between FY 2013 and FY 2018, Rhode Island's expenditures grew by 16.1 percent (from $11.4 billion to $13.2 billion), while U.S. expenditures grew by 19.5 percent (from $3.2 trillion to $3.8 trillion). Rhode Island's expenditures increased by 16.0 percent on a per capita basis but declined by 1.7 percent in personal income terms. Figure 9 depicts total expenditures for Rhode Island on per income and per capita bases for FY 2013 and FY 2018.

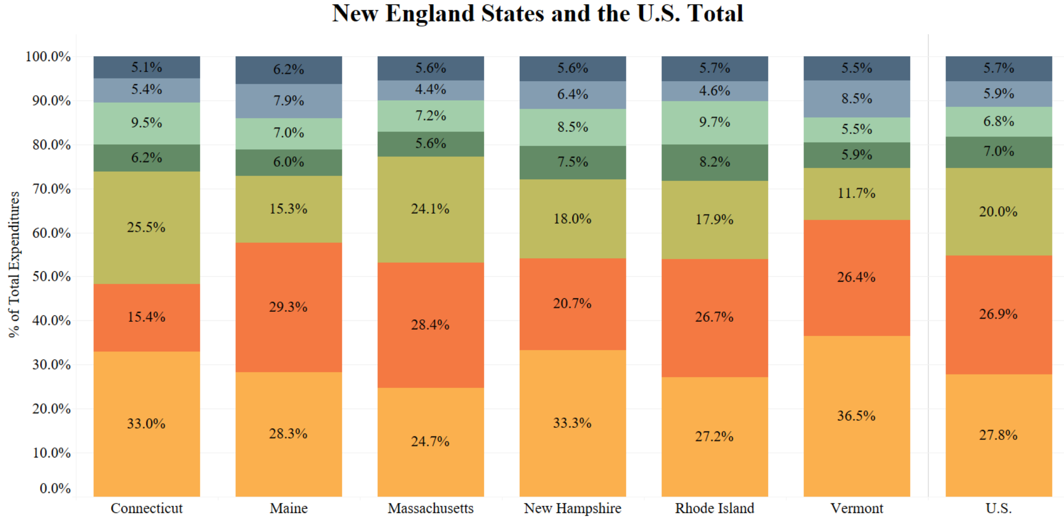
Figure 9
Rhode Island Total Expenditures
Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

Figure 10 shows the expenditure categories for the New England states and the U.S. for FY 2018. As in the United States overall, the largest portion of Rhode Island's state and local expenditures are in education and in social services and income maintenance. However, the Ocean State dedicates a slightly smaller amount of its total expenditures to education than the nation overall—27.2 percent compared to 27.8 percent—and, in New England, only Massachusetts commits a smaller percentage of its overall expenditures to education (24.7 percent). While a larger portion of Rhode Island's total expenditures go towards public safety and towards government administration and interest on debt than in the U.S overall, a smaller portion is expended on transportation. Rhode Island also dedicates relatively little to transportation (4.6 percent) on a regional basis, with only Massachusetts committing a smaller portion of its total expenditures (4.4 percent) to this category.

Figure 10
FY 2018 Expenditure Sources
New England States and the U.S. Total

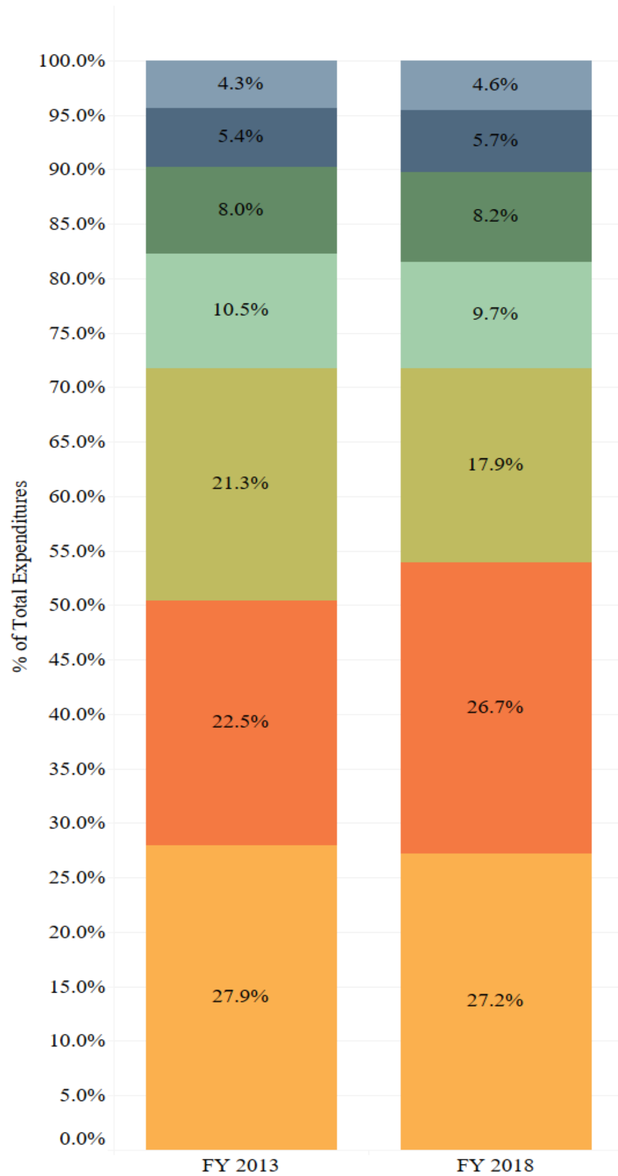


Source: U.S. Census Bureau, Annual Survey of State and Local Government; RIPEC calculations

Environment & Housing
Transportation
Governmental Administration & Interest on General Debt
Public Safety
Other
Social Services & Income Maintenance
Education & Libraries

As depicted in Figure 11, from FY 2013 to FY 2018, Rhode Island decreased spending as a percentage of total expenditures in education as well as government administration, while it increased the share of spending dedicated to social services and income maintenance, public safety, environment and housing, and transportation.

Figure 11
Rhode Island Expenditure Sources
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

- Transportation
- Environment & Housing
- Public Safety
- Governmental Administration & Interest on General Debt
- Other
- Social Services & Income Maintenance
- Education & Libraries

<u>Education</u>

Education is comprised of four categories of spending: elementary and secondary education, higher education, libraries, and other.[14] In sum, these expenditures account for the largest percentage of state and local budgets in the nation and in Rhode Island, representing more than one quarter—27.2 percent—of Ocean State expenditures.

While Rhode Island spends more on education than the U.S. in both personal income and per capita terms (by 4.7 and 4.2 percent respectively), when compared to the nation it considerably overspends on elementary and secondary education and underspends on higher education. Compared to the U.S., elementary and secondary expenditures in Rhode Island are 13.6 percent higher on a personal income basis and 13.1 percent higher on a per capita basis. Conversely, the Ocean State's higher education expenditures are 29.5 percent lower than those of the U.S. on a personal income basis and 29.9 percent lower in per capita terms.

Rhode Island's spending on education is largely in line with the New England region, however. Of New England states, the Ocean State has the second highest total education expenditures on a personal income basis and the fourth highest in per capita terms. Likewise, Rhode Island has the second highest expenditures for elementary and secondary education on a personal income basis and the fourth highest on a per capita basis.

[14] Other education expenditures include state educational administration and services, tuition grants, fellowships, aid to private schools, and special programs.

Although Rhode Island spends less than the national average on higher education, its higher education expenditures are the second highest in New England on a personal income basis and fourth highest on a per capita basis. Vermont is the only outlier in terms of education spending in New England; it significantly outspends the region and nation in education overall, as well as in elementary and secondary education and higher education. Figure 12 illustrates categories of education expenditures for the New England states and the U.S. for FY 2018.

Figure 12
FY 2018 Education Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita

Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

From FY 2013 to FY 2018, Rhode Island's education expenditures grew at a slower pace than total expenditures (12.9 percent compared to 16.1 percent). When measured on a personal income basis, education expenditures decreased in this period (by 4.4 percent), with higher education experiencing the highest rate of decrease (6.8 percent). However, in per capita terms, total education expenditures increased by 12.8 percent, with elementary and secondary education expenditures increasing by 11.7 percent, and higher education expenditures growing by 9.9

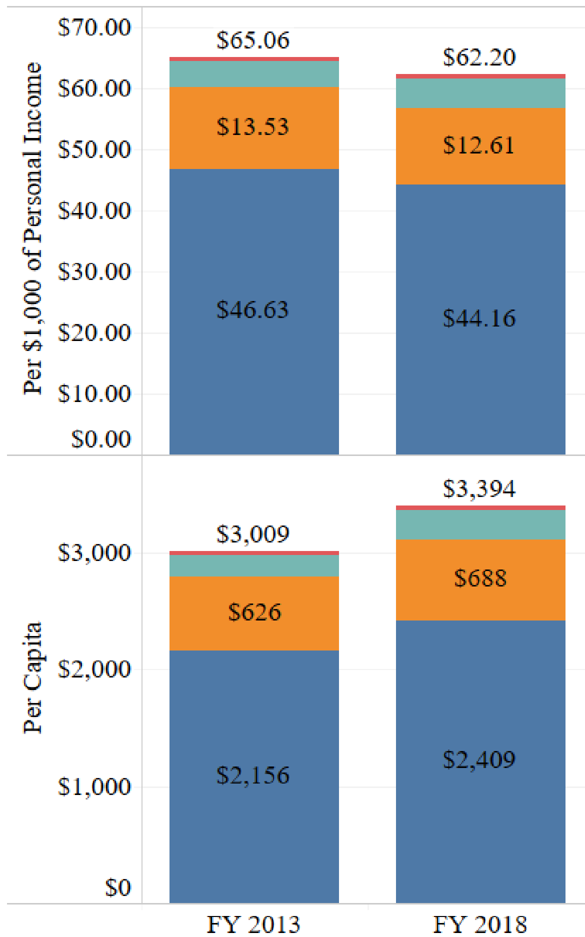
percent. Figure 13 depicts education expenditures for Rhode Island on per income and per capita bases for FY 2013 and FY 2018.

Social Services and Income Maintenance

Social services and income maintenance expenditures are divided by the U.S. Census bureau into five categories: public welfare, hospitals, health, employment security administration, and veterans' services. For the purposes of this report—and due to a variance in methods of Medicaid administration between states—this category is analyzed in total rather than by way of its components.[15] Social services and income maintenance accounts for the second largest component of state and local budgets in the U.S. overall and in the Ocean State, making up over a quarter (26.7 percent) of Rhode Island's total expenditures.

Rhode Island's expenditures in this category are high relative to the region and nation. The Ocean State's social services and income maintenance expenditures exceed those of the U.S. both in personal income and per capita terms (by 6.5 percent and 6.0 percent respectively) and are second highest in New England on a personal income basis and third highest on a per capita basis.

Figure 13
Rhode Island Education Expenditures
Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018



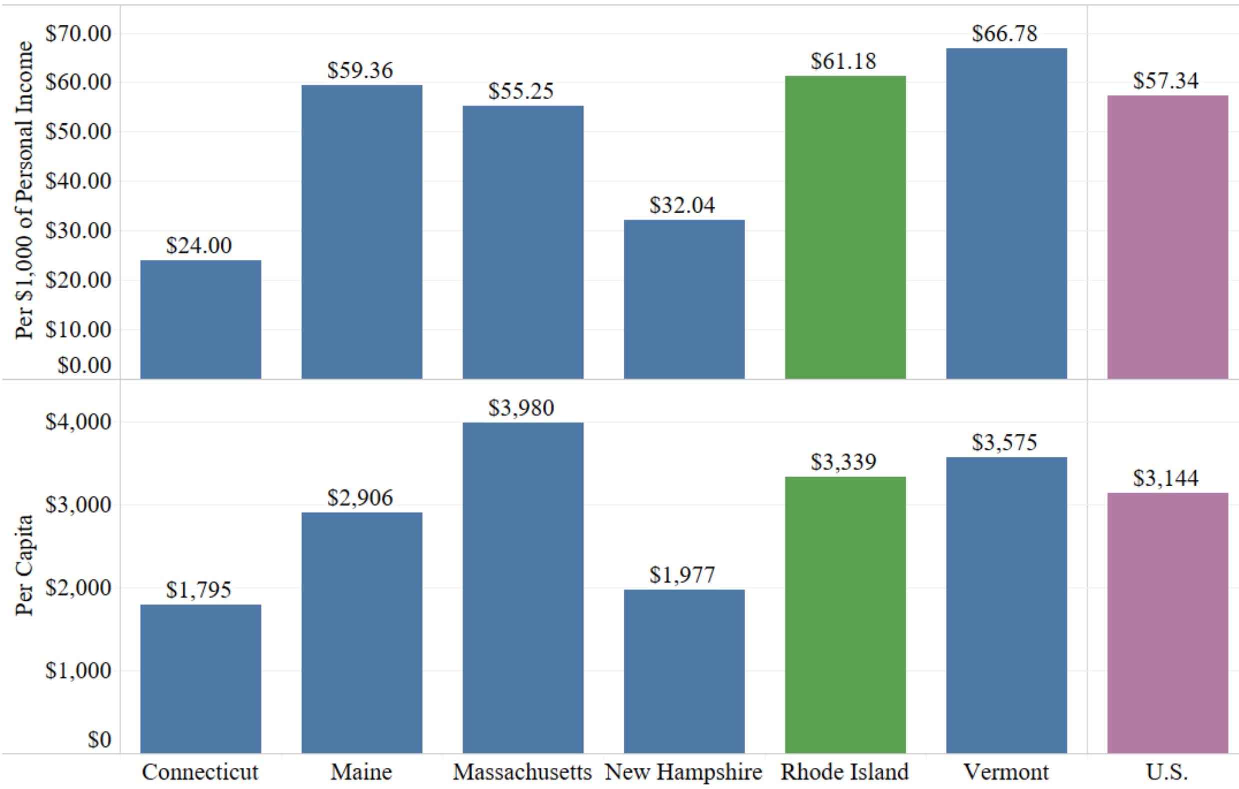
Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

Significantly, Rhode Island had a slightly lower percentage of the population living below the federal poverty line (12.9 percent) than the national average (13.1 percent) in 2018, but it also had the highest poverty rate in the New England region. Additionally, the poverty rate declined more slowly in Rhode Island than in the nation between 2013 and 2018, decreasing by 9.8 percent, compared to a 17.1 percent decline nationwide. In the same period, Rhode Island had the second slowest decline in poverty in the region, after

[15] Some states maintain public state or local run hospitals classified as hospital expenditures, while other states pay private non-profit and for-profit hospitals through vendor payments classified as public welfare. Kaiser Family Foundation, Hospital Beds per 1,000 Population by Ownership Type; U.S. Census Bureau, Annual Survey of State and Local Government Finance, Glossary; Urban Institute, State and Local Finance Initiative, Health and Hospital Expenditures.

Connecticut (2.8 percent).[16] Figure 14 shows expenditures for social services and income maintenance for the New England states and the U.S. for FY 2018.

Figure 14
FY 2018 Social Services and Income Maintenance Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita



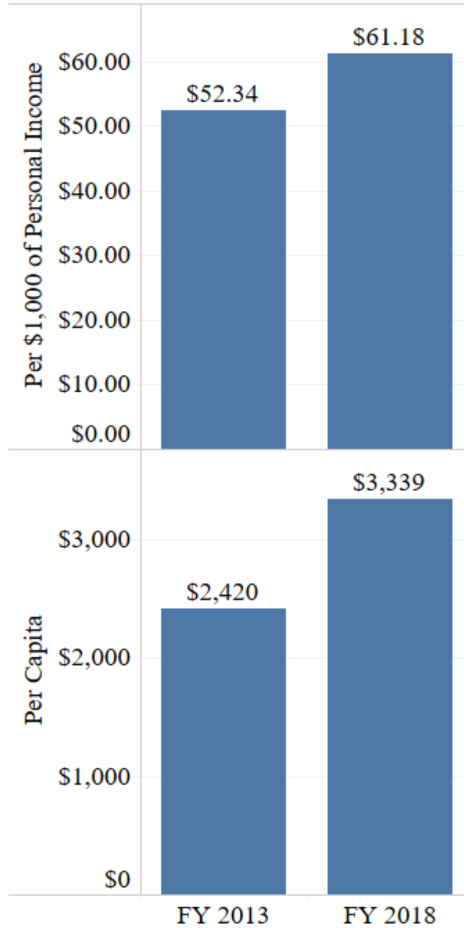
Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

From FY 2013 to FY 2018, Rhode Island's social services and income maintenance expenditures grew dramatically. They increased in terms of personal income (16.9 percent) and on a per capita basis (38.0 percent), and moreover grew at a rate far exceeding total expenditure growth (38.1 percent, compared to 16.1 percent). Contributing to the significant growth in this expenditure category was the expansion of Medicaid under the 2010 Affordable Care Act. Medicaid expansion coverage first became available in Rhode Island in 2014, and as a result, the number of individuals covered by Medicaid/CHIP grew by 119,754 people by July 2018.[17] The state directly paid 5.8 percent of expansion population expenditures, accounting for state spending of $26.0 million in

[16] US Census Bureau, American Community Survey Briefs: Poverty: 2018 and 2019; US Census Bureau, American Community Survey Briefs: Poverty: 2012 and 2013.
[17] HealthInsurange.org, Rhode Island and the ACA's Medicaid Expansion.

FY 2018, with the remaining $424.7 million of funding provided by the federal government via intergovernmental transfer.[18] Figure 15 depicts the Ocean State's expenditures for social services and income maintenance on per income and per capita bases for FY 2013 and FY 2018.

Figure 15
Rhode Island Social Services and Income Maintenance Expenditures Per $1,000 of Personal Income and Per Capita FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

<u>Government Administration and Interest on General Debt</u>

Five categories of spending comprise government administration and interest on general debt: interest on general debt, judicial and legal expenditures, financial administration, general public building, and other governmental administration. Collectively, this spending makes up the fourth largest category of state and local expenditures in Rhode Island and the fifth largest nationally, comprising 9.4 percent of Rhode Island's total expenditures, compared to 6.8 percent nationwide.

Rhode Island is both a national and regional outlier in this category, with expenditures that are significantly higher than other New England states and the U.S. on both personal income and per capita bases. Rhode Island's government administration and interest on general debt expenditures exceed the second-highest spending New England state in this category, Connecticut, by 40.3 percent in per income terms and by 9.2 percent in per capita terms. Compared to the U.S., the Ocean State's expenditures are 42.4 percent higher on a personal income basis and 41.8 percent higher on a per capita basis. Rhode Island's comparatively high expenditures in this category are largely driven by higher expenditures on interest on general debt and other government administration.

However, a relatively large percentage of Rhode Island's interest on general debt expenditures—40.7 percent—are comprised of private activity bonds, which, in many cases, are not actually paid for by state government, but by the quasi-government agency issuing the debt. Significantly, Rhode Island is a national and, to a somewhat lesser extent, regional outlier in this respect. In the U.S., only 17.8 percent of interest on general debt expenditures are made up of private activity bonds. When private activity bonds are discounted, Rhode Island's interest on general debt expenditures are lower than that of the U.S. on both per capita and per income bases. Of New England states, Rhode Island has the largest portion of interest on general debt expenditures made

[18] Kaiser Family Foundation, Medicaid Expansion Spending.

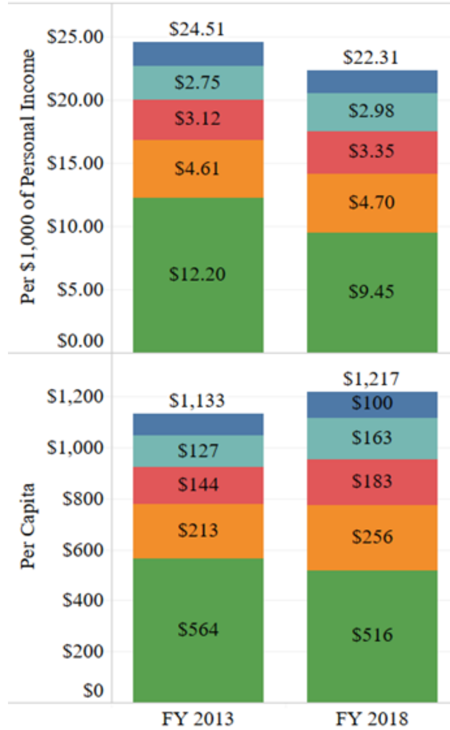
up of private activity bonds, and when such bonds are excluded, the Ocean State's interest on general debt expenditures are fifth highest in the region in terms of personal income and fourth highest on a per capita basis. Figure 16 shows expenditures for government administration and interest on general debt for New England states and the U.S. on per income and per capita bases for FY 2018.

Figure 16
FY 2018 Government Administration and Interest on General Debt
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita

Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

While comparatively high, spending in this category is growing at a slower pace than is total spending; from FY 2013 to FY 2018, Rhode Island's expenditures in government administration and interest on general debt increased by 7.5 percent while total expenditures grew by 16.1 percent. Rhode Island expenditures on government administration and interest on general debt decreased on a personal income basis (9.0 percent) and grew on a per capita basis (7.4 percent), but the largest subcategory—interest on general debt—saw decreases both on personal income (22.5 percent) and per capita (8.5 percent) bases. In contrast, spending in other governmental administration, the second largest category and another expenditure outlier compared to other New England states and the U.S., grew during this period (by 2.0 percent in per income terms and 20.2 percent on a per capita basis). Figure 17 shows Rhode Island expenditures on government administration and interest on general debt on per income and per capita bases for FY 2013 and FY 2018.

Figure 17
Rhode Island Government Administration and Interest on General Debt
Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

<u>Public Safety</u>

Four categories make up public safety expenditures: police protection, fire protection, correction, and protective inspection and regulation. Public safety is the fifth largest state and local expenditure category in Rhode Island, making up 8.3 percent of Rhode Island's total expenditures, and represents the fourth largest category in the U.S. at 7.0 percent of total expenditures.

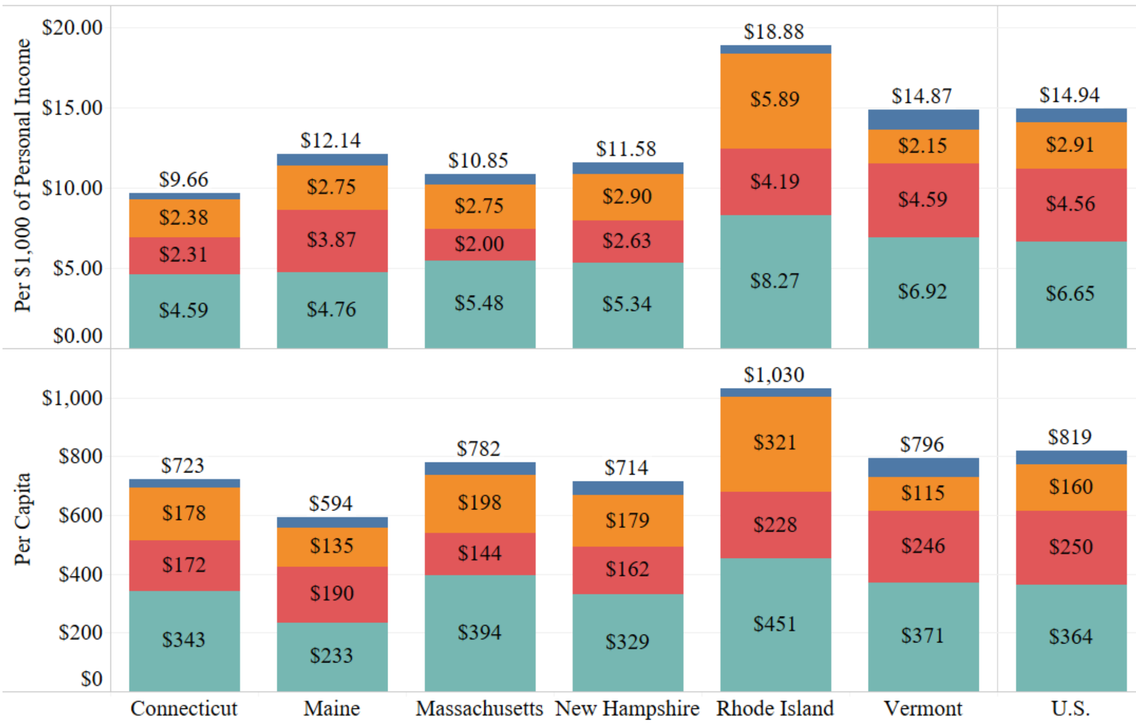
In FY 2018, total public safety expenditures in Rhode Island exceeded the national average by 23.3 percent on a personal income basis and 22.8 percent on a per capita basis. This difference is the result of relatively high spending on both police and fire. On a personal income basis, Rhode Island spends 21.7 percent more than the U.S. on police protection and 67.7 percent more on fire protection. In per capita terms, the Ocean State spends 21.3 percent more on police and 66.9 percent more on fire. While spending less than the U.S. average on correction in both personal income and per capita terms, Rhode Island's correction expenditures are high when considering that its per capita incarceration rate was tied with Vermont for second lowest in the nation in 2018, yet its expenditures were 28th highest in the U.S. in personal income terms and 22nd highest on a per capita basis.[19]

When compared to its New England peers, Rhode Island has the highest public safety expenditures on both personal income and per capita bases. Additionally, Rhode Island is the only New England state to exceed the national average in personal income and per capita terms in this category. The Ocean State has the highest police expenditures in both personal income and per capita terms, and in both measurements, it has the second highest expenditures in correction, after Vermont. Figure

[19] Vermont and Rhode Island each had 260 residents per 100,000 incarcerated in 2018. The only state with a smaller incarcerated population was Massachusetts, which had 250 incarcerated residents per 100,000. In contrast, per 1,000 residents, Rhode Island also had the 15th highest correction population in the country in 2018. The correction population includes individuals on parole and probation, as well as those who are incarcerated. U.S. Bureau of Justice Statistics, Correctional Populations in the United States, 2017-2018.

18 shows public safety expenditures for New England states and the U.S. on per income and per capita bases for FY 2018.

Figure 18
FY 2018 Public Safety Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

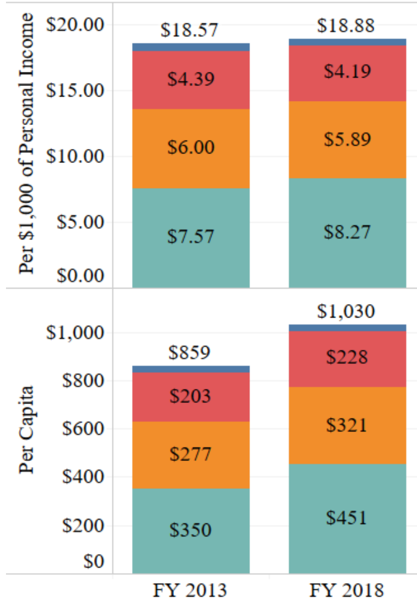
- Protective Inspection & Regulation
- Fire Protection
- Correction
- Police Protection

Particularly in terms of fire protection expenditures, Rhode Island is a regional, as well as national, outlier. Rhode Island's expenditures in this category were higher than any other state in the U.S. on both per capita and personal income bases in FY 2018, and the Ocean State spent 72.7 percent more on a personal income basis and 47.4 percent more on a per capita basis than the second highest spenders in the region. According to the Urban Institute, a Washington D.C.-based think tank, states with more cities per capita and high population density tend to have higher fire expenditures.[20] Additionally, higher density states are more likely to account for emergency medical services in their fire protection expenditures than more sparsely populated states.[21] Rhode

[20] Urban Institute, What Drives State Spending.
[21] According to the National Fire Protection Association's U.S. Fire Department Profile 2017, 62.0 percent of U.S. fire departments provided some form of basic life support (BLS), advanced life support (ALS), or both in 2017. Larger communities are more likely to combine BLS/ALS expenses with local fire departments; the U.S. Census Bureau reports expenditures on BLS/ALS services that are not combined with the local fire department in the Health category.

Island's relatively high population density only partially explains its particularly high fire protection expenditures, however.[22]

Figure 19
Rhode Island Public Safety Expenditures
Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

Protective Inspection & Regulation
Correction
Fire Protection
Police Protection

Rhode Island's public safety expenditures are not only relatively high but are also growing at a relatively high rate. From FY 2013 to FY 2018, Rhode Island's expenditures in this category increased on a personal income basis (by 1.7 percent) and a per capita basis (by 19.9 percent), while also growing at a rate greater than total expenditures (20.1 percent, compared to 16.1 percent). Spending on fire protection decreased on a personal income basis by 1.8 percent over this period but grew by 15.9 percent in per capita terms. Correction expenditures also decreased in terms of personal income but grew on a per capita basis, while police expenditures grew according to both measures, by 9.2 percent on a personal income basis and by 28.9 percent on a per capita basis. Figure 19 shows Rhode Island's public safety expenditures on per income and per capita bases for FY 2013 and FY 2018.

Environment and Housing

Four categories of spending make up environment and housing: natural resources, parks and recreation, housing and community development, and sewerage and solid waste management. This category comprised 5.7 percent of expenditures in both Rhode Island and the U.S. in FY 2018, but it was the second smallest spending category for the Ocean State and the smallest category nationally.

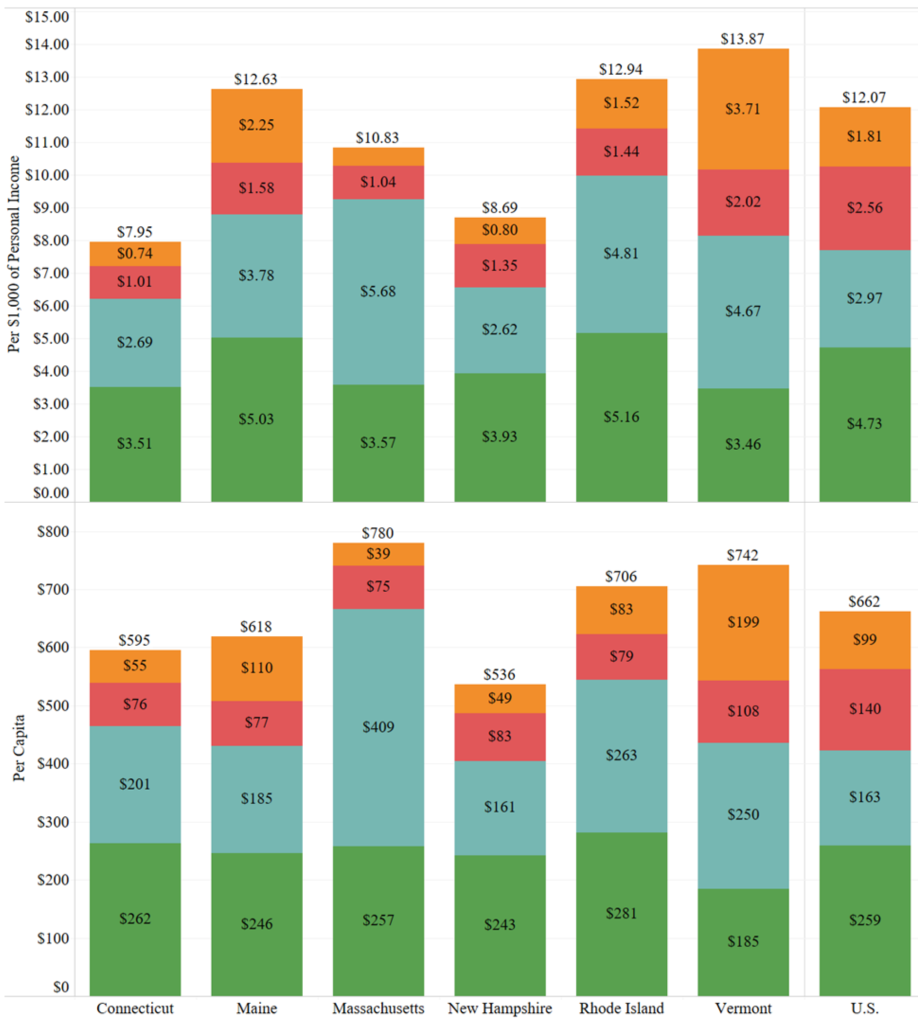
While the Ocean State has, on whole, slightly higher environment and housing expenditures than the national average, it apportions a comparatively small amount of this category to natural resources and parks and recreation. Rhode Island's natural resources expenditures were 17.4 percent lower than the U.S. average on a per capita basis and 17.6 percent lower on a personal income basis in FY 2018. For parks and recreation, Rhode Island spent 55.7 percent less than the national average in per capita terms and 56.0 percent less on a personal income basis. Conversely, Rhode Island expenditures in sewerage and solid waste management and housing and community development were higher than those of the U.S. on personal income and per capita bases.

Figure 20 depicts expenditures on environment and housing for New England states and the U.S. on per income and per capita bases for FY 2018. Regionally, spending across categories of

[22] As of 2018, Rhode Island was the second most densely populated state in the nation, after only New Jersey. It was, therefore, also the most densely populated state in New England. However, Massachusetts was the third most densely populated state in the U.S. and Connecticut ranked fourth. U.S. Census Bureau, Population; U.S. Census Bureau, State Area Measurements and Internal Point Coordinates; RIPEC calculations.

environment and housing expenditures varies greatly but, in general, Rhode Island is in line with other New England states, which tend to overspend the national average on sewerage and solid waste and housing and community development, while underspending on parks and recreation and natural resources.[23]

Figure 20
FY 2018 Environment and Housing Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

- Natural Resources
- Parks and Recreation
- Housing & Community Development
- Sewerage & Solid Waste Management

[23] By way of state-funded programs, Rhode Island spends relatively little on housing development. However, states with larger low-income populations—like Rhode Island, in comparison to the rest of New England—tend to receive more housing support from the U.S. Department of Housing and Urban Development. Additionally, small states like Rhode Island receive a relatively high amount of per capita funds from federal housing programs, and governments in New England tend to receive more aid from certain federal sources, like Community Development Block Grants, than states in other regions because municipal governments employ a greater number of planners and similar staff per capita than do county governments. Urban Institute, [State and Local Finance Initiative: Highway and Road Expenditures].

From FY 2013 to FY 2018, Rhode Island's environment and housing expenditures increased on both personal income and per capita bases. Expenditures in this category also grew at a rate greater than that of total expenditures, increasing by 20.8 percent, compared to a 16.1 percent increase in total expenditures. Sewerage and solid waste experienced the largest increase in this category between FY 2013 and FY 2018, growing by 14.2 percent in terms of personal income and by 34.5 percent on a per capita basis.[24] Spending on both parks and recreation and housing and community development declined in per income terms and increased modestly in per capita terms. Natural resources increased according to both measures in this period, but at a relatively slow pace (0.7 percent increase on a personal income basis and 18.6 percent increase on a per capita basis). Figure 21 shows Rhode Island's expenditures on environment and housing on per income and per capita bases for FY 2013 and FY 2018.

Figure 21
Rhode Island Environment and Housing Expenditures
Per $1,000 of Personal Income and Per Capita
FY 2013 and FY 2018

Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

Transportation

Transportation consists of four categories of spending: highways, air transportation, parking facilities, and sea and inland port facilities.[25] Transportation is the second smallest state and local expenditure category in the nation and the smallest in the Ocean State, comprising 5.9 percent of total expenditures in the U.S., compared to 4.6 percent in Rhode Island. In both Rhode Island and the U.S., most transportation expenditures are directed to highways.

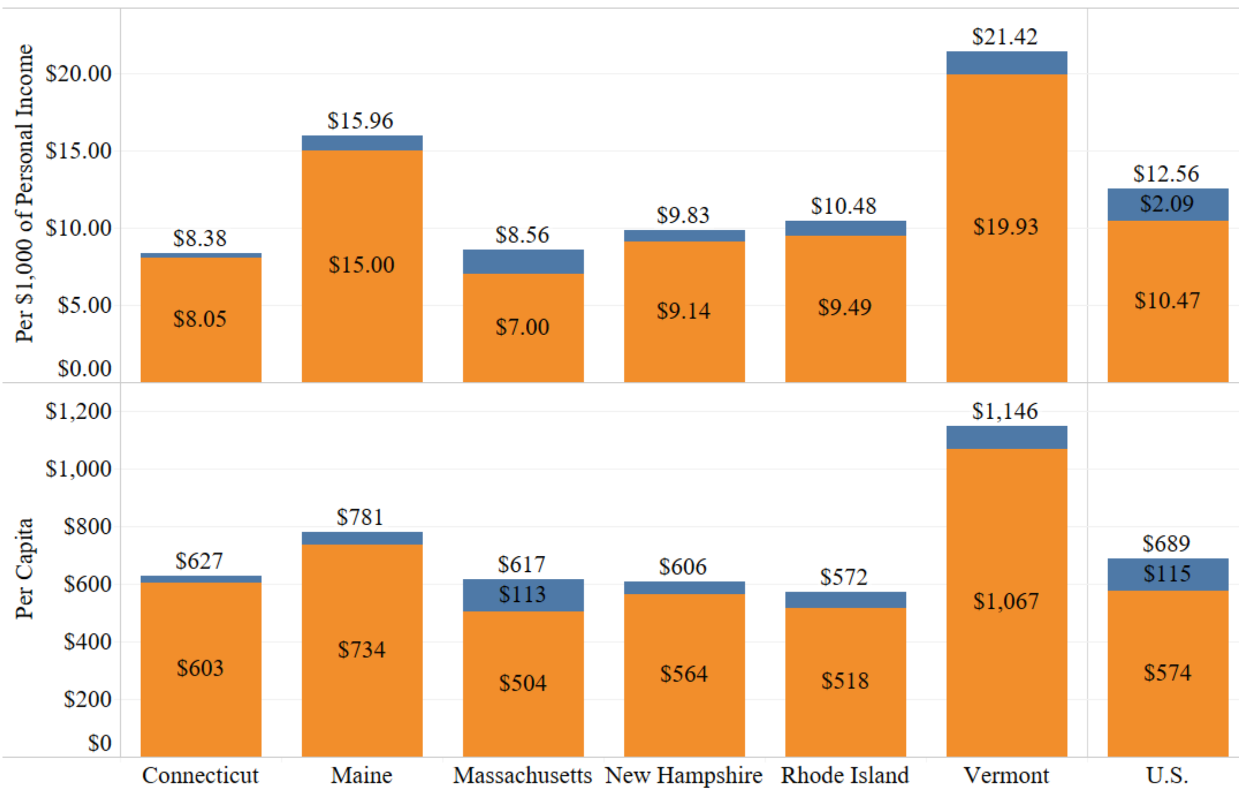
Rhode Island's spending on transportation is low for the nation and relatively typical for New England,

[24] This increase was driven in part by a substantial increase in the "tipping fee" charged to municipalities to dispose of refuse in the state's Central Landfill, from $32 to $65 a ton, effective July 1, 2017. Rhode Island League of Cities and Towns, Solid Waste 2038: A RILCT Perspective. Sewer fees also increased over this period due to increased operational costs. Narragansett Bay Commission, General Rate Filing, October 10, 2018.

[25] Spending on transit is accounted for under other expenditures, rather than transportation. Rhode Island's transit expenditures decreased in terms of personal income (by 14.7 percent) and increased in per capita terms (by 0.9 percent) between FY 2013 and FY 2018.

where all but two states—Maine and Vermont—spend less than the national average on transportation. Rhode Island spends less than the U.S. on transportation generally, and its expenditures on highways are 9.8 percent lower than the U.S. average on a personal income basis and 10.3 percent lower on a per capita basis. Rhode Island's relatively low allocation of expenditures to highways compared to the national average can be attributed in part to the state's higher population density and lower road utilization.[26] Figure 22 shows transportation expenditures for New England states and the U.S. on per income and per capita bases for FY 2018.

Figure 22
FY 2018 Transportation Expenditures
New England States and the U.S. Total
Per $1,000 of Personal Income and Per Capita



Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

From FY 2013 to FY 2018, Rhode Island expenditures on transportation increased modestly on a personal income basis (3.8 percent) and significantly on a per capita basis (22.5 percent), while additionally increasing at a rate that substantially exceeds total expenditure growth (22.5 percent,

[26] Urban Institute, State and Local Finance Initiative: Highway and Road Expenditures. In 2018, Rhode Island's 7,609 miles of annual vehicle-miles of travel per capita was 31.9 percent lower than the U.S. per capita total of 10,495 miles. U.S. Department of Transportation Federal Highway Administration, Highway Statistics 2018; RIPEC calculations.

compared to 16.1 percent). Much of this increase was driven by highway expenditures, which grew by 3.3 percent in terms of personal income and by 21.9 percent on a per capita basis. Figure 23 depicts Rhode Island transportation expenditures on per income and per capita bases for FY 2013 and FY 2018.

Figure 23
Rhode Island Transportation Expenditures Per $1,000 of Personal Income and Per Capita FY 2013 and FY 2018

Source: U.S. Census Bureau, Annual Survey of State and Local Government; U.S. Census Bureau, American Community Survey 5-Year Estimates; RIPEC calculations

IV. RIPEC Comments

This comparative report, based on the most recent state and local revenue and expenditure data, reveals several key takeaways worthy of consideration by Rhode Island policymakers facing future revenue and spending choices.

<u>Revenues</u>

The most recent data show that state and local governments in Rhode Island raised total revenues in an amount that ranks on the higher end of states (18^{th}) on a per capita basis and in the mid-range of states (26^{th}) based on ability to pay, or per income. Based on both measures, Rhode Island revenues are neither the highest nor the lowest in the New England region. From FY 2013 through FY 2018, Rhode Island's revenue growth was relatively slow at 7.9 percent.

While New England states are generally more reliant on taxes than on other categories of revenues as compared to the nation, Rhode Island's tax revenue reliance is closer to the national average due in large part on its relatively heavy reliance on lottery revenues. In fact, the Ocean State's reliance on lottery revenues is approximately ten times greater than is typical of the states that collect revenues from lottery. However, lottery revenues in Rhode Island are declining as a proportion of all revenues over time, thereby increasing the state's reliance on taxes. Going forward, Rhode Island should consider shifting its revenue mix to rely more on non-general revenue sources, such as user fees and other charges, to lessen its reliance on taxes.

With respect to taxation categories, Rhode Island is significantly more reliant on property tax revenues than the nation as a whole, although it is relatively consistent in this regard with other New England states. Since locally administered property taxes are the largest source of revenues for school funding, Rhode Island's reliance on this revenue stream presents a challenge for equitable funding for K-12 schools, given that less affluent communities are more challenged in raising property tax revenues. However, importantly, Rhode Island has reduced its reliance on property taxes in recent years—in large part through increased state funding for K-12 schools—and should continue to advance this policy direction.

<u>Expenditures</u>

Rhode Island's total spending, on both a per capita and personal income basis, is slightly higher than the national average, and is somewhat high when compared to other New England states. Rhode Island should seek to constrain the growth of total spending to bring the state more in line with the region and nation.

Rhode Island allocates the largest proportion of its expenditures (27.2 percent) to education, spending slightly more than the nation overall in per capita and per income terms. However, when compared to the nation, Rhode Island significantly overspends on elementary and secondary education, and significantly underspends on higher education. Despite Rhode Island's relative overspending on K-12 education, its student proficiency test scores are on par with or below the nation overall, with particularly poor outcomes for students in urban schools, raising a serious question as to the state's return on its investment.[27] Similarly, Rhode Island's relative under investment in higher education raises concerns, since economic development and growth is tied closely with education levels.[28] Also troubling is that, from FY 2013 to FY 2018, Rhode Island's expenditures on higher education grew more slowly than spending on K-12 education.

Rhode Island's expenditures for social services and income maintenance are high in comparison to the nation and region, and the state has experienced considerable growth in recent years in large part from the expansion of Medicaid under the 2010 Affordable Care Act. Rhode Island's expenditures in this category should be viewed in relation to the percentage of the state's population living below the federal poverty line, which is comparable to the national average and the highest in the New England region.

Compared to both the nation and other New England states, Rhode Island's expenditures on government administration and interest on general debt are high. Spending in this category is somewhat misleading, as Rhode Island has relatively large expenditures in the subcategory of interest on general debt, but this figure includes private activity bonds, which typically are not paid for with public dollars, and which make up a disproportionately large share of Rhode Island's debt. However, policymakers should note that Rhode Island's spending is also high in the subcategory of other governmental administration and, unlike interest on general debt, these expenditures increased on both personal income and per capita bases between FY 2013 and FY 2018.

Public safety expenditures make up only 8.3 percent of Rhode Island's total state and local expenditures but are a considerable outlier; they greatly exceed the national average and are the highest in New England on both a personal income and a per capita basis. This is largely the result of relatively high spending on both police and fire protection. Rhode Island, in fact, has the highest fire protection expenditures in the U.S. While spending less than the U.S. average on correction, Rhode Island's correction expenditures are high when considering its relatively small incarcerated population. It is noteworthy that Ocean State spending in public safety grew significantly from FY 2013 to FY 2018, and at a rate greater than total expenditure growth. State and municipal policymakers should focus on at least slowing the growth of public safety expenditures to bring them more in line with national and regional benchmarks.

The Ocean State has, on whole, slightly higher environment and housing expenditures than the national average, but it apportions a comparatively small amount to natural resources and parks and recreation. This underinvestment was highlighted in a 2018 report commissioned by the Rhode Island Department of Environmental Management.[29] Rhode Island has responded with general

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[27] RIPEC, Understanding Institutional Differences in Education Governance: An Updated Comparison of Rhode Island and Massachusetts, March 2019.
[28] Noah Berger and Pete Fisher, "A Well-Education Workforce is Key to State Prosperity," Economic Policy Institute, August 22, 2013.
[29] R.I. Department of Environmental Management, "Rhode Island State Parks Organizational Management and Operations Study," 2018.

obligation bond spending and modest operating increases in this area, but more investment and spending is needed, particularly given the state's economic reliance on tourism.[30]

While Rhode Island's transportation expenditures are relatively typical for New England and can be attributed in part to the state's comparatively high population density and low road utilization, state spending on highways is considerably below national benchmarks. Rhode Island's roads and bridges are currently among the worst in the nation, but the state has embarked on an ambitious RhodeWorks program to invest more in roads and bridges, and the impact is already evident as transportation spending grew more than total expenditures between FY 2013 and FY 2018.[31]

[30] Tourism Economics, "Economic Impact of Visitors in Rhode Island 2019," Prepared for R.I. Commerce Corporation.
[31] American Society of Civil Engineers, Report Card for Rhode Island's Infrastructure, 2020.