New America

EDUCATION & WORK

RHODE ISLAND

External Threats to the State Budget and Education Spending

Federal spending cuts, whether or not they target education directly, may reduce the resources available for state priorities. As federal support for social safety net programs like Medicaid and SNAP diminishes, states will need to take on those costs, or allow residents to lose benefits. Maintaining current benefit levels will require the state to either raise revenues or take funds away from other areas of state spending, like education.

1. How do federal health care spending cuts threaten the state budget?

Direct Threats:

- Between the Medicaid changes in the reconciliation package ("OBBBA") and the expiration of Affordable Care Act subsidies, roughly 42,000 Rhode Island residents will become uninsured, a decrease of four percentage points.[1] Fewer Medicaid enrollees will mean less federal funding.
- A new cap on state tax rates for health care providers constrains the state's ability to finance its share of Medicaid spending. Any cut to spending would reduce federal matching funds.
- These factors together mean an estimated $4 billion less in federal funds over 10 years, a 16 percent cut,[2] comparable to the annual cost of covering 41,500 Medicaid enrollees.[3]

Indirect Threats:

- Medicaid has a multiplier effect, as increased health sector employment and improved financial well-being for beneficiaries generate state tax revenue.[4] Funding reductions may lead to job losses, decreased state GDP, lower credit ratings, and loss of state tax revenues.[5]
- In 2026, Rhode Island stands to lose an estimated $37 million in GDP, $3 million in tax revenue, and 300 jobs as downstream impacts of the expiration of the Affordable Care Act Marketplace advanced premium tax credits.[6]
- These economic impacts may lead to job loss and other financial pressures for families, which could leave the state education budget squeezed between decreased revenues and an increased number of high-need students.
- Rhode Island is one of only six states that relies exclusively on federal program data to count students from low-income backgrounds in its funding formula.[7] The state will need to develop a new method for identifying these students or risk underestimating need.

2. How do federal SNAP cuts threaten the state budget?

Direct Threats:

- Starting in 2027, Rhode Island will be responsible for an increased share of the administrative costs associated with SNAP. In 2028, the state must also cover a portion of benefit costs. Rhode Island could face an annual estimated increase of over $64.4 million in its state cost share, equivalent to a 247 percent increase in SNAP's current share of the state budget.[8] At Rhode Island's average SNAP benefit level, this increase is equivalent to a full year of food assistance for 27,000 people.[9]

Indirect Threats:

- SNAP cuts may contribute to an economic downturn. The USDA estimates that every $1 billion the government spends on SNAP benefits generates $1.54 billion for the country's Gross Domestic Product (GDP) and leads to 13,560 additional jobs.[10] SNAP cuts will likely mean lost jobs and decreased GDP, reducing state revenues.
- Economic challenges associated with cuts may lead to increased student need as families experience job loss and other financial pressures. The state's funding formula may have to support a greater number of high-need students just as revenues are declining.[11]
- SNAP cuts threaten automatic student eligibility for free meals.[12] To maintain the same level of free meal provision, the state and/or districts may have to increase spending either on administrative costs (for individual school meal applications) or on the meals themselves.
- Because Rhode Island relies exclusively on federal program data to count students from low-income backgrounds in its funding formula,[13] it will need a new method for identifying these students or risk underestimating need.

3. How do potential federal education funding cuts threaten state education spending?

Threats to state education budgets are indirect.

- Federal sources contributed 10.1 percent of Rhode Island's education revenue (excluding COVID aid), a bit above the national average of 8.8 percent.[14] Most federal funding is provided directly to public school districts, largely through child nutrition programs, Title I, and IDEA.[15]
- Since federal funds are substantially directed towards high-need, low-income districts, these districts will be less able to meet existing student needs without additional state support.[16]
- Schools will still be legally obligated to provide certain services, such as appropriate language instruction for English learners, even if federal funding is cut. The state may have to increase outlays to help districts maintain required services.

Notes

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