NEW ISSUE - Book-Entry Only **RATINGS: Fitch: A+**
Moody's: A-1
Standard & Poor's: AA-
(See "RATINGS" herein)

In the opinion of Partridge Snow & Hahn LLP, Bond Counsel, interest on the Series 2009 A Bonds is wholly includable in the gross income of the holders thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing law, the Series 2009 A Bonds and the income therefrom, including any gain made on the sale or exchange thereof, are free from taxation, other than estate, inheritance and gift taxes, by the State of Rhode Island and Providence Plantations (the "State") and any municipality or political subdivision of the State. (See "TAX MATTERS" and APPENDIX F- "Proposed Form of Opinion of Bond Counsel" herein).

$150,000,000
RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
Revenue Bonds – Historic Structures Tax Credit Financing Program Series 2009 A
(Federally Taxable)

Dated: Date of Delivery **Due: May 15**
as shown on the inside cover

The Rhode Island Economic Development Corporation Revenue Bonds – Historic Structures Tax Credit Financing Program, Series 2009 A (Federally Taxable) (the "Series 2009 A Bonds") are being issued by the Rhode Island Economic Development Corporation (the "Issuer") pursuant to Section 4 of Article 4, Substitute A, as amended, of Chapter 100 of the Rhode Island Public Laws of 2008 (the "Program Act"), the Rhode Island Economic Development Corporation Act, Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Issuer Act" and together with the Program Act, the "Act") and a Master Trust Indenture dated as of June 1, 2009 (the "Master Trust Indenture"), as supplemented by the Series 2009 A Supplemental Trust Indenture, dated as of June 1, 2009 (the "Supplemental Trust Indenture" and together with the Master Trust Indenture, the "Trust Indenture"). The Trust Indenture is by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), with certain provisions thereof acknowledged, agreed to and approved by the State of Rhode Island and Providence Plantations (the "State"), acting by and through its Governor.

The Series 2009 A Bonds will only be issued as fully registered bonds under a book-entry-only system. The Series 2009 A Bonds will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2009 A Bonds. Purchases of beneficial interests in the Series 2009 A Bonds will be made in book-entry-only form in denominations of $5,000 or whole multiples thereof. Purchasers will not receive certificates representing the ownership interest in the Series 2009 A Bonds purchased by them.

Interest on the Series 2009 A Bonds is payable on November 15 and May 15 of each year, commencing November 15, 2009. So long as the Series 2009 A Bonds are registered in the name of DTC, or its nominee, payments of the principal of and interest on the Series 2009 A Bonds will be made directly by The Bank of New York Mellon Trust Company, N.A., as Paying Agent, to DTC which, in turn, is obligated to remit such payments to its participants for subsequent distribution to beneficial owners of the Series 2009 A Bonds, as described herein. The Series 2009 A Bonds are being issued by the Issuer to finance the funding of tax credits earned and presented to the State pusuant to Title 44, Chapter 33.2 of the Rhode Island General Laws as amended ("Historic Tax Credits"), and to pay the costs of issuance of the Series 2009 A Bonds. The maturities, interest rates and yields or prices of the Series 2009 A Bonds are shown on the inside cover hereof. The Series 2009 A Bonds are not subject to redemption prior to their respective maturity dates.

The Series 2009 A Bonds are special and limited obligations of the Issuer. The Series 2009 A Bonds and any additional Revenue Bonds – Historic Structures Tax Credit Financing Program that are subsequently issued on a parity therewith (the "Additional Bonds") (collectively, the "Bonds"), are payable from, and secured solely by a pledge of, the Trust Estate (as defined herein), which consists primarily of the Pledged Revenues (as defined herein) that are paid to the Issuer or Trustee in accordance with the Program Act, and the Payment Agreement (as defined herein) and amounts on deposit in the Bond Payment Fund created under the Trust Indenture and held by the Trustee. Pledged Revenues means the revenues, if any, made available and appropriated annually by the General Assembly of the State to secure the Series 2009 A Bonds.

THE SERIES 2009 A BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL AND LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE SERIES 2009 A BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS TO THE TRUSTEE FOR DEPOSIT IN THE BOND PAYMENT FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

This cover page contains only a brief description of the Series 2009 A Bonds and the security therefor. It is not a summary of material information with respect to the Series 2009 A Bonds. Investors should read the entire Official Statement to obtain information necessary to make an informed investment decision.

The Series 2009 A Bonds are offered when, as and if issued, subject to the approval of legality by Partridge Snow & Hahn LLP, Bond Counsel, Providence, Rhode Island, and certain other conditions. Certain legal matters will be passed on for the Underwriters by their counsel, Moses & Afonso Ltd., Providence, Rhode Island. Certain legal matters will be passed on for the State by its Disclosure Counsel, Taft & McSally LLP, Cranston, Rhode Island, and for the Issuer by its General Counsel, Adler Pollock & Sheehan P.C., Providence, Rhode Island. Certain legal matters will be passed upon for the State by the Attorney General. First Southwest Company of Lincoln, Rhode Island is serving as financial advisor for the State and the Issuer in this transaction. It is expected that the Series 2009 A Bonds in book-entry form will be available for delivery at DTC in New York, New York, or at the offices of its custodial agent, on or about June 25, 2009.

J.P. Morgan **Citi**

Janney Montgomery Scott **Merrill Lynch & Co.**

June 12, 2009

$150,000,000

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

Historic Structures Tax Credit Financing Program
Series 2009 A (Federally Taxable)

Serial Bonds

Maturity May 15	Principal Amount	Interest Rate	Price	CUSIP Number*
2010	$14,805,000	1.60%	100%	762236DM6
2011	14,375,000	2.74	100	762236DN4
2012	14,830,000	3.78	100	762236DP9
2013	15,415,000	4.52	100	762236DQ7
2014	16,175,000	5.02	100	762236DR5
2015	17,010,000	5.37	100	762236DS3
2016	17,930,000	5.80	100	762236DT1
2017	19,105,000	5.92	100	762236DU8
2018	20,355,000	6.17	100	762236DV6

* CUSIP numbers have been assigned by an independent company not affiliated with the Issuer and are included solely for the convenience of the holders of the Series 2009 A Bonds. Neither the State nor the Issuer is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2009 A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2009 A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2009 A Bonds.

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

His Excellency Donald L. Carcieri, Chairman
Frank J. Montanaro, Vice Chairman
Keith Stokes, Treasurer
Alexander Biliouris
Alma Felix Green
Kimball Hall
Cheryl Merchant
George Shuster

OFFICERS

J. Michael Saul, Interim Executive Director
William Parsons, Deputy Director
Earl F. Queenan, Jr., Director of Finance and Accounting
Susan Morgan, Director - Accounting
Robert I. Stolzman, Esq., Secretary

COUNSEL AND CONSULTANTS

Bond Counsel to Issuer
Partridge Snow & Hahn LLP, Providence, Rhode Island

Issuer General Counsel
Adler Pollock & Sheehan P.C., Providence, Rhode Island

Disclosure Counsel to the State
Taft & McSally, Cranston, Rhode Island

Financial Advisor to Issuer and State
First Southwest Company
Lincoln, Rhode Island

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the State, the Issuer, or the Underwriter. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 A Bonds offered hereby by any person in any jurisdiction where such offer or solicitation or sale would be unlawful.

The information contained in this Official Statement has been obtained from the Issuer, the State and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, any of the foregoing. The presentation of such information is not intended to indicate future or continuing trends. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representation of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State or the Issuer since the date hereof.

The Series 2009 A Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency has passed upon the accuracy of this Official Statement.

The State and the Issuer have undertaken to provide continuing disclosure with respect to the Series 2009 A Bonds as required by Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE UNDERTAKING" and "APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING" herein.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

FIRST SOUTHWEST COMPANY, THE FINANCIAL ADVISOR TO THE ISSUER AND THE STATE (THE "FINANCIAL ADVISOR"), HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE FINANCIAL ADVISOR TO THE ISSUER AND THE STATE HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO THE ISSUER AND THE STATE AND, AS APPLICABLE, TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE FINANCIAL ADVISOR TO THE ISSUER AND THE STATE DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2009 A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

relating to

$150,000,000

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION
Revenue Bonds – Historic Structures Tax Credit Financing Program
Series 2009 A (Federally Taxable)

INTRODUCTION

This Official Statement (including the cover page, inside cover page and Appendices attached hereto) provides certain information in connection with the initial issuance by the Rhode Island Economic Development Corporation (the "Issuer") of its Revenue Bonds – Historic Structures Tax Credit Financing Program Series 2009 A (Federally Taxable) (the "Series 2009 A Bonds") in the aggregate principal amount of $150,000,000. The Series 2009 A Bonds are being issued pursuant to Section 4 of Article 4, Substitute A, as amended, of Chapter 100 of the Rhode Island Public Laws of 2008 (the "Program Act"), the Rhode Island Economic Development Corporation Act, Title 42, Chapter 64 of the Rhode Island General Laws, as amended and supplemented from time to time and any successor or replacement provision of law (the "Issuer Act" and together with the Program Act, the "Act"), and under and pursuant to a Master Trust Indenture dated as of June 1, 2009, as supplemented by the Series 2009 A Supplemental Trust Indenture, dated as of June 1, 2009 (the "Supplemental Trust Indenture" and together with the Master Trust Indenture, the "Trust Indenture"). The Trust Indenture is by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), with certain provisions thereof acknowledged, agreed to and approved by the State of Rhode Island and Providence Plantations (the "State"), acting by and through its Governor.

Capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE" hereto.

Pursuant to the Act, subject to certain limitations, the Issuer may issue bonds to finance the funding of historic tax credits ("Historic Tax Credits") earned and presented to the State pursuant to Chapter 33.2 of Title 44 of the Rhode Island General Laws.

Under a Payment Agreement by and among the Governor of the State, the General Treasurer of the State, the State's Department of Administration, the State Controller, the State Budget Officer, and the Issuer dated as of June 1, 2009 (the "Payment Agreement"), (i) the Governor will be required to include in each State Fiscal Year's proposed budget submitted to the General Assembly an annual appropriation of an amount equal to the gross appropriation needed to be utilized each year to make Bond Payments for so long as any Bonds remain Outstanding (once appropriated, the "Appropriated Funds"), and (ii) the State, subject to appropriation by the General Assembly, has agreed to make payments to the Trustee of such Appropriated Funds. When received by the Trustee, the Appropriated Funds shall be the "Pledged Revenues". The Trustee shall use such Pledged Revenues to pay the debt service on the Series 2009 A Bonds. The Trustee has been designated as an intended third party beneficiary of the Payment Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Payment Agreement," and APPENDIX C – "FORM OF PAYMENT AGREEMENT."

The Act and the Trust Indenture authorize the issuance of up to $356,200,000 in Historic Structures Tax Credit Financing Program Revenue Bonds that may be issued on parity with the Series 2009 A Bonds. Such parity bonds in addition to the Series 2009 A Bonds are hereafter referred to as "Additional Bonds" and together with the Series 2009 A Bonds, the "Bonds." The Bonds are payable from and secured solely by a pledge of the Trust Estate (as defined herein), which consists primarily of (i) the Pledged Revenues that are made available and appropriated by the General Assembly and paid to the Trustee under the Payment Agreement, and (ii) the amounts, if any, held by the Trustee in the following funds created under the Trust Indenture: the Historic Tax Credits Financing Program Project Fund (the "Project Fund"), the Historic Tax Credits Financing Bond Payment Fund (the "Bond Payment Fund"), and the Historic Tax Credits Financing Debt Service Reserve Fund (the "Debt Service Reserve Fund") which may secure a particular Series of Bonds (collectively, the "Trust Estate"). The Series 2009 A Bonds will not be secured by the Debt Service Reserve Fund. The Series 2009 A Bonds are special and limited obligations of the Issuer. The Payment Agreement requires the State to transfer all Appropriated Funds to the Trustee, which shall deposit such revenues into the Bond Payment Fund, which Fund shall only be used to pay Bond Payments on and Redemption Price, if any, of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." The availability of Appropriated Funds for transfer by the State to the Issuer or Trustee for the payment of Bond Payments on the Series 2009 A Bonds is subject to annual appropriation by the General Assembly of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Payment Agreement," APPENDIX C – "FORM OF PAYMENT AGREEMENT."

THE SERIES 2009 A BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL AND LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS TO THE TRUSTEE FOR DEPOSIT IN THE BOND PAYMENT FUND IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

This Official Statement describes the terms of and security for the Series 2009 A Bonds and the use of proceeds of the Series 2009 A Bonds. Also included are summaries of certain provisions of the Trust Indenture and provisions of the Issuer Act, the Program Act, and the Payment Agreement. These descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Trust Indenture and the Payment Agreement are qualified in their entirety by reference to the definitive forms thereof, all references to the Issuer Act, and the Program Act are qualified in their entirety by reference to the complete statutes, regulations and published interpretations by State officials, and all references to the Series 2009 A Bonds are qualified by the forms thereof contained in the Trust Indenture and are further qualified in their entirety by reference to laws and principles of equity relating to or affecting the enforceability of creditors' rights. Copies of the Trust Indenture may be obtained as set forth under "MISCELLANEOUS."

INVESTMENT CONSIDERATIONS

The Issuer's ability to pay principal of and interest on the Series 2009 A Bonds depends upon numerous factors, many of which are not subject to the control of the Issuer. Described below are certain factors that could affect the ability of the Issuer to pay debt service on the Series 2009 A Bonds.

The Series 2009 A Bonds are special and limited obligations of the Issuer and are payable solely from the Trust Estate under the Trust Indenture. The Series 2009 A Bonds and the payment of Bond Payments thereon are not general obligations of the Issuer. The payment of the Series 2009 A Bonds is not payable out of any moneys of the Issuer other than the Trust Estate under the Trust Indenture. The Series 2009 A Bonds are not obligations, general, special or otherwise, of the State, do not constitute a legal debt of the State, are not enforceable against the State, nor shall payment thereof be made out of any moneys of the State, except moneys annually appropriated therefor by the General Assembly. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," APPENDIX C – "FORM OF PAYMENT AGREEMENT," and APPENDIX B – "SUMMARY OF

CERTAIN PROVISIONS OF THE TRUST INDENTURE" for a further discussion of limitations as to the source for payment of the Series 2009 A Bonds.

Dependency on State's Appropriation Process and Financial Resources

Annual appropriations are made in connection with the State's budgetary process and, therefore, are dependent on the State's general financial resources and factors affecting such resources. The Governor's submitted budget for State Fiscal Year 2010 contains an appropriation request for Bond Payments due November 15, 2009 and May 15, 2010. The General Assembly still has the State's Fiscal Year 2010 budget under consideration. Information with respect to the State and a description of the State's financial condition are set forth in the State's Information Statement dated June 3, 2009, State Economic Information, and the Basic Financial Statements of the State, as of and for the year ending June 30, 2008, which have been prepared and furnished by the State and which are included in Appendix A.

Default and Remedies

The Trust Indenture does not provide for acceleration of the Series 2009 A Bonds if an Event of Default occurs. The rights of the Owners of the Series 2009 A Bonds and the enforceability of the Series 2009 A Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, by equitable principles, whether considered at law or in equity, by the exercise by the State and its political subdivisions of the police power inherent in the sovereignty of the State, and by the exercise by the United States of the powers delegated to it by the United States Constitution.

THE FINANCING PROGRAM

Sources and Uses of Proceeds of the Series 2009 A Bonds

The Issuer is issuing the Series 2009 A Bonds to pay Project Costs, and to pay the costs of issuing the Series 2009 A Bonds. The sources and uses of the proceeds of the Series 2009 A Bonds are as follows:

Sources:

Par Amount of Series 2009 A Bonds	$150,000,000
Total Sources	$150,000,000

Uses:

Deposit to Project Fund for Funding of Historic Tax Credits	$149,071,246
Costs of issuance (including Underwriters' discount)	928,754
Total Uses	$150,000,000

The Historic Tax Credit Program and Anticipated Future Issuance of Bonds

In the 2001 Session, the General Assembly passed the enabling legislation for the Historic Structures Tax Credits (see Rhode Island General Laws § 44-33.2). The legislation initially allowed a taxpayer to receive a Historic Structures Tax Credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner: held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. Historic Structures Tax Credits can be used to offset the tax liability of a taxpayer in several tax categories, the most significant being the personal income tax.

In the 2005 Session, the General Assembly amended the Historic Structures Tax Credit law to require developers to pay a processing fee of 2.25 percent of qualified rehabilitation costs for all projects placed in service after July 1, 2005 in order to obtain an Historic Structures Tax Credit certificate. This action effectively reduced the credit to 27.75 percent of qualified rehabilitation expenditures from the original 30.0 percent.

In the 2008 Session, the General Assembly enacted the Program Act which placed a moratorium on new projects eligible for Historic Structures Tax Credits, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, estimated at $7.7 million, shall be deposited in a restricted receipt account and shall be dedicated to the reimbursement of the historic tax credits taken.

As part of the Program Act, the General Assembly authorized the Issuer to issue up to $356.2 million in bonds to provide a fund from which the State's general fund would be reimbursed for the State's historic structures tax credit liabilities paid out to taxpayers. As of April 30, 2009 the Division of Taxation has received $3.4 million of the estimated processing fees. The outstanding balance of fees, plus interest, must be paid prior to issuance of the tax credit certificates.

The Rhode Island Historical Preservation and Heritage Commission (the "Preservation Commission") in conjunction with the Rhode Island Division of Taxation has reported that 197 projects utilizing the Historic Structures Tax Credits were completed as of April 30, 2009, with a total Historic Structures Tax Credit value of $238.1 million. Through June 30, 2008, $155.3 million of Historic Structures Tax Credits had been redeemed against state general revenues. This redemption amount does not include the $24.5 million of Historic Structures Tax Credits earned by the Masonic Temple project. These tax credits were extinguished by the Issuer through an agreement with the State in FY 2007.

The Rhode Island Division of Taxation has reported that another 78 projects are planned or currently underway worth an estimated Historic Structures Tax Credit value of approximately $243.0. Approximately $50.9 million of Historic Structures Tax Credits have been redeemed between July 1, 2008 and April 30, 2009. An additional $32.0 million of Historic Structures Tax Credits have been assigned but not yet utilized by taxpayers.

With the proceeds of the Series 2009 A Bonds, the State expects to finance the funding of approximately $60.8 million of Historic Structures Tax Credits earned and presented in Fiscal Year 2009, and approximately $63.1 million projected to be earned and presented in Fiscal Year 2010. If any proceeds of the Series 2009A Bonds remain unexpended at the end of Fiscal Year 2010, it is expected that the remainder would be expended in Fiscal Year 2011. Prior to the expenditure of all the proceeds of the Series 2009 A Bonds, the State expects to request the Issuer to issue Additional Bonds to finance the funding of additional Historic Structures Tax Credits earned and presented.

THE SERIES 2009 A BONDS

General Description

The Series 2009 A Bonds will be issued in the principal amounts and with maturity dates shown on the inside cover page of this Official Statement. The Series 2009 A Bonds will be dated the date of delivery thereof, and shall bear interest from such date, payable on May 15 and November 15 of each year, commencing November 15, 2009. Interest shall be calculated based on a year of 360 days and twelve 30-day months.

As described in APPENDIX D – "BOOK-ENTRY-ONLY SYSTEM," the Series 2009 A Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC, or its nominee Cede & Co., is the registered owner of all the Series 2009 A Bonds, all payments on the Series 2009 A Bonds will be made directly to DTC.

The principal of the Series 2009 A Bonds shall be payable in lawful money of the United States of America at the designated corporate trust office of the Paying Agent. The Bank of New York Mellon Trust Company, N.A. will initially serve as paying agent and registrar for the Series 2009 A Bonds. Payment of the interest on any Series 2009 A Bonds shall be made to the person whose name appears on the registration books of the Trustee as the registered owner thereof (the "Owner") as of the close of business on the first day of the month of the Interest Payment Date (the "Record Date"). Interest will be paid by check or draft mailed to the Owner at the address shown on such registration books. As long as the DTC book-entry system is in effect, Cede & Co. is the Owner and will receive all payments of Bond Payments.

Any such interest not so punctually paid or duly provided for shall cease to be payable to the Owner on such Record Date and shall be paid to the person in whose name the Series 2009 A Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the paying agent, notice whereof being given to the Owners not less than 10 days prior to such Special Record Date.

Redemption

The Series 2009 A Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Nature of Obligations and Authority

Pursuant to the Act, the Issuer is authorized to issue the Bonds, including the Series 2009 A Bonds. The Bonds are special and limited obligations of the Issuer and are payable from the Trust Estate as specified in the Trust Indenture. The Bonds and the payment of Bond Payments thereon are not general obligations of the Issuer and are secured solely by the Trust Estate, including the Pledged Revenues. The Pledged Revenues are comprised solely of revenues, if any, made available and appropriated by the General Assembly of the State to secure the Bonds. The Bonds shall not be payable out of any moneys of the Issuer other than the Trust Estate. The Bonds are not obligations, general, special or otherwise, of the State, do not constitute a debt of the State, are not enforceable against the State, nor shall payment thereof be enforceable out of any moneys of the State.

THE BONDS AND THE INTEREST THEREON DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN A SPECIAL AND LIMITED OBLIGATION OF THE ISSUER) AND NEITHER THE FAITH AND CREDIT NOR THE TAKING OR TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR MUNICIPALITY THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS OR THE INTEREST THEREON. THE ISSUER HAS NO TAXING POWER. THE OBLIGATION OF THE STATE TO MAKE PAYMENTS TO THE TRUSTEE FOR DEPOSIT IN THE BOND PAYMENT ACCOUNT IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE GENERAL ASSEMBLY.

Payment by the State to the Trustee of the Appropriated Funds is subject to the process described in the Payment Agreement, including annual appropriation by the General Assembly. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Payment Agreement" and APPENDIX C – "FORM OF PAYMENT AGREEMENT." The General Assembly, however, is not legally bound to make an annual appropriation of the Appropriated Funds to the Trustee, and the Act does not restrict the right of the General Assembly to amend, repeal, modify or otherwise alter the Act or the use of the Appropriated Funds. The Issuer can give no legal assurance that the General Assembly will annually appropriate the Appropriated Funds. The Issuer believes, however, that any failure by the General Assembly to make such appropriations would have a serious impact on the ability of the State and its authorities to raise funds in the public capital markets.

The Payment Agreement

The Governor of the State, the General Treasurer of the State, the State's Department of Administration, the State Controller, the State Budget Officer and the Issuer have entered into the Payment Agreement dated as of June 1, 2009 pursuant to which in each State Fiscal Year in which any of the Bonds remain outstanding, among other matters, the Governor covenants and agrees to include in the Governor's proposed budget of revenues and appropriations submitted to the General Assembly, an amount equal to the gross appropriation of all Appropriated Funds anticipated to be needed to make Bond Payments on all Outstanding Bonds for such State Fiscal Year. The Governor has also covenanted to submit a supplemental budget request should the General Assembly pass a budget not including an amount equal to the requested gross appropriation for a State Fiscal Year. The Payment Agreement may not be amended without the consent of the parties thereto; provided however, that (a) it may not be amended in any way that will materially and adversely impair the ability of the Trustee to make Bond Payments from Pledged Revenues provided for the Bonds under the Trust Indenture; (b) that any amendment may be made with the consent of the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding obtained in accordance with the terms of the Trust Indenture; and (c) that in no event shall a change in the Payment Agreement (i) to provide for the payment of Additional Bonds or other obligations of the Issuer issued in accordance with the Trust Indenture or (ii) to conform to provisions of State law respecting the provisions for appropriations or the organization of the government of the State, in either case, be deemed to be materially adverse. See APPENDIX C – "FORM OF PAYMENT AGREEMENT."

The Governor's submitted budget for State Fiscal Year 2010 contains an appropriation request for Series 2009 A Bond Payments due November 15, 2009 and May 15, 2010. The General Assembly still has the State's Fiscal 2010 budget under consideration.

Agreement by the State

In accordance with the Issuer Act, under the Trust Indenture, the Issuer includes the pledge and agreement of the State with the Owners of the Bonds that the State will not limit or alter the rights vested in the Issuer by the Issuer Act to fulfill the terms of any agreement made with such Owners until such agreements and Bonds with such Owners and interest payment obligations related thereto are fully met and discharged.

Legislation has been proposed to reorganize or reconstitute the Board of Directors of the Issuer. As required by the agreement of the State described above, any successor entity would be required to assume all obligations of the Issuer with respect to the Bonds and any related agreements.

Creation of Trust Estate

The Trust Indenture shall constitute a contract between the Issuer and the Owners from time to time of the Bonds, and the pledge, covenants and agreements of the Issuer set forth in the Trust Indenture shall be for the equal benefit, protection and security of the Owners of any and all of the Bonds, all of which, regardless of time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other Bond, except as expressly provided in or permitted by the Trust Indenture. The pledge by the Issuer of the Trust Estate which consists of the Pledged Revenues paid to the Issuer or the Trustee in accordance with the Program Act and the Payment Agreement and amounts on deposit in the Project Fund, the Bond Payment Fund, and (if applicable) the Debt Service Reserve Fund is irrevocable so long as any Bonds are Outstanding under the terms of the Trust Indenture.

The Issuer pledges in the Trust Indenture to the payment of the Bond Payments on the Bonds and any Additional Bonds that may be subsequently issued by the Issuer on a parity therewith (see "Additional Bonds" below), funds on deposit in the Project Fund (consisting of unspent Bond proceeds, if any, and earnings thereon), funds on deposit in the Bond Payment Fund (such deposits being primarily the Pledged Revenues), and, if applicable to a Series of Bonds, funds on deposit in the Debt Service Reserve Fund. The funds in the Bond Payment Fund and the Debt Service Reserve Fund shall only be used to pay Bond

Payments on and Redemption Price of the Bonds. Funds in the Project Fund are to be used primarily to make disbursements to the State to finance Historic Tax Credits earned and presented by taxpayers.

The failure of the Trustee to make full payment of Bond Payments due on the Bonds is an Event of Default under the Trust Indenture and gives rise under the Trust Indenture to certain remedial rights of the holders of the requisite percentage of the Bonds. See "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE – "Events of Default" and - "Remedies." However, no assurance can be given that the amount realized from the taking of such actions will be sufficient to pay the principal of and interest on the Bonds.

The remedies available to the Trustee and the owners of the Bonds upon an Event of Default (as defined in the Trust Indenture) do not include the right to declare all amounts immediately due and payable and are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Such remedies may also not be readily available or may be limited and the legal opinions rendered in connection with this financing will be qualified to the extent that enforceability of provisions of such agreements are affected by such limitations, including as such enforceability may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights.

Funds and Accounts

The Trust Indenture creates the Bond Payment Fund, the Project Fund and an Earnings Account within the Project Fund, a Debt Service Reserve Fund, and a Rebate Fund. The Series 2009 A Bonds are not secured by the Debt Service Reserve Fund. The Rebate Fund is only applicable to those Series of Bonds on which the Issuer intends the interest to be excluded from gross income for federal tax purposes. The Series 2009 A Bonds are federally taxable. Thus, the Rebate Fund is not applicable to the Series 2009 A Bonds. The Bond Payment Fund, the Debt Service Reserve Fund, the Project Fund (including the Earnings Account) and amounts on deposit in those funds are part of the Trust Estate, but the Rebate Fund and amounts on deposit in that fund and accounts is not part of the Trust Estate and, therefore, is not pledged to the payment of the Bonds.

Bond Payment Fund. The Trustee is required to create and maintain separate accounts identified by the appropriate series designation within the Bond Payment Fund to account for the receipt of moneys to pay, and the payment of, the Bond Payments or the Redemption Price of each Series of Bonds. The Trustee is required by the Trust Indenture to pay out of the Bond Payment Fund to the Paying Agent:

(1) on or before each Interest Payment Date for any Bonds, an amount required for the interest payable on such date; and

(2) on or before each Principal Payment Date for any Bonds, an amount required for the principal payment on such date; and

(3) on or before any optional redemption date for any Bonds, an amount required for the payment of the redemption price on the Bonds then to be optionally redeemed.

Project Fund. Proceeds of each Series of Bonds are to be deposited into the Project Fund and amounts on deposit in the Project Fund (including the Earnings Account) may be applied by the Issuer to pay costs of issuance and, so long as no payment default has occurred with respect to the Bonds, may be requisitioned by the Issuer and the State in the manner provided by the Trust Indenture. In the event of a payment default with respect to the Bonds, the Trustee shall transfer all moneys held in the Project Fund to the Bond Payment Fund. In the event sufficient amounts from Pledge Revenues or other sources in excess of the amount necessary to make any Bond Payments then due are available in the Bond Payment Fund, such excess amount up to the amount transferred from the Project Fund to the Bond Payment Fund may be transferred back to the Project Fund upon the direction of the State's Director of Administration.

Rebate Fund. Amounts may be deposited into the Rebate Fund from Pledged Revenues, from amounts in the funds and accounts held under the Trust Indenture or from any other legally available source and, to the extent necessary, are to be applied to make rebate payments to the United States in accordance with the Tax Certificates. Any excess in the Rebate Fund may be transferred to the Bond Payment Fund, or the Project Fund.

Debt Service Reserve Fund. The Trust Indenture requires the Trustee to maintain separate accounts for each Series secured by the Debt Service Reserve Fund, but the separate accounts do not affect the rights of the Owners of the Bonds secured by it to moneys in the Debt Service Reserve Fund. The Series 2009 A Bonds are not secured by the Debt Service Reserve Fund. To the extent provided by a Supplemental Indenture authorizing any variable interest rate Bonds, put Bonds or bank Bonds, any such Bonds may be secured by a separate account in the Debt Service Reserve Fund, another debt service reserve fund or no debt service reserve fund, in which case any such account or other debt service reserve fund will not secure Bonds other than the specified Bonds and any related payments to the providers of Credit Facilities for which it is established and the specified Bonds will not be secured by the other accounts in the Debt Service Reserve Fund or, as applicable, by the Debt Service Reserve Fund. No payments in connection with an Interest Rate Exchange Agreement may be secured by or payable from any account in the Debt Service Reserve Fund.

The Issuer agrees that upon the issuance of any Bonds secured by the Debt Service Reserve Fund, it will deposit in the Debt Service Reserve Fund the amount, if any, required to make the amount on deposit equal to the Debt Service Reserve Fund Requirement. The Debt Service Reserve Fund Requirement, as of any date of calculation, (a) with respect to a Series of Bonds other than a Series of Bonds which at their date of issuance are or are deemed under the Trust Indenture to be for any period variable interest rate Bonds, put Bonds or bank Bonds, an amount equal to one-half of the greatest amount of Bond Payments with respect to such Series of Bonds for the then current or any future State Fiscal Year, except that as a result of the issuance of any Series of Bonds the interest on which is excluded from gross income for Federal income tax purposes the amount required to be on deposit to satisfy the Debt Service Reserve Fund Requirement will not exceed the sum of the amount on deposit in the Debt Service Reserve Fund immediately prior to the issuance of that Series plus 10% of the proceeds from the sale of that Series, and (b) with respect to a Series of Bonds which at their date of issuance are or are deemed hereunder to be for any period variable interest rate Bonds, put Bonds or bank Bonds, the amount set forth in or determined pursuant to the Supplemental Indenture authorizing such Bonds as the Debt Service Reserve Fund Requirement for such Series of Bonds. Notwithstanding the foregoing, a Supplemental Indenture may provide that the Debt Service Fund Requirement for a particular Series of Bonds shall be $0. The Series 2009 A Supplemental Indenture provides that the Debt Service Fund Requirement for the Series 2009 A Bonds shall be $0.

If on the Business Day preceding any Bond Payment Date, the amounts on deposit in the Bond Payment Fund are not sufficient to make all such payments due on that payment date for Bonds secured thereby, the Trustee will immediately transfer the amount necessary from any account or accounts securing those Bonds to the Bond Payment Fund to the extent amounts on deposit in the Debt Service Reserve Fund are available. Any excess in the Debt Service Reserve Fund may be withdrawn from the Debt Service Reserve Fund and deposited in the Bond Payment Fund or may, in the discretion of the Issuer, be withdrawn from the Debt Service Reserve Fund and deposited into the Rebate Fund, or the Project Fund (if the excess originally constituted Bond proceeds) or the Earnings Account (if the excess constitutes investment earnings or Pledged Revenues).

In lieu of the required transfers or deposits of money to the Debt Service Reserve Fund, or as a replacement or substitution for any moneys or Permitted Investments then on deposit in the Debt Service Reserve Fund, the Issuer may at any time cause to be deposited into the Debt Service Reserve Fund a Reserve Fund Credit Facility for the benefit of the holders of the specified Bonds. Subject to the maintenance of the Debt Service Reserve Fund Requirement, amounts in the Debt Service Reserve Fund may, if required by the terms of any Reserve Fund Credit Facility, be used to repay any drawings on a Reserve Fund Credit Facility, but only if such repayment will result in a reinstatement of the amount available to be drawn under the Reserve Fund Credit Facility in an amount at least equal to the amount of the repayment.

In the event of the refunding of any Bonds, the Issuer may withdraw from the Debt Service Reserve Fund all or any portion of the amounts accumulated with respect to the Bonds being refunded and deposit those amounts with the Trustee to be held for the payment of the principal or Redemption Price, if applicable, of and interest on the Bonds being refunded or apply those amounts to pay the costs of issuance of the Refunding Bonds.

Application of Pledged Revenues

The assignment and pledge of Pledged Revenues to the Trustee for the benefit of the Owners of the Bonds under the Trust Indenture constitutes a first lien on the Pledged Revenues received by the Issuer or the Trustee. The Pledged Revenues received by the Issuer or the Trustee are required by the Trust Indenture to be deposited and used only in the manner and order of priority specified below.

Deposits are first made into the Bond Payment Fund in an amount sufficient to pay the Current Payments, and amounts on deposit in an account of the Bond Payment Fund may be used only to pay Bond Payments and Redemption Price on the Bonds and for other purposes expressly provided by the Trust Indenture. Moneys on deposit in the Bond Payment Fund are used to make the following payments or for the following purposes:

Interest Component. To pay the next maturing interest payment on the Bonds;

Principal Payments. To pay the next maturing principal payment on the Bonds; and

Redemption Price. To pay the Redemption Price of the Bonds next coming due pursuant to redemption prior to maturity.

Deposits are next made, as necessary, into the Debt Service Reserve Fund and then the Rebate Fund.

Covenants Concerning the Pledged Revenues

In the Trust Indenture, among other matters, the Issuer covenants that so long as the Bonds are Outstanding, the pledge by the Issuer of the Pledged Revenues for the payment of Bond Payments shall be irrevocable until all Bond Payments have been paid in full.

Additional Bonds

The Issuer shall not issue any notes, bonds, debentures, or other evidence of indebtedness that are payable out of, or secured by a pledge of, the Trust Estate on a basis senior to the Series 2009 A Bonds.

The Issuer may issue, from time to time, one or more series of Additional Bonds in principal amounts for any lawful purpose permitted under the Act, which are payable from and secured by the Trust Estate on a parity with the outstanding Series 2009 A Bonds and any series of Additional Bonds that may be subsequently issued, upon satisfaction of the requirements of the Trust Indenture before such issuance. No series of Additional Bonds may be issued unless an Authorized Issuer Representative certifies that as of the delivery of such series of Additional Bonds, no Event of Default will have happened and then will be continuing. Under the Act and the Trust Indenture, in no event shall Bonds (other than Refunding Bonds) be issued in an amount exceeding $356,200,000.

The Issuer may also issue Additional Bonds for the purpose of refunding in whole or in part any Bonds Outstanding under the Trust Indenture, provided that the Issuer certifies that: (a) the annual Bond Payments for all Bonds Outstanding immediately after the issuance of such proposed Refunding Bonds (including Bond Payments on the Refunding Bonds but excluding Bond Payments on Refunded Bonds) for the current and each future State Fiscal Year to and including the State Fiscal Year of the latest maturity on any Bonds then Outstanding is no greater than (b) the annual Bond Payments for all Bonds Outstanding immediately prior to such issuance during the same State Fiscal Years.

For further discussion of issuance of Additional Bonds, see "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE – Additional Bonds."

Credit Facilities and Interest Rate Exchange Agreements

Notwithstanding any other provision of the Trust Indenture, (i) the Issuer may purchase or arrange for a Credit Facility to secure any Bonds and may agree to reimburse the provider for any draws to make Bond Payments on a parity with or on a basis subordinate to the payment of Bond Payments and (ii) to the extent permitted by law, the Issuer may purchase or arrange for an Interest Rate Exchange Agreement with respect to any Bonds and may agree to make payments to the provider of an Interest Rate Exchange Agreement, which may be on a parity with or on a basis subordinate to the payment of Bond Payments.

Defeasance

If the Issuer pays or causes to be paid, or there is otherwise paid, to the Owners of all outstanding Bonds or Series 2009 A Bonds of a particular maturity or a particular Series 2009 A Bond within a maturity, the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Trust Indenture, such Series 2009 A Bonds or Bond, as applicable, will cease to be entitled to any pledge, benefit or security under the Trust Indenture, and all covenants, agreements and obligations of the Issuer to the Owners of such Series 2009 A Bonds or Bond, as applicable, will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Trust Indenture, any outstanding Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if there has been deposited with an escrow agent appointed for such purpose either money in an amount which will be sufficient, or Defeasance Securities as prescribed in the Trust Indenture, the principal of and the interest on which, when due, will provide money which, together with the money, if any, deposited with the escrow agent at the same time, will be sufficient to pay when due the principal and interest due and to become due on such Bonds on or prior to the maturity date thereof. See "APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE – Discharge of Master Indenture."

THE RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

General

The Issuer was authorized, created and established by the General Assembly of the State as a public corporation, governmental agency and public instrumentality having a distinct legal existence from the State and not constituting a department of State government. The Issuer is empowered, among other things, to issue its bonds and to loan or otherwise make available the proceeds thereof to various borrowers in the State, including to the State pursuant to the Program Act, and for the acquisition, ownership, operation, construction, reconstruction, rehabilitation, improvement, development, sale, lease, or other disposition of, or the provision of financing of, any real or personal property, of any facility to promote the economic development of the State and the general welfare of its citizens.

The Issuer Act declares that it is the policy of the State to promote a vigorous and growing economy, to prevent economic stagnation and to encourage the creation of new jobs in order to ameliorate the hazards of unemployment and achieve a stable and diversified economy.

The Series 2009 A Bonds are being issued in full compliance with the Act. The Issuer is authorized to enter into the Trust Indenture to issue the Series 2009 A Bonds and to secure the Series 2009 A Bonds by a pledge of the Trust Estate.

The powers of Issuer are vested in a Board of Directors comprised of nine (9) members, one (1) of whom only serves in the event there is a project of the Issuer on federal lands and such project is not in conformance with the comprehensive plan of the community in which such project is located. Consequently, there currently are eight (8) members of the Board of Directors of Issuer. The Governor serves as a member of the Board and as chairperson, ex-officio (who shall vote only in the event of a tie). Generally, the members serve for four-year terms. Members serve until the expiration of their appointment to the Board and thereafter until their successors are appointed to the Board and are qualified. The Chairperson designates a Vice Chairperson who serves at the pleasure of the Chairperson. The Executive Director of the the Issuer is its Chief Executive Officer. The Board of Directors appoints a Secretary who need not be a member of the Board of Directors. All members serve without compensation but are entitled to reimbursement for necessary expenses incurred in performance of their duties related to the Issuer Act.

Legislation has recently been proposed which would reconstitute or reorganize the Board of Directors of the Issuer. Any successor entity to the Issuer would be required by law to assume all obligations of the Issuer with respect to the Bonds and any related agreements. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Agreement by the State."

Directors and Officers

The Directors and Officers of the Issuer are:

His Excellency Donald L. Carcieri. Governor Carcieri serves as Chairman of the Board of Directors, ex-officio.

Frank J. Montanaro. Mr. Montanaro serves as Vice Chairman of the Board of Directors. His appointment as a member is through February 1, 2005 and serves until his successor is appointed and qualified. Mr. Montanaro is President of the Rhode Island AFL-CIO.

Keith Stokes. Mr. Stokes serves as Treasurer of the Board of Directors. Mr. Stokes has been appointed as a member of the Board of Directors through February 1, 2012 or until his successor is appointed and qualified. Mr. Stokes is the Executive Director of the Newport County Chamber of Commerce.

Alexander Biliouris. Mr. Biliouris has been appointed as a member of the Board through February 1, 2012 and serves until his successor is appointed and qualified. Mr. Biliouris is a real estate investor located in Woonsocket, Rhode Island.

Alma Felix Green. Ms. Green has been appointed as a member of the Board through February 1, 2005 and serves until her successor is appointed and qualified. Ms. Green is the founder and President of Women's Development Corporation and Housing Opportunities Corporation.

Kimball Hall. Ms. Hall has been appointed as a member of the Board through February 1, 2011. Ms. Hall is the divisional manager of the Amgen facility located in West Warwick, Rhode Island.

Cheryl Merchant. Ms. Merchant has been appointed as a member of the Board through February 1, 2011 and serves until her successor is appointed and qualified. Ms. Merchant is the President/CEO of Hope Global, a textile engineering firm.

George Shuster. Mr. Shuster has been appointed as a member of the Board of Directors through February 1, 2011 and serves until his successor is appointed and qualified. Mr. Shuster is the Chief Executive Officer of Cranston Print Works Company.

Other officers of the Issuer are:

J. Michael Saul, Interim Executive Director
William Parsons, Deputy Director
Earl F. Queenan, Jr., Director of Finance and Accounting
Susan Morgan, Director - Accounting
Robert I. Stolzman, Esq., Secretary

Other Indebtedness

As of June 30, 2008, the Issuer and its subsidiaries had approximately $965,394,052 in revenue bonds outstanding. Certain of the bonds of the Issuer other than the Series 2009 A Bonds may be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Issuer. Neither the revenues pledged to secure other bonds nor the capital reserve fund established by the Issuer for other Issuer bonds secures the Series 2009 A Bonds; nor does the Trust Estate secure other bonds of the Issuer.

DEBT SERVICE REQUIREMENTS FOR THE SERIES 2009 A BONDS

The following table shows the debt service requirements for the Series 2009 A Bonds.

Fiscal Year	Principal	Interest	Total
2010	$14,805,000	$6,258,105.33	$21,063,105.33
2011	14,375,000	6,803,488.50	21,178,488.50
2012	14,830,000	6,409,613.50	21,239,613.50
2013	15,415,000	5,849,039.50	21,264,039.50
2014	16,175,000	5,152,281.50	21,327,281.50
2015	17,010,000	4,340,296.50	21,350,296.50
2016	17,930,000	3,426,859.50	21,356,859.50
2017	19,105,000	2,386,919.50	21,491,919.50
2018	20,355,000	1,255,903.50	21,610,903.50
TOTAL	$150,000,000	$41,882,507.33	$191,882,507.33

LITIGATION

There is no litigation pending in any court or, to the best knowledge of the Issuer threatened, questioning the corporate existence of the Issuer, or the title of the present Directors or officers of the Issuer to their respective offices. There is no litigation or administrative action pending in any court or, to the best knowledge of the State and the Issuer, threatened, which would restrain or enjoin the issuance, sale or delivery of the Series 2009 A Bonds or in any way contest or affect the validity of the Series 2009 A Bonds, or which concerns the proceedings of the Issuer taken in connection with the issuance and sale of the Series 2009 A Bonds or the execution, delivery and performance of the Payment Agreement, or the pledge and application of any funds pursuant to the Trust Indenture provided for the payment of the Series 2009 A Bonds, or which contests the powers of the State, including the Department, and the Issuer, with respect to the foregoing.

The Attorney General of the State will provide an opinion in connection with the issuance of the Series 2009 A Bonds that, to the best of his knowledge, there is no pending or threatened litigation against the State or the Issuer contesting the validity of the Issuer Act or the Program Act, or seeking to enjoin the issuance of the Series 2009 A Bonds by the Issuer or the entering into of the Payment Agreement by the Governor, the Treasurer, the Director of the Department of Administration, the State Controller or the State Budget Officer.

FORWARD-LOOKING STATEMENTS

This Official Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," "project" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

TAX MATTERS

In the opinion of Partridge Snow & Hahn LLP, Bond Counsel, interest on the Series 2009 A Bonds is wholly includable in gross income for Federal income tax purposes.

In the further opinion of Bond Counsel, under existing law, the Series 2009 A Bonds and the income therefrom, including any gain made in the sale or exchange thereof, are free from taxation, other than estate, inheritance and gift taxes, by the State and any municipality or political subdivision of the State.

Bond Counsel express no other opinions regarding any other Federal, state or local tax consequences with respect to the Series 2009 A Bonds. Bond Counsel renders its opinions under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinions after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the State and the Issuer will execute a written Continuing Disclosure Undertaking, dated the date of delivery of the Series 2009 A Bonds (the "Disclosure Undertaking"), substantially in the applicable form set forth as "APPENDIX E – PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING," wherein the State will agree, for the benefit of the beneficial owners of Series 2009 A Bonds, to provide, or cause to be provided, certain annual financial information. The State and the Issuer will agree to provide notice of the occurrence of certain events or failures to take certain required actions with respect to the Series 2009 A Bonds. The Issuer has determined that no financial or operating data of the Issuer is material to any decision to purchase, hold or sell the Series 2009 A Bonds and the Issuer will not provide such information.

The State or the Issuer may from time to time choose to provide notice of the occurrence of other events, in addition to those required in the Disclosure Undertaking, but neither the State nor the Issuer undertakes to commit to provide any notice of the occurrence of any event except those events listed in the Disclosure Undertaking, if material.

The obligations of the State and the Issuer described in the Disclosure Undertaking will remain in effect until the Series 2009 A Bonds are no longer Outstanding or the Rule no longer applies to the Series 2009 A Bonds. The Disclosure Undertaking may be amended or waived upon receipt by the State and the Issuer of an opinion of independent counsel to the effect that the amendment or waiver would not, in and of itself, cause the Disclosure Undertaking to violate the Rule.

A beneficial owner of a Series 2009 A Bond may seek to enforce the undertakings of the State and the issuer in the Disclosure Undertaking by an action for specific performance in any court of competent jurisdiction in Providence, Rhode Island after providing the State and the Issuer with 30 days prior written notice of its failure to perform. Any failure of the State or the Issuer to comply with any of its obligations in the Disclosure Undertaking shall not be a default or Event of Default with respect to the Series 2009 A Bonds under the Trust Indenture.

The State first undertook to file annual repots and financial statements with each nationally recognized municipal securities information repository ("NRMSIR") in an offering that took place in 1996. Except as noted below, the State has never failed to comply, in all material respects, with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule. In February 2005 the State submitted its annual disclosure related to Motor Fuel Revenue Bonds and GARVEE Bonds approximately seventeen days late. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the State relating solely to bonds of the Rhode Island Refunding Bond Authority. The State has implemented procedures to ensure timely filing in the future. The Issuer has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

The Securities and Exchange Commission recently adopted amendments to Rule 15c2-12, to become effective July 1, 2009. Pursuant to such amendments, it is expected that the State and the Issuer will be required to file or cause to be filed annual financial information and material event notices with the Municipal Securities Rulemaking Board, as the sole nationally recognized municipal securities repository, and its Electronic Municipal Market Access system for municipal securities disclosures instead of with each current nationally recognized municipal securities information repository, the recognitions of which would be withdrawn. In addition, such amendments would remove from the Rule the requirement to make filings with state information depositories, although such filings may be required by state law. No such filings currently are required by Rhode Island law.

RATINGS

For the Series 2009 A Bonds, Standard & Poor's Rating Service ("S&P"), Moody's Investors Service ("Moody's") and Fitch, Inc. ("Fitch") have assigned ratings of AA-, A-1 and A+, respectively.

Such ratings reflect only the views of the respective rating organizations, and any explanation of the meaning or significance of the ratings may only be obtained from the respective rating agency, as follows: from Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041, from Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007, and from Fitch, Inc., One State Street Plaza, New York, New York 10004. The Issuer and the State furnished to the rating agencies certain information and materials, some of which have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in their judgment circumstances so warrant. Any lowering or withdrawal of a rating may have an adverse effect on the marketability or market price of the Series 2009 A Bonds.

The Issuer and the State expect to furnish each rating agency with information and materials that it may request. The Issuer and the State, however, assume no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of the debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2009 A Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2009 A Bonds from the Issuer at a price of $149,346,245.67 (being the aggregate principal amount of $150,000,000 less an Underwriters' discount of $653,754.33). The public offering prices may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2009 A Bonds to dealers (including dealers depositing the Series 2009 A Bonds into investment trusts) and others at prices lower than such initial public offering prices. The Underwriters will be obligated to purchase all of the Series 2009 A Bonds if any are purchased.

J.P. Morgan Securities Inc., one of the Underwriters of the Series 2009 A Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2009 A Bonds at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009 A Bonds with UBS Financial Services Inc.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance and sale of the Series 2009 A Bonds and the tax treatment of interest on the Series 2009 A Bonds are subject to the legal opinion of Partridge Snow & Hahn LLP, Providence, Rhode Island, Bond Counsel, the substantial final form of which is attached hereto as APPENDIX F – "PROPOSED FORM OF OPINION OF BOND COUNSEL." Certain legal matters will be passed upon for the Underwriters by their counsel, Moses & Afonso Ltd., Providence, Rhode Island. Certain legal matters will be passed on for the State by its Disclosure Counsel, Taft & McSally, Cranston, Rhode Island, and for the Issuer by its General Counsel, Adler, Pollock & Sheehan P.C., Providence, Rhode Island. Certain legal matters will be passed upon for the State by the Attorney General.

FINANCIAL ADVISOR

The Issuer and the State have retained First Southwest Company, to serve as their financial advisor in connection with the issuance of the Series 2009 A Bonds (the "Financial Advisor"). The Financial Advisor has not independently verified any of the information contained in this Official Statement and makes no guarantee as to its completeness or accuracy. The Issuer may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of Series 2009 A Bond proceeds.

MISCELLANEOUS

The State and the Issuer have furnished the information in this Official Statement relating to the State and the Issuer.

Copies of the Trust Indenture may be obtained from the Issuer's Executive Director, 315 Iron Horse Way, Suite 101, Providence, Rhode Island 02908 (telephone: 401-278-4100).

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such opinions or the like will be realized. The agreements of the Issuer and the State are fully set forth in the Trust Indenture and the Payment Agreement in accordance with the Act and this Official Statement is not to be construed as a contract or agreement between the Issuer or the State and the purchasers or Owners of any of the Series 2009 A Bonds.

This Official Statement is submitted in connection with the sale of the Series 2009 A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. Concurrently with the delivery of the Series 2009 A Bonds, the State will furnish a certificate executed on behalf of the State to the effect that this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Series 2009 A Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The Issuer will furnish a certificate to the same tenor, but will exclude the information contained in Appendix A which has been furnished solely by the State. This Official Statement has been duly authorized and approved by the Issuer and the State and duly executed and delivered on its behalf by the officials signing below.

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

By: /s/ J. Michael Saul
Interim Executive Director

STATE OF RHODE ISLAND

By: /s/ Frank T. Caprio
General Treasurer

STATE OF RHODE ISLAND

By: /s/ Gary S. Sasse
Director of Administration

Dated: June 12, 2009

APPENDIX A

INFORMATION STATEMENT OF THE STATE DATED JUNE 3, 2009

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: June 3, 2009

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General Information

The State of Rhode Island is governed by its Constitution, the present form of which was adopted by the electorate in 1986 reflecting a comprehensive restatement to replace archaic language and to delete repealed provisions of the 1843 Constitution, as well as various other amendments.

Under the State Constitution, the powers of government are divided into three branches: legislative, executive and judicial. The legislative power of the government is vested in the General Assembly, which consists of a 38 member Senate and a 75 member House of Representatives. They are constituted on the basis of population and the representative districts shall be as nearly equal in population and as compact in territory as possible. All members of the General Assembly are elected biennially from senatorial and representative districts. The General Assembly meets annually beginning on the first Tuesday in January.

The chief executive power of the State is vested in the Governor and, by succession, the Lieutenant Governor. Each is elected for four (4) year terms. The Governor is primarily responsible for the faithful execution of laws enacted by the General Assembly and for the administration of State government through the Executive Department. The State Constitution also provides for the election of three additional general State Officers: the Attorney General, the Secretary of State and the General Treasurer. Under the State Constitution, the Governor is granted the power to veto any act adopted by the General Assembly, provided, however, that any such veto can be overridden by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. The Governor does not have any power of line-item veto.

The judicial power of the State is vested in the Supreme Court and such lower courts as are established by the General Assembly. The Supreme Court, appointed by the Governor and confirmed by the Senate and the House of Representatives, has final revisory and appellate jurisdiction upon all questions of law and equity. The General Assembly has also established a Superior Court, a Family Court, a District Court, a Workers' Compensation Court, a State Traffic Tribunal, and certain municipal courts in various cities and towns in the State.

Municipalities

There are 39 cities and towns in Rhode Island that exercise the functions of local general government. There is no county governmental structure in the State of Rhode Island. Local executive power is generally placed in a mayor, or administrator/manager form of government, and legislative power is vested in either a city or town council. The State Constitution provides municipalities with the right of self-government in all local matters by adopting a "home rule" charter. Every city or town, however, has the power to levy, assess and collect taxes, or borrow money, only as specifically authorized by the General Assembly. Except for matters that are reserved exclusively to the General Assembly, such as taxation and elections, the State Constitution restricts the power of the General Assembly on actions relating to the property, affairs and government of any city or town which has adopted a "home rule" charter, to general laws which apply to all cities and towns, but which shall not affect the form of government of any city or town. The General Assembly has the power to act in relation to a particular home rule charter city or town, provided that such legislative action shall become effective only upon approval of a majority of the voters of the affected city or town. Section 44-35-10 of the General Laws requires every city and town to adopt a balanced budget for each fiscal year. Local governments rely principally upon general real and tangible personal property taxes and automobile excise taxes for provision of revenue.

Since 1985, cities and towns had been prohibited by Section 44-5-2 of the General Laws of the State from imposing a tax levy or tax rate, which increases by more than 5 ½ percent over the previous year's levy or rate. The statute authorized tax levy or tax rate increases of greater than 5 ½ percent in the event that the amount of debt service required to service present and future general obligation debt of the city or town increased at a rate greater than 5 ½ percent. The statute also provides for the certification by a State agency of the appropriate property tax base to be used in computations in any year when revaluation of property is being implemented. Provisions of Section 44-5-2 also included authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arose and was certified by the State Auditor General. In such an emergency situation, the levy in excess of a 5 ½ percent increase had to be approved by a majority of the city or town governing body or electors voting at the financial town meeting. The statute was amended to clarify that nothing in the tax levy cap provisions was intended to constrain the payment of obligations of cities and towns. The power of the cities and towns to pay their general obligation bonds and notes is unlimited and each city or town is required to levy *ad valorem* taxes upon all the taxable property for the payment of such bonds and notes and the interest thereon, without limitation as to rate or amount.

During the 2006 session of the General Assembly, significant amendments to 44-5-2 were enacted. The amendments progressively reduce the maximum property tax levy from a 5.5% increase over the prior year levy to 4% in the year 2013 while expanding and clarifying exemptions from the property tax cap. The previous property tax limitation applied a 5.5% cap on the tax rate or the levy. In those municipalities where a city or town council has final tax levy approval, a four fifths vote would be required to exceed the applicable cap. In the case of a city or town having a financial town meeting, the majority of the electors present and voting at the town financial meeting shall also approve the excess levy. The act also capped the amount of funds requested by a school committee of a city or town at the same rate of increase as the maximum tax levy increase. The act also broadened the definition of State mandates on municipalities and restricted the flexibility of the Governor or Legislature to forego reimbursement of State mandates. Lastly, the bill required the "Office of Municipal Affairs" to complete a study by November 15, 2006 of tax treaties, exemptions and freezes currently applying in municipalities throughout the State. The study has been completed.

The State Auditor General completed a review in 2007 of the fiscal health of the various locally administered defined benefit pension plans covering Rhode Island municipal employees. Twenty-five Rhode Island communities have created 37 pension plans, which they administer for their employees. The State Auditor General identified 21 pension plans administered by 15 Rhode Island municipalities as underfunded. Of these 21 plans, 7 were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. Total assets collectively held by these 37 pension plans were reported by the State Auditor General as being approximately $1.3 billion as of June 30, 2006. The collective unfunded actuarial liability for future benefits under these locally administered plans was approximately $1.6 billion as of the actuarial valuation referenced in their June 30, 2006 financial statements. The State Auditor General made a number of recommendations in its July 2007 report to improve the funded status of these plans and also recommended that new employees participate in the State administered Municipal Employee's Retirement System.

Local Tax Relief

In 1998, the General Assembly enacted measures designed to phase out, over a number of years, two separate components of the local property tax levy. One is the local levy on inventories. The phase out period will span ten years and will progressively eliminate ten percent of the tax levy each year until it is totally phased-out by fiscal year 2009. This phase-out was completed as scheduled. Local communities were to be reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was scheduled to increase from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. The planned phase-out was delayed by one year as part of the FY 2003 budget, and further delayed in subsequent budgets. Despite these delays and proposed freezes, the local reduction in the levy on inventories continued on the original schedule.

The other local property tax levy to be reduced or eliminated is the local levy on motor vehicles and trailers. This tax may be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and as enacted for FY 2009, the first $6,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities are being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments.

State Aid to Local Communities

The largest category of State aid to cities and towns is assistance programs for school operations and school construction. The general school aid program disburses funding to communities on the basis of a number of factors including wealth of the community and the number of children eligible for free or reduced price meals. A number of legislative, executive, or collaborative efforts have been made to refine the commitment and strategy for financing local education into the future. Thus far, there has been no strategy confirmed by a statutory scheme specifying a precise method of determining entitlements in future years. Midway through FY 2009, the General Assembly enacted a $42.6 million reduction from the originally enacted budget of $691.4 million in school operations aid. This includes a reduction of $38.3 million of general aid which is offset by $38.3 million of federal funds to be received by local governments through the "State Stabilization Fund" under the American Recovery and Reinvestment Act of 2009. It also includes a $5.3 million reduction in Professional Development Funds, and a $4.3 million reduction associated with revenues generated from video lottery operations dedicated to the Permanent School Fund, a fund which is established by the Constitution to benefit schools but previously had relatively small annual resources. Local governments are also expected to receive $16.2 million of Title I funds and $19.4 of IDEA funds through the American Recovery Reinvestment Act in FY 2009.

In addition to reimbursement of school operations costs, State school construction aid is provided at levels ranging from 30 percent to 88 percent of the construction cost of new facilities. The level is based upon the relationship between student enrollment and community wealth, and takes into consideration the relative weight of school debt in the particular city or town to its total debt. Beginning in FY 1997, the definition of reimbursable expenditures was expanded to include capital expenditures made through a capital lease or lease revenue bonds or from a municipality's capital reserve account. In FY 1997, disbursements to local school districts totaled $18.1 million. The FY 2009 enacted Supplemental Budget provides $54.1 million for this category of aid. A related program will provide approximately $2.6 million in FY 2009 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the motor vehicle excise tax reimbursement, general revenue sharing and payment-in-lieu of taxes (PILOT) program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program now also incorporates additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2008 supplemental budget included a $10.0 million reduction in the general revenue sharing funds distributed to local governments. The FY 2008 final Budget included $55.1 million for this program and this lower level was continued in FY 2009. Midway through FY 2009, the General Assembly enacted a reduction of $30.1 million from the $55.1 million enacted level. The Motor Vehicle Excise Tax Reimbursement program is funded at $135.3 million in the FY 2009 Supplemental Budget. Enacted as part of the FY 2008 revised budget, local governments will be reimbursed at a rate of 98 percent in FY 2008 and thereafter.

The PILOT program authorizes the General Assembly to appropriate and distribute to communities amounts not to exceed 27 percent of the property taxes that would have been collected on tax exempt properties. Properties included in this program are non-profit educational institutions, non-profit or State-owned hospitals, veterans' residential facility, and correctional facilities. The FY 2009 Enacted Budget includes $27.6 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2009 Enacted Budget to fund entitlements for seven communities. Of these seven communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. Finally, Rhode Island distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at $9.2 million for FY 2009.

Principal Governmental Services

Principal State governmental services are functionally divided into six major areas. They are administered and delivered by thirteen departments, the Board of Regents for Elementary and Secondary Education, the Board of Governors for Higher Education, and a number of commissions and small independent agencies. All expenditures by such State agencies, including those funded by federal and restricted use sources, are budgeted by the Governor and appropriated annually by the General Assembly. The following paragraphs describe the major functions of State government.

General Government

General Government includes those agencies that provide general administrative services to all other State agencies and those that carry out State licensure and regulatory functions. This function includes most elected officials, administrative agencies, including, but not limited to, the Department of Administration, the Department of Revenue, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including, but not limited to, the Department of Business Regulation and the Public Utilities Commission. The three major departments in the General Government function are the Department of Administration, the Department of Revenue, and the Department of Labor and Training.

Department of Administration. The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, taxation, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, labor relations and public safety. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, as well as building code administration. During the 2005 Session of the General Assembly, the State Lottery Commission was abolished and the Lottery became a division within the Department of Administration.

The Department of Administration also includes the State Energy Office which is responsible for coordinating all energy matters. In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide 1.3 million megawatt hours per year of renewable energy, which is approximately 15 per cent of all electricity used in the State. The first phase of the project is scheduled to begin in late 2010 and be completed in June 2012. It is expected that the development will cost in excess of $1.5 billion to construct, which will all be funded through private investment sources.

Department of Revenue. During the 2006 session of the General Assembly, the Department of Revenue was created. The new department incorporates several divisions and units previously assigned to the Department of Administration, including the Division of Taxation, Motor Vehicles, Child Support Enforcement, Lottery Commission, and the Office of Municipal Affairs.

Department of Labor and Training. The Department of Labor and Training is responsible for administering benefit payment programs, workforce development programs, workforce regulation and safety programs, and the Labor Relations Board. The Department is responsible for administering the Employment Security Act, which provides for the payment of benefits to qualified unemployed workers from taxes collected from Rhode Island employers. The Department also administers the Temporary Disability Insurance Act and the Worker's Compensation Act. The Temporary Disability Insurance Act provides for the payment of benefits to workers who are unemployed due to illness or non-work related injuries from taxes paid by all employees. The Worker's Compensation Act provides for the payment of benefits to workers who are unemployed due to work related injuries from insurance premiums paid by employers. The Department's workforce development programs include Employment Resource Centers located throughout the State, which provide job referral, job placement and counseling; and Job Training Partnership Act employment training and support services for adults and youths.

The workforce regulation and safety programs enforce wage, child labor, parental and family medical leave laws; examines, licenses and registers professions such as electricians, pipefitters, and refrigeration technicians; and inspects all State buildings, public buildings, and city and town educational facilities for compliance with building codes. The Department also has primary responsibility for the collection of data on employment and unemployment in Rhode Island.

Human Services

Human Services includes those agencies that provide services to individuals. Services provided include the nutrition programs of the Department of Elderly Affairs, care of the disabled by the Department of Mental Health, Retardation and Hospitals, child protective and social services provided by the Department of Children, Youth and Families; health programs at the Department of Health and the Department of Human Services, and financial assistance, health care and social services provided by the Department of Human Services. The FY 2007 budget included the Office of Health and Human Services, a separate department which will coordinate the human services functions through a secretariat.

The three major departments in the Human Services function include the Departments of Human Services, Children, Youth and Families, and Mental Health, Retardation and Hospitals.

Department of Human Services. The Department of Human Services operates as the principal State agency for the administration and coordination of local, State and federal programs for cash and medical assistance and social services. The responsibilities of the Department include supervision of the following programs: Medical Assistant Programs (Medicaid), the State Children's Health Insurance Program (SCHIP), vocational rehabilitation, supplemental security income, general public assistance, food stamps, family independence program, cash assistance, child care and training and social services. The Department also operates the Rhode Island Veterans' Home, the Veterans' cemetery, and administers vocational rehabilitative services and services for the blind and visually impaired.

Department of Children, Youth, and Families. The Department of Children, Youth, and Families is responsible for providing comprehensive, integrated services to children in the State in need of assistance. The Department was created to assure the consolidation of services to children and their families formerly provided by four other departments. The Department is responsible for providing services to children who are without families or whose families need help in meeting the children's basic needs. Major functions of the Department include investigation of child abuse, direct service delivery to children and their families in their own homes or foster homes, development and provision of alternative community-based living situations and the administrative operation of the juvenile corrections facilities and programs.

Department of Mental Health, Retardation and Hospitals. The Department of Mental Health, Retardation, and Hospitals (MHRH) provides services which may include hospitalization, housing, vocational programs, inpatient and outpatient treatment, counseling, rehabilitation, transportation, and hospital level care and treatment. The Department either provides these services directly through the Eleanor Slater Hospital system which operates at two sites, the Cranston Unit and the Zambarano Unit, and the Rhode Island Community Living and Supports System (RICLAS), or provides them through contracts with private, non-profit hospitals, and agencies. The Department organizes, sets standards, monitors and funds programs primarily according to the nature of a client's disability. Mental health services help people who have psychiatric disorders and severe mental illness such as manic depression or schizophrenia. Mental retardation and developmental disabilities services assist individuals whose handicap is often accompanied by disabilities like cerebral palsy, epilepsy, autism, behavioral problems and other physical and mental conditions. MHRH hospitals provide long term care for people who need medical treatment and nursing care for problems associated with chronic illness. The Department also provides substance abuse prevention and treatment services in addition to gambling addiction services.

Education

Education includes Elementary and Secondary Education and Higher Education, as well as arts funding, historic preservation and heritage support, educational television, and atomic energy commission activities.

Board of Regents for Elementary and Secondary Education. The Board of Regents for Elementary and Secondary Education is responsible for the formulation and implementation of statewide goals and objectives for elementary, secondary and special populations education and for the allocation and coordination of various educational functions among the educational agencies of the State and local school districts. The Board also establishes State aid reimbursement payments to local school districts, operates the Rhode Island School for the Deaf, the Metropolitan Career and Technical School and William M. Davies Vocational-Technical School, and supervises the State's area vocational-technical schools. The Department also operates the Central Falls School District. The Board appoints a Commissioner of Elementary and Secondary Education to serve as its chief executive officer and the chief administrative officer of the Department of Elementary and Secondary Education.

Board of Governors for Higher Education. The Board of Governors for Higher Education is responsible for the formulation and implementation of broad goals and objectives for higher education in the State, including a comprehensive capital development program. In addition, the Board holds title to all public higher education institutions of the State, which include the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island. While there is institutional autonomy, the Board is responsible for general supervision of public higher education, including adoption and submittal of the State higher education budget, property acquisition and management and approval of organizational and curriculum structures. The Commissioner of Higher Education is appointed by the Board to serve as chief executive officer of the Board and chief administrative officer of the Office of Higher Education.

Public Safety

Public Safety includes those agencies responsible for the safety and security of the citizens of Rhode Island. The quality of life in Rhode Island is enhanced through the administration of the criminal justice system that provides law enforcement, adjudicates justice, protects life and property, and handles emergencies impacting the State's citizens. Agencies included in this function are the Department of Corrections, the Judicial Department, the State Police and the Attorney General's Office.

During the 2008 Session of the General Assembly, the Department of Public Safety was created. The following agencies have been merged into the new Department of Public Safety: State Police, E-911 Emergency Telephone System, State Fire Marshal, Municipal Police Training Academy, Capitol Police, and the Governor's Justice Commission.

The Department of Corrections is responsible for the confinement of sentenced and pre-trial adult offenders, the provision of various programs to encourage and assist offenders in modifying their behavior, and the provision of custody and program services for offenders sentenced or otherwise placed in community supervision.

The Department of Corrections is made up of two main programmatic areas, Institutional Corrections and Community Corrections. The Adult Correctional Institutions (ACI) includes eight separate facilities and associated support services. Within Community Corrections are Probation and Parole, the Home Confinement Unit, a Risk Assessment Unit and the Furlough Program. Also included in the Department of Corrections budget, but with independent decision-making authority, is the State Parole Board.

The Department also operates the Central Distribution Center which purchases and warehouses food and other supplies for redistribution to State agencies, and operates the Correctional Industries program which employs inmates to manufacture various products or provide services to State and local agencies and non-profit organizations.

Natural Resources

Natural Resources includes those agencies responsible for protecting the natural and physical resources of the State and regulating the use of those resources. Agencies included in this function are the Department of Environmental Management, the Coastal Resources Management Council, and the Water Resources Board.

Department of Environmental Management. The Department of Environmental Management has primary responsibility for environmental programs and bureaus of the State. The Department is charged with the preservation and management of the State's forests, parks, beaches, farms, fisheries and wildlife and with monitoring, controlling and abating air, land and water pollution. In addition, the Department plans, licenses and enforces laws regulating refuse and hazardous waste disposal, pesticides, individual sewage disposal systems, and non-coastal freshwater wetlands. The Department also works with the Coastal Resources Management Council to protect the State's coastline and with the Water Resources Board and Department of Health to protect watersheds and ensure sufficient drinking water supplies. The Department is responsible for operating all State parks, beaches, and recreation facilities including bathing areas, public campsites, historical sites and more than 40,000 acres of public land. The Department also operates commercial fishing ports in Galilee and Newport that house the majority of the State's commercial fishing fleet. The Department administers grant and loan programs for municipal and non-profit organizations, anti-pollution, open space, and recreational development and farmland acquisition programs.

Transportation

Transportation is comprised of the road construction, road maintenance, mass transit, and planning activities of the Department of Transportation. Beginning in FY 1994, the State established the Intermodal Surface Transportation Fund, in partial fulfillment of a plan to join the remaining states in funding transportation expenditures from dedicated user-related revenue sources. This highway fund concept has the advantage of relating the funding of transportation projects to those who utilize the services provided by those projects, by means of financing mechanisms paid directly by those end-users. The concept is also intended to provide a fairly stable revenue stream to enable transportation projects to be eventually financed on a pay-as-you-go basis.

The Intermodal Surface Transportation Fund is supported by the State's 30 cents per gallon motor fuel tax. These receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of the Rhode Island Public Transit Authority (RIPTA) and the Department of Elderly Affairs. The 30 cents per gallon motor fuel tax is allocated as follows: 18.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 7.25 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.0 cents to the General Fund.

Department of Transportation. The Department of Transportation is responsible for the integration of all modes of transportation into a single transportation system. The Department is organized to carry out its responsibilities for the construction and maintenance of all State roads, bridges, transportation facilities (other than those operated and maintained by the Rhode Island Turnpike and Bridge Authority), and the administration of State and Federal highway construction assistance programs. The Department's activities have substantially increased primarily due to the continued road funding resulting from passage of the 1998 Transportation Equity Act for the 21st Century (TEA-21). Major ongoing construction and rehabilitation projects include the Route 195 Relocation, reconstruction of the Washington Bridge, replacement of the Sakonnet River Bridge, the extension of Route 403 and the Freight Rail Improvement program. During the 2003 session of the General Assembly, the Rhode Island Department of Economic Development at the request of the Governor and Department of Transportation, received authority to issue bonds secured by future distributions of Federal Highway Trust funds and a dedicated portion of motor fuel tax revenues to speed completion of these projects. The State completed the GARVEE financings in three series over a period of six years. The first series, in the amount of $216,805,000, was issued on November 25, 2003. The second series, in the amount of $184,620,000, was issued on March 2, 2006. The third series in the amount of $169,395,000 was issued on April 2, 2009. Given the magnitude of the projects and recent construction inflation, the projects collectively have cost significantly more than originally expected, which cost increases are likely to continue until such projects are completed. To the extent costs are higher, funding from the annual State and Federal Highway Construction Assistance Programs would be available as a source of funding. This could displace other planned projects.

In order to address possible future reductions in federal highway funding and the State's aging transportation infrastructure, the Governor formed in March 2008 a Blue Ribbon Panel for Transportation Funding. The Panel reviewed the State's aging transportation infrastructure, the projects required to maintain the transportation infrastructure for the next five years, and the available funding or shortfall in funding for such projects in light of the current status of the Federal Highway Trust Fund, and identified possible options for future funding.

The Blue Ribbon Panel for Transportation Funding released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair but that state and federal funding only currently provides approximately $354 million per year. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through the American Recovery and Reinvestment Act, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

State Fund Structure – Accounting Basis

The accounting system of the State, and that of most of the public authorities and corporations described herein, is organized and operated on a fund basis. Financial operations are recorded on a fiscal year basis (commencing July 1 and ending June 30). Individual funds have been established as separate fiscal and accounting entities to account for financial resources and related liabilities and equities. Financial statements of the State for each fiscal year are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The State's financial statements are prepared in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*. The basic financial statements consist of the government-wide financial statements and the fund financial statements. The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position for governmental type activities, proprietary type activities and discretely presented component units, which assists in assessing the State's financial condition at the end of the year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred. The fund financial statements focus on the State's major governmental and enterprise funds, including its blended component units. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

Budget Procedures

The State budget of revenues and appropriations is adopted annually by the General Assembly and is prepared for submission to the General Assembly, under the supervision of the Governor, by the State Budget Officer within the Department of Administration. Preparation and submission of the budget is governed by both the State Constitution and the General Laws of the State, which provide various limitations on the powers of the General Assembly and certain guidelines designed to maintain fiscal responsibility.

According to Article IX Section 15 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the General Assembly on or before the third Thursday in January, unless extended by statute. The budget contains a complete plan of estimated revenues and proposed expenditures with a personnel supplement detailing number and titles of positions of each agency and estimates of personnel costs for the next fiscal year.

The budget as proposed by the Governor is considered by the General Assembly. Under State law, the General Assembly may increase, decrease, alter or strike out any items in the budget, provided that such action may not cause an excess of appropriations for revenue expenditures over expected revenue receipts. No appropriation in excess of budget recommendations may be made by the General Assembly unless it shall provide the necessary additional revenue to cover such appropriations. The Governor may veto legislative appropriations bills. However, the Governor does not have line-item veto authority. The General Assembly may override any veto by a 3/5 vote of the members present and voting of each of the houses of the General Assembly. Supplemental appropriation measures shall be submitted by the Governor to the General Assembly on or before the second Tuesday in January. Supplemental appropriations by the General Assembly must be supported by additional revenues and are subject to the Constitutional limitation on State expenditures discussed below.

The General Laws of the State provide that, if the General Assembly fails to pass the annual appropriation bill, the same amounts as were appropriated in the prior fiscal year shall be automatically available for expenditure, subject to monthly or quarterly allotments as determined by the State Budget Officer. Expenditures for general obligation bond indebtedness of the State shall be made as required regardless of the passage of the annual budget or the amount provided for in the prior fiscal year.

The budget as submitted by the Governor is required to contain a statement of receipts and expenditures for the current fiscal year, the budget year (next fiscal year), and two prior fiscal years. Receipt estimates for the current year and budget year are those adopted by the State Consensus Revenue Estimating Conference, as adjusted by any change to rates recommended by the Governor.

The Consensus Revenue Estimating Conference was created in 1990 to provide the Governor and the Assembly with estimates of general revenues. The principals of the Revenue Estimating Conference are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor, with the chair rotating among the three. It must meet at least twice a year (specifically November and May) but can be called at any other time by any member. The principals must reach consensus on revenues. In 1991 the Medical Assistance and Public Assistance Caseload Estimating Conference, similar to the Revenue Estimating Conference, was established to adopt welfare and medical assistance caseload estimates.

In addition to the preparation of the annual budget, the State Budget Officer is also authorized and directed by the general laws: (a) to exercise budgetary control over all State departments; (b) to operate an appropriation allotment system; (c) to develop long-term activity and financial programs, particularly capital improvement programs; (d) to approve or disapprove all requests for new personnel; and (e) to prepare annually a five-year financial projection of anticipated general revenue receipts and expenditures, including detail of principal revenue sources and expenditures by major program areas which shall be included in the budget submitted to the General Assembly.

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of General Fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The FY 2007 budget reserve account balance was approximately $78.6 million. This reflects an appropriation by the General Assembly to a transfer of $19.4 million to the General Fund surplus due to actual revenue collections for FY 2007 being less than enacted, potentially causing a deficit in the General Fund. The Budget Reserve Fund is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Plan Fund in the next fiscal year. The Governor's FY 2008 revised budget provided for an appropriation of $19.4 million to repay the transfer made in 2007 and the actual balance of the Budget Reserve Fund at the end of FY 2008 was $103.1 million reflecting full funding. For FY 2008, the Governor requested a $42.9 million appropriation, the amount of the FY 2008 deficit. The General Assembly has not made an appropriation to cover the deficit and the State closed FY 2008 with a deficit of $42.9 million.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the budget reserve account maximum balance would be gradually increased by 0.4 percent to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2009, the spending would be limited to 97.8 percent of revenues and the budget reserve fund is capped at 3.4 percent of resources.

Additionally, during the 2007 Session of the General Assembly, a law was enacted which requires that revenues received in excess of the amount estimated in the enacted budget, net of reserve fund contributions, would be transferred to the State Retirement Fund upon completion of the post audit.

Financial Controls

Internal financial controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, the supervisory powers and functions exercised by the Department of Administration and the accounting and audit controls maintained by the State Controller and the Bureau of Audits. Statutory restrictions include the requirement that all bills or resolutions introduced in the General Assembly which, if passed, would have an effect on State or local revenues or expenditures (unless the bill includes the appropriation of a specific dollar amount) must be accompanied by a "fiscal note", which sets forth such effect. Bills impacting upon State finances are forwarded to the State Budget Officer who determines the agency, or agencies, affected by the bill and is responsible, in cooperation with such agencies, for the preparation of the fiscal note. The Department of Revenue's Office of Municipal Affairs is responsible for the preparation of fiscal notes for bills affecting cities and towns.

The Department of Administration is required by law to produce a quarterly report to be made public that incorporates actual expenditures, encumbrances, and revenues with the projected revenues and appropriations. The report also contains a projection of a year-end balance.

The State Controller is required by general law to administer a comprehensive accounting system which will classify the transactions of State departments in accordance with the budget plan, to prescribe a uniform financial, accounting and cost accounting system for State departments and to approve all orders for disbursement of funds from the State treasury. In addition to his or her other duties, the Controller is required to prepare monthly statements of receipts and disbursements in comparison with estimates of revenue and allotments of appropriations.

The General Treasurer is responsible for the deposit of cash receipts, the payment of sums, as may be required from time to time and upon due authorization from the State Controller, and as Chair of the State Investment Commission, the investment of all monies in the State fund structure, as directed by the State Investment Commission. Major emphasis is placed by the General Treasurer on cash management in order to insure that there is adequate cash on hand to meet the obligations of the State as they arise.

The General Treasurer is responsible for the investment of certain funds and accounts of the State on a day-to-day basis. The State treasury balance is determined daily. The State is responding to the events which occurred in the financial markets in 2008 and is taking actions to protect the assets invested on a daily basis.

The State's cash equivalent type investments include funds invested with The Reserve – U.S. Government Fund, which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund.

There were three State funds that were invested in The Reserve – U.S. Government Fund. The date redemptions were suspended, the Lottery had approximately $21.6 million invested, the Temporary Disability Insurance Fund had $34.1 million invested, and the General Fund had $6.8 million. All of the approximately $62.5 million of State funds invested with The Reserve – U.S. Government Fund have been recovered by the State, and there was no negative impact on the Lottery operations or the operations of any other State agency.

In addition, the General Treasurer is the custodian of certain other funds and accounts and, in conjunction with the State Investment Commission, invests the amounts on deposit in such funds and accounts, including but not limited to the State Employees' and Teachers' Retirement Trust Fund and the Municipal Employees' Retirement Trust Fund. The General Treasurer submits a report to the General Assembly at the close of each fiscal year on the performance of the State's investments.

The Finance Committee of the House of Representatives is required by law to provide for a complete post-audit of the financial transactions and accounts of the State on an annual basis, which must be performed by the Auditor General, who is appointed by the Joint Committee on Legislative Affairs of the General Assembly. This post-audit is performed traditionally on the basis of financial statements prepared by the State Controller in accordance with the requirements of the Governmental Accounting Standards Board with specific attention to the violation of laws within the scope of the audit, illegal or improper expenditures or accounting procedures and recommendations for accounting and fiscal controls. The Auditor General also performs an audit of the State's compliance with federal program requirements. The Auditor General is additionally directed to review annually all capital development programs of the State to determine: (a) the status of such programs; (b) whether funds are being properly expended; (c) completion dates; and (d) expended and unexpended fund balances. The Auditor General also has the power, when directed by the Joint Committee, to make post-audits and performance audits of all State and local public bodies or any private entity receiving State funds.

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2008 and FY 2007 reflect audited revenues. It is important to note that tax changes that were enacted in the 2009 Session of the General Assembly are not reflected in either the FY 2008 or the FY 2007 revenues.

Major Sources of State Revenue

Tax Revenues: Approximately 66.8 percent of all taxes and departmental receipts in FY 2008 revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 55.9 percent of all general revenues.

Personal Income Tax. Until July 1, 2001, State law provided for a personal income tax on residents and non-residents (including estates and trusts) equal to the percentage of the federal income tax liability attributable to the taxpayer's Rhode Island income ("piggyback tax"). In FY 2002, the tax structure was changed to offset the tax rate and bracket changes passed by the federal government in the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"). Rhode Island's personal income tax system now applies to Rhode Island taxable income in such a manner so as to compute the tax that would otherwise have been due under the "piggyback tax" pre-EGTRRA. A resident's Rhode Island taxable income is the same as his or her federal taxable income, subject to specified modifications. Current law allows the Tax Administrator to modify income tax rates as necessary when the General Assembly is not in session to adjust for federal tax law changes to ensure maintenance of the revenue base upon which appropriations are made.

A nonresident's Rhode Island taxable income is equal to the nonresident's Rhode Island income less deductions (including such taxpayer's share of the income and deductions of any partnership, trust, estate, electing small business corporations, or domestic international sales corporations). In addition, a non-resident's Rhode Island income is subject to specified modifications that are included in computing his or her federal adjusted gross income. Other modifications are derived from or connected with any property located or deemed to be located in the State and any income producing activity or occupation carried on in the State.

In the 1997 Session, the General Assembly adopted then Governor Almond's proposal to lower Rhode Island personal income tax rates over a five-year period beginning with the 1998 tax year. Thus, on January 1, 1998, the personal income tax rate was reduced from 27.5 percent of federal tax liability to 27.0 percent of the same. Effective January 1, 1999 the personal income tax rate was lowered to 26.5 percent of federal tax liability. On January 1, 2000, it was lowered to 26.0 percent of federal tax liability and effective January 1, 2001 the personal income tax rate was reduced to 25.5 percent of the same. In tax year 2002, Rhode Island's personal income tax rate was lowered to 25.0 percent and applied to Rhode Island taxable income rather than federal tax liability. Under the new tax structure, Rhode Island income tax rates range from 3.75 percent to 9.9 percent depending on income bracket.

In addition to the changes in Rhode Island personal income tax rates, the 1997 General Assembly passed legislation that increased the Investment Tax Credit from 4.0 percent to 10.0 percent effective January 1, 1998. It also increased the Research and Development Tax Credit from 5.0 percent to 22.5 percent beginning in tax year 1998.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit. This tax credit allows a taxpayer to receive a tax credit equal to 30.0 percent of the qualified rehabilitation expenditures made in the substantial "rehabilitation of a certified historic structure." To qualify, such expenditures must be made on structures that are "either: (i) depreciable under the Internal Revenue Code, or (ii) made with respect to property (other than the principal residence of the owner) held for sale by the owner." The legislation was made effective for January 1, 2002 with retroactivity back to January 1, 2000. These credits are transferable and can be carried forward for ten years. These tax credits can be used to offset the personal income tax liability of a taxpayer.

For the tax year beginning January 1, 2003, several changes to the State's personal income tax were enacted in order to hold the State harmless relative to the passage at the federal level of the Job Creation and Worker Assistance Act of 2002 (JCWAA). In particular, a provision was enacted that "provides that the five (5) year carry back provision of a net operating loss provided by" the JCWAA for federal tax purposes shall not be allowed for Rhode Island tax purposes. In addition, state legislative action eliminated the two year carry back provision for net operating losses and allowed the use of net operating losses only "on a carry forward basis for the number of succeeding taxable years allowed under section 172 of Internal Revenue Code [26 U.S.C.]". These changes to the State's tax code primarily impact subchapter S Corporation filers.

In the 2003 Session, the General Assembly enacted legislation to hold the State's personal income tax harmless with respect to the provisions of the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). Under the legislation, Rhode Island's State tax code with respect to personal income does not allow for the Federal elimination of the marriage penalty, the increase in exemptions for the alternative minimum tax, or the change in depreciation of assets under section 179 of the Internal Revenue Code or otherwise.

In the 2004 Session, the General Assembly approved several of Governor Carcieri's initiatives with regard to the collection of taxes already owed to the State. In particular, the General Assembly passed legislation that requires a letter of good standing from the Division of Taxation prior to the issuance or renewal of a professional license or a motor vehicle operator's license or registration. In addition, the Governor proposed, and the General Assembly concurred, to repeal several tax credits that were not cost effective. The tax credits repealed included those for the costs incurred to receive certification from the International Standards Organization (ISO), for the loan guaranty fees charged by the U.S. Small Business Administration, and for donations to public projects and interest income earned on loans to businesses located in state designated enterprise zones. The 2004 General Assembly also reduced the tax credit earned for wages paid to new hires by businesses in a state designated enterprise zone that meet specified job growth criteria. Further, the General Assembly enacted the Governor's recommendation to require the withholding of income tax against all distributions to nonresident shareholders in Rhode Island subchapter S Corporations and limited liability companies. Finally, the General Assembly instituted a Rhode Island refundable earned income tax credit equal to 5.0 percent of the federal refundable earned income tax credit.

In the 2005 Session, the General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 5.0 percent to 10.0 percent. In addition, the General Assembly concurred with Governor Carcieri's proposed repeal of the ISO certification tax credit for tax years 2005 and beyond. In the 2004 session, the General Assembly passed legislation limiting the Governor's initial repeal of the ISO certification tax credit to the 2004 tax year. Finally, the General Assembly passed legislation to index the federal alternative minimum income tax threshold for purposes of calculating state income tax liability effective for the 2005 tax year and beyond. The General Assembly increased the percentage of the federal refundable earned income tax credit that would be refunded by the State of Rhode Island from 10.0 percent to 15.0 percent. The General Assembly also increased the amount of Rhode Island Property Tax Relief from $250 to $300 for tax year 2006.

Also, in the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits. This tax credit allows a motion picture production company to receive a tax credit equal to twenty-five (25%) of its certified production costs for activities occurring within the State. To avail itself of the tax credit: (i) the motion picture production company must be formed under State law; (ii) the primary locations for the motion picture must be within the State; and (iii) the minimum production budget for the motion picture must be three hundred thousand ($300,000.00) dollars. The State's Film Office must approve the motion picture and give initial and final certification. In connection with securing final certification, the motion picture production company must submit an independent accountant's certificate listing the costs associated with the tax credit. The motion picture production company "earns" the tax credit in the taxable year when production in the State is completed, and unused credit can be carried over for three years. The credit is assignable and any proceeds received by the motion picture production company for the assignment are exempt from State tax. These tax credits may be used to offset the personal tax liability of a taxpayer.

In the 2006 Session, the General Assembly enacted a new alternative flat tax calculation for personal income tax that taxpayers may elect. The alternative flat tax created a simplified calculation of personal income tax liability. The calculation of the alternative flat tax for tax year 2006 was 8.0 percent multiplied by the taxpayer's modified adjusted gross income. The alternative flat tax calculation allows for a limited number of credits available. The only credits available are for taxes paid to other states, for personal income tax withheld, for credit payments of estimated tax, for overpayment of taxes and for the amount of taxes remitted by a limited liability company on behalf of a nonresident member. The alternative flat tax rate will continue to decrease until the tax rate reaches 5.5 percent; in tax year 2007 the rate will be 7.5 percent, in tax year 2008 the rate will be 7.0 percent, in tax year 2009 the rate will be 6.5 percent, in tax year 2010 the rate will be 6.0 percent and in tax year 2011 and thereafter the rate will be 5.5 percent. If a taxpayer does not elect the flat tax, then the regular State tax rules apply to determine an individual's State income tax liability.

In the 2007 Session, the General Assembly modified the provision for eliminating capital gains taxes on assets held more than five years. Prior to the passage of the FY 2008 Budget, two-thirds of the capital gains taxes on assets held for more than five years was effectively eliminated, taking effect on January 1, 2007. Complete elimination of this tax was scheduled for tax year 2008, but the General Assembly enacted legislation leaving the remaining one-third of the original tax in place.

In the 2007 Session, the General Assembly extended a credit created in the 2006 Session for corporations' contributions to qualified scholarship organizations. Personal income tax payers, specifically subchapter S corporations, limited liability partnerships, and limited liability corporations may utilize the credit. This tax credit is discussed in more detail below under "Tax Revenues – Business Corporation Tax".

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to $356.2 million in bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). The Economic Development Corporation bonds are expected to be issued in June 2009, and they will be secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, estimated at $7.7 million, shall be deposited in a restricted receipt account and shall also be dedicated to the reimbursement of the historic tax credits taken. The May 2009 Revenue Estimating Conference estimate of personal income tax collections for FY 2009 and FY 2010, therefore, do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In addition, in the 2008 Session, the General Assembly enacted legislation to hold the State's personal income tax harmless with respect to the passage at the federal level of the "Recovery Rebates and Economic Stimulus for the American People Act of 2008". Under the legislation, Rhode Island's state tax code with respect to personal income does not allow for change in depreciation of assets under Section 179 of the Internal Revenue Code. Finally, in 2008 the General Assembly repealed the State's allowance for the pass through of the federal foreign tax credit and capped the Motion Picture Production Tax Credit program at $15.0 million annually.

In the 2009 Session, the General Assembly approved the Governor's proposal to let the changes in the federal earned income tax credit (EITC) program contained in the American Recovery and Reinvestment Act of 2009 (ARRA) pass through to the Rhode Island personal income tax return. The federal change allows for a temporary increase in the EITC from 40.0 percent of the first $12,570 of earned income to 45.0 percent of the same for families with three or more children. The allowance for the pass through of this credit is estimated to reduce revenues by $(175,306) in FY 2010. The 2009 General Assembly chose not to have the State's personal income tax adversely impacted by two other provisions of ARRA, namely the exclusion of the first $2,400 of unemployment compensation from federal adjusted gross income and the deduction from federal adjusted gross income of the state sales tax paid on new, qualified motor vehicles purchased between February 17, 2009 and December 31, 2009. This action is estimated to save the state $5.4 million and $1.4 million in foregone revenue, respectively, in FY 2010.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled $1.074 billion, or 31.3 percent, of the State's FY 2008 total general revenues. FY 2008 personal income tax collections rose in dollar amount and decreased in the share of total general revenues from FY 2007.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing; (c) prescription and patent medicines; (d) fuel used in the heating of homes and residential premises; (e) domestic water usage; (f) gasoline and other motor fuels otherwise specifically taxed; (g) sales of tangible property and public utility services when the property or service becomes a component part of a manufactured product for resale, or when the property or service is consumed directly in the process of manufacturing or processing products for resale and such consumption occurs within one year from the date such property is first used in such production; (h) tools, dies and molds and machinery and equipment, including replacement parts thereof, used directly and exclusively in an industrial plant in the actual manufacture, conversion or processing of tangible personal property to be sold; (i) sales of air and water pollution control equipment for installation pursuant to an order by the state Director of Environmental Management; and (j) sales of boats or vessels.

The State sales and use tax rate is 7.0 percent and is imposed upon retailers' gross receipts from taxable sales. From the beginning of FY 1992 until August 2000, the State had dedicated six tenths of one cent of the sales tax to pay the debt service on the bonds issued by the Rhode Island Depositors Economic Protection Corporation (DEPCO). The bond proceeds were used to pay off uninsured depositors of the State's failed credit unions. Effective August 1, 2000, DEPCO defeased its outstanding debt. As a result, since August 1, 2000, the State's General Fund has received all of the State sales and use tax revenues collected from the imposition of the 7.0 percent sales and use tax.

In May 2000 the Rhode Island Economic Development Corporation issued revenue note obligations in the amount of $40,820,000 to finance a portion of the costs of the Providence Place Mall. The debt service costs of this financing is supported by two-thirds of the sales tax revenues generated at the Mall, subject to a cap. In years 1–5 of the Mall's operation the cap is $3.68 million while in years 6–20 of the Mall's operation it is $3.56 million. These provisions are delineated in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the 1996 General Assembly and Public Investment and HOV Agreement. It is expected that the sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax revenues generated at the Mall are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax revenues generated at the Mall are not sufficient. To date, the sales tax revenue generated by the Providence Place Mall has been more than sufficient to meet these obligations.

In the 2003 Session, the General Assembly passed a one percent local meals and beverage sales tax. Similarly, in the 2004 Session, the General Assembly passed a one percent local hotel and other public accommodation rentals sales tax. The revenues from both of these local taxes accrue to the local governments in which the meals and beverage sale or the accommodation rental took place and are not part of the sales and use tax revenues reported herein. Also in the 2004 Session, the General Assembly exempted, with the acquiescence of the Governor, the sale of aircraft or aircraft parts from the sales and use tax effective January 1, 2005.

In the 2005 Session, the General Assembly concurred with Governor Carcieri's proposal to require cigarette wholesale distributors to pay the retail sales tax on cigarettes at the time that cigarette excise tax stamps are purchased. The amount of the retail sales tax to be prepaid is based on the state minimum price of a pack of major brand cigarettes.

In the 2006 Session, the General Assembly passed legislation to conform to the Streamline Sales Tax Project. Effective January 1, 2007 Rhode Island became a full member of the Streamline Sales Tax Agreement. The Streamlined Sales Tax Project is an effort created by state governments, with input from local governments and the private sector, to simplify and modernize sales and use tax collection and administration. By joining Streamline, Rhode Island now has over 1,000 taxpayers who are voluntary collecting and remitting sales tax for sales into Rhode Island even though they do not have a legal requirement to do so.

The sales and use tax accounted for approximately $844.2 million, or 24.6 percent, of the State's FY 2008 total general revenues. FY 2008 final sales and use tax collections decreased in dollar terms and fell in share of total general revenues from FY 2007.

Business Corporation Tax. The business corporation tax is imposed on corporations deriving income from sources within the State or engaging in activities for the purpose of profit or gain. The tax has been set at a rate of 9.0 percent since July of 1989. The tax was modified in 1997 by providing for enhanced credits. Specifically, the Investment Tax Credit was increased from 4.0 percent to 10.0 percent for machinery and equipment expenditures and the Research and Development Tax Credit for qualified research expenses was increased from 5.0 percent to 22.5 percent, both effective January 1, 1998.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the business corporations tax liability of a taxpayer.

In 2002, legislation was enacted disallowing for Rhode Island tax purposes the bonus depreciation provided by JCWAA. In essence, the General Assembly de-coupled Rhode Island's asset depreciation schedule as provided for in Chapters 11, 13 and 30 of Title 44 from the federal asset depreciation schedule for purposes of applying the bonus depreciation mentioned above. The impact of this change primarily affects C Corporation and subchapter S Corporation tax filers. In 2003, legislation was again enacted as part of the annual appropriations act to disallow for Rhode Island tax purposes the change in the depreciation of assets provided by JGTRRA.

Corporations dealing in securities on their own behalf, whose gross receipts from such activities amount to at least 90.0 percent of their total gross receipts, have been exempt from the net worth computation but are required to pay the 9.0 percent income tax. Regulated investment companies and real estate investment trusts and personal holding companies pay a tax at the rate of 10 cents per $100 of gross income or $100, whichever is greater. Such corporate security dealers, investment companies, investment trusts and personal holding companies are allowed to deduct from net income 50.0 percent of the excess of capital gains over capital losses realized during the taxable year when computing the tax.

In the 2003 Session, the General Assembly amended the multi-state apportionment formula for manufacturers to allow them to elect to use a double weighted sales factor apportionment if doing so would provide a favorable treatment of net income for tax purposes. This amendment was phased in over a two-year period becoming fully effective on January 1, 2004.

In the 2004 Session, the General Assembly increased the corporate minimum and franchise taxes from $250 to $500 effective January 1, 2004. In addition, the General Assembly applied the repeal and reduction of the tax credits discussed in *Personal Income Tax* to the business corporations tax, also effective January 1, 2004.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the business corporation tax liability of a taxpayer.

In the 2006 Session, the General Assembly created a new credit for corporations for contributions to qualified scholarship organizations. The Division of Taxation is responsible for certifying the scholarship organizations and administering the credit. The amount of the credit depends on the commitment from the corporation. If the corporation makes a two year contribution commitment, the calculation of the credit for each year shall be 90 percent of the total voluntary contribution made by the business entity. If the commitment is less than two years, the amount of credit will be either 75 percent or 80 percent.

The 2006 General Assembly also enacted legislation contained in P.L. 2006 Chapter 568 authorizing the Economic Development Corporation (EDC) to issue up to $2.0 million of Innovative Tax Credits not to exceed $2.0 million during any two-year period. The purpose of the credit is to attract and retain serial entrepreneurs and to catalyze economic growth in high-wage, high-growth industries.

In the 2007 Session, the General Assembly passed legislation redefining taxable corporation net income. The 2007 legislation includes deductible interest expenses and costs and intangible expenses and costs as net income. These costs must be added back into net income for the purpose of calculating business corporation tax liability. In addition, gross sales of tangible personal property shipped out of Rhode Island to a state where the taxpayer is not taxable are now taxable as part of the business corporation tax. The Assembly also enacted legislation including captive real estate investment trusts, or REITs, as taxable corporations.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, the May 2009 Revenue Estimating Conference estimate of business corporations tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In addition, the 2008 General Assembly amended the 2006 Innovative Tax Credits legislation and reduced the EDC's authorization from $2.0 million, not to exceed $2.0 million in any two year period to $1.0 million, not to exceed $1.0 million in any two year period.

The business corporation tax totaled approximately $150.5 million, or 4.4 percent, of the State's FY 2008 total general revenues. FY 2008 final business corporations tax collections increased in dollar terms but decreased in the share of total general revenues from FY 2007.

Health Care Provider Assessment. The State levies a health care provider assessment on residential facilities for the mentally retarded. The levy has been set at 6.0 percent of gross revenues since 1994. In 2003, the General Assembly expanded the base of providers covered by the tax to include facilities with three or fewer residents. From January 1, 2008 through September 30, 2011, the health care provider assessment on residential facilities for the mentally retarded will be reset to 5.5 percent of gross revenues due to a rule-making by the Center for Medicare and Medicaid Services (CMS), the federal agency responsible for administering Medicare, Medicaid, SCHIP, HIPAA, and several other health related programs.

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the Governor recommended reducing the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowers their payments of the 5.5 percent provider tax. The Assembly adopted the Governor's recommendation to decrease total payments to nursing homes by $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, the Governor recommended a series of expenditure reductions to nursing homes that will lower the state tax revenues. The 2009 General Assembly adopted the Governor's recommendation resulting in a decline in revenue of $(467,290) in FY 2009. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes. This decline in general revenue is accounted for in the May 2009 Revenue Estimating Conference's estimate of the FY 2010 health care provider assessment.

The health care provider assessment accounted for approximately $53.4 million, or 1.6 percent, of the State's FY 2008 total general revenues. The dollar amount increased for the health care provider assessment between FY 2008 and FY 2007. Over the same period, the health care provider assessment increased in the share of total general revenues.

Taxes on Public Service Corporations. A tax ranging from 1.25 percent to 8.0 percent of gross earnings is assessed annually against any corporation enumerated in Title 44, Chapter 13 of the General Laws, incorporated under the laws of the State or doing business in Rhode Island and meeting the Public Service Corporations test. In the case of corporations whose principal business is manufacturing, selling or distributing currents of electricity, the rate of tax imposed is 4.0 percent. For those corporations manufacturing, selling or distributing illuminating or heating gas, the rate of tax imposed is 3.0 percent of gross earnings. Corporations providing telecommunications services are assessed at a rate of 5.0 percent. However, 100.0 percent of the amounts paid by a corporation to another corporation for connecting fees, switching charges and carrier access charges are excluded from the gross earnings of the paying company. The tangible personal property within the State of telegraph, cable, and telephone corporations used exclusively for the corporate business, is exempt from taxation, subject to certain exceptions.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the tax liability of public service corporations.

In addition to the Historic Structures Tax Credit, the 2001 General Assembly enacted a job development tax credit of 0.01 percent for every 50 new jobs created for three years past the elected base year that meet the current criteria for the credit. The current criteria require that the eligible jobs provide 30 hours or more of employment on average per week and pay at least 150 percent of the hourly minimum wage prescribed by state law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained. The job development tax credit is available only to telecommunications companies.

In 2002 legislation was passed that provides for the apportionment of gross earnings from mobile telecommunication services to the State where the customer's primary place of use occurs, as determined in accordance with the federal Mobile Telecommunications Sourcing Act.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the tax liability of public service corporations.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, the May 2009 Revenue Estimating Conference estimate of public utilities gross earnings tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

The public service corporation tax accounted for approximately $99.4 million, or 2.9 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the public utilities gross earnings tax between FY 2008 and FY 2007.

Tax on Insurance Companies. Each insurance company transacting business in Rhode Island must file a final return each year on or before March 1 and pay a tax of 2.0 percent of its gross premiums. These are premiums on insurance contracts written during the preceding calendar year on Rhode Island business. The same tax applies to an out-of-state insurance company, but the tax cannot be less than that which would be levied by the State or foreign (i.e., non-Rhode Island) jurisdiction on a similar Rhode Island insurance company or its agent doing business to the same extent in such jurisdictions.

Premiums from marine insurance issued in Rhode Island are exempt from the tax on gross premiums as were the premiums paid to the insurer that maintains the State's workers compensation insurance fund. Insurance and surety companies are exempt from the business corporations tax and annual franchise tax, but they are subject to provisions concerning any estimated taxes that may be due.

In 1997, the General Assembly increased the investment tax credit for insurance companies from 2.0 to 4.0 percent of buildings and structural components purchased in Rhode Island and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is defined as pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

In 1999, the General Assembly amended the investment tax credit provisions to extend the 10.0 percent credit to property located in Rhode Island no matter how the property was acquired by property and casualty insurance companies. This made the credit applicable to equipment transferred into the State by companies from other states.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the gross premiums tax of insurance companies.

In 2002 legislation was passed making the insured liable for the 3.0 percent gross premiums tax on surplus lines of insurance if the insured purchases or renews surplus lines insurance coverage with an insurer not licensed in the State.

In the 2005 Session, the General Assembly enacted Governor Carcieri's proposal to eliminate the exemption from the insurance companies gross premiums tax for the insurer that maintains the State's workers compensation insurance fund. The Governor's original proposal had an effective date of January 1, 2006. The General Assembly modified this to July 1, 2005.

Also in the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the gross premium tax of insurance companies.

In the 2007 Session, the General Assembly amended the tax on insurance companies to provide for a 1.1 percent gross premium tax on health maintenance organizations, any non-profit hospital or medical service corporations, excluding any business related to Title XIX of the Social Security Act.

In the 2008 Session, the General Assembly added nonprofit dental service corporations to the definition of non-profit medical service corporations subject to the gross premiums tax and increased the tax from 1.1 percent to 1.75 percent of gross premiums for tax year 2009.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, the May 2009 Revenue Estimating Conference estimate of insurance companies gross premiums tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly enacted the Governor's proposal to increase the tax rate on the gross premiums of nonprofit hospital service corporations, nonprofit medical service corporations, nonprofit dental service corporations, and health maintenance organizations to 2.0 percent from 1.75 percent effective January 1, 2009 Also in the 2009 Session, the General Assembly accepted the Governor's proposal to eliminate the insurance companies gross premiums tax exemption from providers of Title XIX managed care programs for Medicaid beneficiaries. These providers would be subject to the 2.0 percent insurance companies gross premiums tax effective January 1, 2009.

The insurance companies' gross premiums tax accounted for approximately $68.0 million, or 2.0 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues increased between FY 2008 and FY 2007.

Financial Institutions Excise Tax. For the privilege of existing as a banking institution during any part of the year, each State bank, trust company, or loan and investment company in the State must annually pay an excise tax. This excise tax is measured as the higher of either: (1) 9.0 percent of its net income of the preceding year, or (2) $2.50 per $10,000 or a fraction thereof of its authorized capital stock as of the last day of the preceding calendar year. A national bank within the State must only pay the excise tax measured by option (1) above. The minimum tax payable is $100. Mutual savings banks and building and loan associations were subject to the tax, as of January 1, 1998.

The 1994 General Assembly passed legislation creating passive investment companies and exempting said companies from the financial institutions excise tax. A passive investment company is one with five or more full-time equivalent employees that maintain offices in Rhode Island and whose activities are limited to the maintenance and management of intangible investments such as securities, accounts receivable, patents, trademarks and similar intellectual properties

In 1996, the General Assembly enacted the Jobs Development Act. As subsequently amended, it currently provides for rate reductions of one-quarter of one percent for each 50 new jobs created by eligible firms for three years past the elected base year. A qualifying job must be a 30-hour per week, on average, position that pays at least 150 percent of the prevailing hourly minimum wage as determined by state law. After three years, the rate reduction is set at that of the third year for as long as the third year employment level is maintained.

In 1997, the General Assembly increased the investment tax credit for financial institutions from 2.0 to 4.0 percent of purchased buildings and structural components and 10.0 percent on buildings and equipment purchased or leased for firms that meet certain median wage or training performance criteria. The median wage criteria is defined as pay to qualified full-time equivalent employees above the median wage to all Rhode Island businesses in the same two digit North American Industrial Classification code.

In the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the excise tax owed by financial institutions.

In the 2005 Session, the General Assembly passed enabling legislation for the State's Motion Picture Production Tax Credits, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the excise tax owed by financial institutions.

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, the May 2009 Revenue Estimating Conference estimate of financial institutions tax collections for FY 2009 and FY 2010 do not reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

The financial institutions tax accounted for approximately $1.8 million, or 0.1 percent, of the State's FY 2008 total general revenues. Both the dollar amount of collections and the share of total general revenues for the financial institutions excise tax decreased between FY 2008 and FY 2007.

Banking Institutions Interest Bearing Deposits Tax. The bank interest bearing deposits tax was eliminated for state and national banks beginning January 1, 1998 and thereafter. A tax rate on deposits held by credit unions continues to apply with a rate of 0.0348 cents for each $100 for institutions with over $150 million in deposits and a rate of 0.0313 cents for each $100 applying to credit unions with less than $150 million in deposits.

The bank deposits tax accounted for approximately $1.7 million, or 0.1 percent, of the State's FY 2008 total general revenues. The dollar amount of bank deposits taxes remained approximately the same and the share of total general revenues decreased from FY 2008 versus FY 2007.

Estate Tax. For decedents whose deaths occurred before January 1, 2002, the estate tax equals the applicable credit allowable under federal estate tax law. For decedents whose deaths occur on or after January 1, 2002, the estate tax equals the maximum credit allowed under federal estate tax law as it was in effect as of January 1, 2002. Also, the State acted to ensure that any increase in the unified credit provided by 26 U.S.C., subsection 2010 in effect on or after January 1, 2002 shall not apply for Rhode Island estate tax purposes. The time period for filing a return is nine months from the date of death.

The estate tax accounted for approximately $35.3 million, or 1.0 percent, of the State's FY 2008 total general revenues. The dollar amount of estate taxes increased and the share of total general revenues decreased in FY 2008 from FY 2007.

Cigarette Tax. The State's cigarette tax is comprised of a cigarette stamp tax, a cigarette floor stock tax, and a tax on the wholesale price of cigars, pipe tobacco, etc. The cigarette stamp tax generates over 95 percent of the total cigarette taxes collected by the State.

The cigarette stamp tax rate has increased consistently over the last several years. In FY 1998 the cigarette excise tax was raised to 71 cents per pack of 20 cigarettes from 61 cents per pack. The cigarette excise tax rate was increased to $1.00 per pack on July 1, 2001 and then to a $1.32 a pack effective May 1, 2002. On July 1, 2003, the cigarette excise tax rate was increased to $1.71 a pack and on July 1, 2004, it was increased by 75 cents to $2.46 per pack of 20 cigarettes.

In the 2009 Session, the General Assembly accepted the Governor's proposal to increase the cigarette stamp tax rate from $2.46 per pack of 20 cigarettes to $3.46 per pack. The effective date of the act was April 10, 2009 and the May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 cigarettes tax collections include the impact of this change in the excise tax rate.

The rate of tax on the wholesale price of cigars, pipe tobacco, and other tobacco products has also risen over the past several years, although not as frequently as the cigarette stamp tax. On July 1, 2001, the other tobacco products tax was increased from 20.0 percent of the wholesale price of other tobacco products to 30.0 percent of the same. On July 1, 2005, it was increased again from 30.0 percent to 40.0 percent of the wholesale price of other tobacco products. On July 1, 2006, the tax on cigars was limited to a maximum of 50 cents per cigar and the tax on snuff was changed to $1.00 per ounce with a minimum tax of $1.20.

In the 2009 Session, the General Assembly raised the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent effective April 10, 2009. This increase in the wholesale price tax did not affect the maximum tax on cigars or the minimum tax on snuff. The May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 cigarettes tax collections include the impact of this change in the tax on the wholesale price of other tobacco products

The cigarette tax accounted for approximately $114.7 million, or 3.3 percent, of the State's FY 2008 total general revenues. Both the dollar amount and the share of total general revenues decreased for the cigarette tax between FY 2008 and FY 2007.

Motor Fuel Tax. The tax is due and is not refundable on the sale of all fuels used or suitable for operating internal combustion engines other than fuel used: (a) for commercial fishing and other marine purposes other than operating pleasure craft; (b) in engines, tractors, or motor vehicles not registered for use or used on public highways by lumbermen, water well drillers and farmers; (c) for the operation of airplanes; (d) by manufacturers who use diesel engine fuel for the manufacture of power and who use fuels other than gasoline and diesel engine fuel as industrial raw material; and (e) for municipalities and sewer commissions using fuel in the operation of vehicles not registered for use on public highways.

The State has pursued a long-term plan to dedicate all of the motor fuel tax receipts to transportation-related projects and operations. Prior to the convening of the 2002 General Assembly, all motor fuel tax proceeds were to be allocated for transportation purposes in FY 2003. The 2002 General Assembly, in Article 29 of the FY 2003 Appropriations Act, however, delayed the transfer of the final 0.25 cents from the General Fund to the Department of Transportation until FY 2004. In addition, the General Assembly increased the State's motor fuel tax from $0.28 a gallon to $0.30 a gallon effective July 1, 2002. The 2.0 cents per gallon increase in the gas tax was to remain with the General Fund for all future tax years.

The allocation of motor fuel revenues was changed again by action of the 2003 General Assembly (see Transportation) such that for FY 2004 1.4 cents of motor fuel revenues will be available for the General Fund. In 2004, at the request of the Governor and with the concurrence of the General Assembly, the 2.0 cents of the per gallon motor fuel tax was again dedicated to the General Fund effective March 1, 2004. Finally, in the 2005 Session, the General Assembly with the concurrence of Governor Carcieri transferred 1.0 cent of the motor fuel tax from the General Fund to the Rhode Island Public Transit Authority effective July 1, 2005.

The transfer of the motor fuel tax to the General Fund accounted for approximately $4.5 million, or 0.1 percent, of the State's FY 2008 total general revenues. The dollar amount of the motor fuel tax transfer decreased while its share of total general revenues remained constant between FY 2008 and FY 2007.

Other Taxes. In addition to the above described taxes, the State imposes various fees, taxes and excises for the sale of liquor and other alcoholic beverages, the registration of motor vehicles, the operation of pari-mutuel betting, and the conveyance of real estate.

In the 2002 Session, the General Assembly increased the State's real estate conveyance tax from $1.40 per $500 of valuation to $2.00 per $500 of valuation. Of this total assessment, the local municipality in which the sale of real estate took place retains $1.10. The remaining $0.90 is remitted to the State.

In the 2004 Session, the General Assembly repealed the State's prohibition on Sunday alcohol sales. This change allows package stores to sell beer, wine, and spirits between the hours of 12:00 p.m. and 6:00 p.m. on Sundays. It is important to note that State sales and use tax is applied to the final sale price of all beer, wine, and spirits sales in the State.

In the 2005 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license fees effective July 1, 2005 and enacted legislation for that purpose.

In the 2007 Session, the General Assembly enacted an automobile registration fee schedule based on gross vehicle weight as well as increasing the service charge and registration fees for specialty license plates.

Other taxes accounted for approximately $73.8 million, or 2.2 percent, of the State's FY 2008 total general revenues. FY 2008 other tax collections decreased in dollar terms and in share of total general revenues from FY 2007.

Departmental Receipts. The largest category of departmental receipts is the group defined as licenses and fees. This category's prominence in departmental receipts is due largely to the assessment of the hospital licensing fee beginning in FY 1995. Other significant license and fees revenues are derived from the registration of securities, motor vehicle title fees and various professional licenses.

The hospital licensing fee was first enacted in 1994 and yielded $77.3 million in FY 1995. The FY 1998, FY 1999, and FY 2000 Appropriations Acts each extended the fee for one year and changed the base year upon which the fee would be applied. In each fiscal year, the hospital licensing fee was assessed at the rate of 2.0 percent of gross patient service receipts in the hospitals' 1995 base year. These changes yielded revenues of $37.4 million annually for FY 1998, FY 1999 and FY 2000.

The FY 2001 Appropriations Act extended the fee for FY 2001 at the rate of 4.0 percent of net patient service receipts in the hospitals' 1999 base year and retroactively increased the fee to 2.65 percent for FY 2000. The retroactive increase for FY 2000 was assessed as a one-time 0.65 percent surcharge on gross patient service receipts in the hospitals' 1995 base year. The total impact of these changes was a revenue yield of $65.7 million in FY 2001.

The FY 2002 Appropriations Act extended the fee for FY 2002 at the rate of 4.25 percent of net patient service revenues in the hospitals' 1999 base year, yielding $56.2 million. The FY 2003 Appropriations Act extended the fee for FY 2003 at the rate of 4.35 percent of net patient service receipts in the hospitals' 2000 base year. For FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. In the 2004 Session, the FY 2005 rate was set at 3.14 percent of net patient service revenues generated in the 2003 base year.

In the 2005 Session, the Governor proposed increasing the hospital licensing fee to 3.45 percent of 2003 net patient revenues. The General Assembly increased this rate further to 3.56 percent of net patient service revenues and advanced the base year to 2004.

Also, in the 2005 Session, the General Assembly changed the fee assessed for processing Historic Preservation Tax Credit certificates from a flat fee of between $500 and $2,000 to 2.25 percent of total qualified rehabilitation costs effective August 1, 2005.

In the 2006 session, the General Assembly re-instituted the hospital licensing fee at a rate 3.56 percent applied to 2004 base year net patient revenues and delayed its receipt until July 2007. Normally, the hospital licensing fee was due in December of the fiscal year. In the 2007 Session, the General Assembly decreased the hospital licensing fee to 3.48 percent of net patient revenues and advanced the base year to 2006 but maintained the July payable date. In the 2008 Session, the General Assembly increased the hospital licensing fee to 4.78 percent and advanced the base year to 2007 while maintaining the July payment schedule.

In the 2008 Session, the General Assembly placed a moratorium on the Historic Preservation Tax Credit program and gave developers with on-going projects a choice of either prepaying the processing fee at a rate of 3.0 percent in exchange for a 25.0 percent tax credit upon project completion, prepaying the processing fee at a rate of 4.0 percent in exchange for a 26.0 percent tax credit upon project completion, or prepaying the processing fee at a rate of 5.0 percent in exchange for a 27.0 percent tax credit upon project completion. Developers that wished to remain eligible for Historic Preservation Tax Credits for their projects were required to pay a 2.25 percent processing fee by March 15, 2008 with the remaining percent due on March 5, 2009. Fees collected on or before June 30, 2008 were deposited into the general fund while fees paid after June 30, 2008 will be placed into a restricted receipt account.

In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase a number of motor vehicle registration and operator license reinstatement fees and certificates of title fees effective April 1, 2009 and enacted legislation for that purpose. The May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 departmental license and fees collections include the impact of these changes in the fees for license and registration reinstatements and certificates of title.

A second category of departmental receipts is sales and services, which includes disproportionate share revenues collected on behalf of the State hospitals as well as revenues derived from the sale of vanity license plates.

A third category of departmental receipts is fines and penalties such as interest and penalties on overdue taxes.

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances as well as Child Support payments. In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase miscellaneous departmental revenues by including $124,802 from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and $10,000 from a grant by the American Cancer Society (ACS). The NCA grant will support a statewide chronic disease self-management program for adults 60 and over and the ACS grant will support women's cancer screening activities. The May 2009 Revenue Estimating Conference estimates for FY 2009 and FY 2010 miscellaneous departmental revenues include the monies generated by these two grants.

Departmental Receipts were approximately $356.5 million, or 10.4 percent, of the State's total general revenue in FY 2008. FY 2008 departmental receipts increased on both a nominal basis and as a share of total general revenues when compared to FY 2007.

Other Sources. The largest component of Other Sources is the transfer from the Rhode Island Lottery. The State Lottery Fund was created in 1974 for the receipt and disbursement of revenues of the State Lottery from sales of lottery tickets and license fees. The monies in the fund are allotted for: (1) establishing a prize fund from which payments of the prize are disbursed to holders of winning lottery tickets, the total of which prize payments equals, as nearly as is practicable, 45 percent of the total revenue accruing from the sale of lottery tickets; (2) payment of expenses incurred by the Lottery in the operation of the State lotteries; and (3) payment to the State's General Fund of all revenues remaining in the State Lottery fund, provided that the amount to be transferred into the General Fund must equal not less than 30 percent of the total revenue received and accrued from the sale of lottery tickets plus any other income earned from the lottery.

The FY 2001 Appropriations Act increased the allowable payout percentages for certain lottery and keno games, and also redistributed net terminal income (NTI) from video lottery games, resulting in a greater portion of net terminal income being retained by the State. The FY 2003 Appropriations Act further redistributed NTI from video lottery games.

During the 2003 session, the General Assembly enacted legislation that increased the State's share of video lottery NTI. This was done by reducing the share of NTI paid to the pari-mutuel facilities that house the video lottery terminals (VLTs), lowering the allocation of NTI to the dog kennel owners at Lincoln Park, and cutting the payments to the providers of the video lottery games.

In the 2004 Session, the General Assembly again enacted legislation that increased the State's share of VLT NTI. In this case, the percentage of Lincoln Park net terminal income that was allocated to the dog kennel owners was eliminated and split between the State General Fund, Lincoln Park, and the Town of Lincoln.

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Twin River and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within the next three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River freezes the share of video lottery terminals at 28.85% and from additional video lottery terminals at 26% (which rates are subject to certain adjustments based on the Consumer Price Index in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26%.

Lottery transfers to the General Fund totaled $354.3 million, which accounted for 10.3 percent of the State's total general revenues in FY 2008. The dollar amount of the lottery transfers to the General Fund increased between FY 2008 and FY 2007 as did the lottery transfers as a share of total general revenues.

The next largest component of Other Sources is the Other Miscellaneous category. In the 2007 Session, the General Assembly enacted legislation authorizing the Tobacco Settlement Financing Corporation to sell bonds with $195 million in net proceeds to the State, with $42.5 million allocated to the general fund in FY 2007 and $124.0 million allocated to the general fund in FY 2008.

In the 2009 Session, the General Assembly concurred with the Governor's proposal to transfer funds from the Dual Party Telecommunications Device for the Deaf (TDD) Phone Relay Service Escrow Account to the general fund by June 30, 2009. The resources are from a monthly surcharge of $0.09 for each landline telephone in the state and used to support communication access to the deaf population. In addition, the 2009 General Assembly concurred with the Governor's recommendation to transfer excess deposits from a worker's compensation escrow account for companies with defunct operations in the state as well as the rebate incentives the State receives from the use of purchase cards. The May 2009 Revenue Estimating Conference estimate for other miscellaneous revenues incorporates these approved transfers for the relevant fiscal years.

The total amount of Other Miscellaneous monies received in FY 2008 was approximately $181.8 million, which accounted for 5.3 percent of the State's FY 2008 total general revenues. For FY 2007, these amounts were $67.5 million and 2.1 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was $4.5 million in FY 2008.

The Unclaimed Property Transfer reflects funds that have escheated to the State. They include unclaimed items such as bank deposits, funds held by life insurance companies, deposits and refunds held by utilities, dividends, and property held by courts and public agencies. The General Treasurer deposits escheated funds into the General Fund, with deductions made for administrative costs.

In the 2003 Session, the General Assembly passed legislation allowing the Office of the General Treasurer to decrease the holding period for proceeds received from the demutualization of insurance companies. In the 2004 Session, the General Assembly passed legislation reducing the holding period for escheated stock certificates to one year.

In the 2007 Session, the General Assembly enacted legislation explicitly including agents hired for the express purpose of auditing, assessing and collecting unclaimed property as designees of the general treasurer thereby allowing the utilization of auditors from other State departments to assist with unclaimed property processing.

Unclaimed property transfers totaled $15.4 million in FY 2008 and accounted for 0.4 percent of the State's total general revenues for FY 2008. The dollar amount of the unclaimed property transfer increased and its share of total general revenues remained the same between FY 2008 and FY 2007.

Restricted Receipts. In FY 2008, the State expended $136.0 million that was received in restricted receipts, excluding transfers into the General Fund. These expenditures reflect various dedicated fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

Federal Receipts: In FY 2008, the State expended $1.939 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), a block grant; Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX is recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2008 to September 30, 2009, the unenhanced rate was 52.59 percent. The rate for the prior year was 52.5 percent. The provisions of the American Recovery Act and Reinvestment (ARRA) include a temporary increase in the FMAP rate from 52.62 percent to 63.92 through December 31, 2010.

ECONOMIC FORECAST

This section describes the economic forecast used as input for the Revenue Estimating Conference's consensus revenue estimates. For historical information, please refer to Exhibit B.

The statutes governing the Revenue Estimating Conference were amended during the 1997 and 1998 legislative sessions. Beginning in Fiscal Year 1999, the statute requires that the principal members (the Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor) "shall adopt a consensus forecast upon which to base revenue estimates" (R.I.G.L. § 35-16-5 (e)).

On May 7, 2009, the Conferees heard updated economic forecasts for the nation and the state, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. These models incorporate $789 billion for the federal economic stimulus package to be spent in the 2009-2012 period, in an effort to provide relief to states and individuals, create jobs, and lift spending. The May 2009 Revenue Estimating Conference adopted the economic forecast shown below through a consensus process informed by the testimony of Moody's Economy.com.

As reported at the May 2009 Revenue Estimating Conference, Rhode Island's labor market began to feel the effects of recession as early as January of 2007. The Rhode Island Department of Labor and Training reported that the unemployment rate leveled off at 10.5 percent in February and March of CY 2009 following January's 10.3 percent rate — the first time it had not shown a monthly increase since May and June of CY 2007. Rhode Island's unemployment rate of 10.5 percent was the sixth highest in the nation, lagging the U.S. unemployment rate of 8.5 percent. There was a year-over-year increase of 20,800 unemployed Rhode Islanders in March. The sector breakdown of these job losses were as follows: Manufacturing, ─4,900; Trade, Transportation and Utilities, ─4,700; Financial Activities, ─1,300; Construction, ─3,700; Professional and Business Services, ─3,400; Government, ─2,000; Leisure and Hospitality, ─600; Health Care and Social Assistance, ─400, and Information, ─700. Education & Health Services was the only sector that remained stable from March 2008 to March 2009. The sector breakdown of these job losses indicates that most major sectors will continue to shed jobs as the recession runs its full course.

The State unemployment rate for April 2009 was 11.1%. This compares to an 8.9% national rate. Rhode Island has the fourth highest rate in the country (See Appendix B for other economic data).

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. FY 2009 is expected to show the sharpest contraction in non-farm employment with a ─3.6 percent rate of growth. FY 2010 is expected to mimic FY 2009, albeit with a slight improvement, as non-farm employment shrinks at a -3.2 percent rate. Non-farm employment growth rates are expected to increase beginning in FY 2011. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion. It should be noted that the adopted growth rates suggest a more optimistic trend from FY 2011 through FY 2013, than those levels adopted at the November 2008 Conference.

Rhode Island's unemployment rate is expected to peak at 12 percent in FY 2010. As recovery takes hold, Rhode Island's unemployment rate is projected to steadily decline to 11.5 percent in FY 2011, to 9.0 percent in FY 2012, to 6.9 percent in FY 2013 and to 6.2 percent in FY 2014. Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the early 2000s.

The May 2009 Revenue Estimating Conference estimates for personal income growth suggest a downward revision in FY 2009 from the November 2008 Revenue Estimating Conference estimates. The adopted personal income growth rate is projected to increase slightly in FY 2010 before approaching more normal growth rates through FY 2013, averaging 3.1 percent growth from FY 2010 through FY 2013. Likewise, estimates of dividend, interest and rental income are trending downward in FY 2009 before bouncing back in FY 2010 through FY 2014. In terms of wage and salary income growth, it is projected to be negative in both FY 2009 and FY 2010, hitting bottom at a ─2.2 percent rate of growth in FY 2010, before improving slightly in FY 2011. Beginning in FY 2012, wage and salary income growth rebounds before accelerating sharply in FY 2013. A slight decline of 0.4 percentage points is anticipated in FY 2014.

The CPI-U decreased to 1.3 percent in FY 2009 from 3.7 percent in FY 2008. The projected decrease was mainly due to declines in fuel oil and natural gas prices. The CPI-U is forecasted to drop to zero percent in FY 2010 before rising to 2.1 percent in FY 2011. In FY 2012 through FY 2014, inflation is expected to be 2.0 percent annually.

From FY 2009 through FY 2011, the interest rate on three-month Treasury bills is expected to remain below 1.0 percent before rising to 2.5 percent in FY 2012 and approximately 3.5 percent in FY 2012 through FY 2014. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2009 the interest rate on ten year Treasury notes are expected to be 3.2 percent rising to 5.1 percent in FY 2012 before falling to 4.8 percent in FY 2013 and FY 2014.

The consensus economic forecast reflects the immediate adverse impacts of the global economic crisis on employment, income, and other coincidental economic indicators. The forecast further suggests that self-sustainable economic recovery can be expected beginning in FY 2011. The May 2009 forecast revisions to the November 2008 economic forecast are largely negative, reflecting a somewhat more pessimistic outlook in spite of a larger federal stimulus than contemplated in November. This will negatively impact current revenue estimates through FY 2012. The Consensus Economic Forecast for the fiscal years 2009 through 2014 agreed upon by the conferees at the May 2009 Revenue Estimating Conference is shown in the following table.

The May 2009 Consensus Economic Forecast						
Rates of Growth	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Non-farm Employment	−3.6	−3.2	0.8	3.4	3.3	2.1
Personal Income	0.9	1.2	2.7	3.6	4.7	4.7
Wage and Salary Income	−0.9	−2.2	0.2	3.2	5.1	4.7
Dividends, Interest and Rent	−2.6	2.6	5.1	2.9	5.1	5.8
Nominal Rates						
U.S. CPI-U	1.3	0.0	2.1	2.0	2.0	2.0
Unemployment Rate	9.7	12.0	11.5	9.0	6.9	6.2
Ten Year Treasury Notes	3.2	3.5	4.9	5.1	4.8	4.8
Three Month Treasury Bills	0.6	0.2	1.0	2.5	3.4	3.5

According to the May 2009 forecast of Moody's Economy.com, the decline in Rhode Island's house prices will reach bottom beginning in the second quarter of FY 2010. As of April 2009, median existing house prices in Rhode Island have dropped by 23.3 percent from their peak in the first quarter of 2007. The Federal Housing Finance Administration repeat-purchase price index has dropped by 11.2 percent since peaking in the first quarter of 2007. According to Moody's Economy.com, the housing price correction for Rhode Island will be larger than the U.S. average, but smaller than the hardest hit metro areas in southern California and Florida. Moody's Economy.com estimates that housing starts for the state topped out at around 3,500 units in the first quarter of 2006. As of February, the number of starts was at a fifth of that level, at around 600 units. According to the Rhode Island Real Estate Association, single-family home sales have fallen from 2,900 units in the third quarter of 2005 to 1,570 units in the fourth quarter of 2008.

The Moody's Economy.com forecast notes that mortgage credit quality continues to deteriorate in Rhode Island at a rapid rate and this poses a risk to its economy. The delinquency rate surged again during 2008, and had reached over 7.6 percent of the dollar volume of all first mortgages outstanding in the State by the first quarter of 2009, according to data from CreditForecast.com. This rate remains higher than that of any other New England state, and is expected to remain so throughout the housing correction period. The finances of foreclosed homeowners will take a considerable time to repair, especially if the federal government does not provide more relief for homeowners unable to service or refinance their existing mortgages.

The Mortgage Bankers' Association data indicate that the increases in delinquencies are concentrated in adjustable rate mortgages (ARMs), particularly subprime ARMs. In recent years, an overpriced housing market pushed more than one-third of the State's homebuyers to use ARMs; many of them of the interest-only variety. Although practically all of these ARMs have reset from their initial teaser rates, they are still subject to smaller resets throughout the terms of the loans. As resets impact on many of the ARMs, homeowners have been hard pressed to keep current on their loans and are thus forced to sell their homes at a time when housing demand is slowing. In fact, the Rhode Island dollar-weighted default rates on first mortgages are the highest in New England. Not surprisingly, mortgage credit has been difficult to come by in the last two years – purchasing power is likely to be hindered by a shortage of credit in the coming two years as well. The Warren Group, a publisher of real estate and finance information in New England, reported in February 2009 on the fifty top foreclosure rates in Connecticut, Massachusetts, and Rhode Island. Rhode Island had three communities in the top ten and two in the next forty. All five communities were in the urban core.

REVENUE ESTIMATES

The Consensus Revenue Estimating Conference is required by statute to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law and collection trends, and the consensus economic forecast. The Conference members are the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor. Typically, the two required meetings of the Consensus Revenue Estimating Conference occur in November and May of each fiscal year.

The General Assembly enacted the FY 2009 Supplemental Budget in April 2009. The General Assembly's supplemental FY 2009 budget was based on estimated general revenues of $3.142 billion. Annual estimated general revenue growth for supplemental FY 2009 was ─8.4 percent over audited FY 2008 collections. The revenue estimates contained in the General Assembly's supplemental FY 2009 budget were predicated upon the revenue estimates adopted at the November 2008 Revenue Estimating Conference and the General Assembly's changes to the adopted general revenue estimates.

The General Assembly enacted the supplemental FY 2009 budget, 2009-H 5019, Substitute A as amended, prior to the May 2009 Revenue Estimating Conference. The revenue estimates underlying the FY 2009 Supplemental Budget are supplanted by the estimates adopted at the May 2009 Consensus Revenue Estimating Conference (the "Revised FY 2009 Revenue Estimates"). The estimates adopted at the May 2009 Revenue Estimating Conference were based on collection trends and the revised economic forecast. The adopted revenue estimates revised the Supplemental FY 2009 budget estimate down by $70.0 million. Estimated deposits of $66.6 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2009 as a result of the constitutional funding formula which calculates annual contributions. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.8 percent of estimated revenues in FY 2009 and 97.6 percent of estimated revenues in FY 2010.

Revised FY 2009 General Revenues

The General Assembly's Supplemental FY 2009 Budget estimated general revenues of $3.142 billion, a decrease of -8.4 percent from the audited FY 2008 level. The General Assembly's Supplemental FY 2009 budget is comprised of $3.113 billion of revenue estimated at the November 2008 Revenue Estimating Conference and $29.2 million of changes to these adopted estimates. The FY 2009 estimated general revenue has been further revised downward to $3.072 billion, reflecting ─2.2 percent decline from the supplemental FY 2009 budget estimate. Much of this decrease can be found in Personal Income Taxes, $(40.4) million, Departmental Receipts, $(19.8) million; Lottery Receipts, $(11.0) million; Insurance Companies, $(9.4 million); and Sales and Use Taxes, $(8.9) million. The Revised FY 2009 Revenue Estimate is 10.4 percent less than FY 2008 audited revenues.

The supplemental FY 2009 revenue estimate, as well as those adopted at the May 2009 Revenue Estimating Conference, presumes that the State's general revenues regain tax revenues in FY 2009 that previously were lost from several taxes due to the historic structures tax credit which will be paid from the Historic Preservation Tax Credit Fund with proceeds from bonds to be issued in June 2009 by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a further discussion of the bonds to be issued to fund the Historic Preservation Tax Credit Fund.

The largest source of revised FY 2009 general revenues is the Personal Income Tax, with estimated receipts of $970.6 million. This represents a decrease of $40.4 million over the level estimated at the November 2008 Revenue Estimating Conference. No change to personal income tax revenues were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November estimates and the final enacted estimate equal. The decrease from November is mainly due to much lower projected final and estimated personal income tax payments; $50.5 million and $20.1 million less than November's estimates, respectively. Personal Income Taxes are expected to comprise 31.6 percent of total general revenues in FY 2009. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Personal Income Taxes are $103.0 million less, yielding a growth rate of -9.6 percent. The Revised FY 2009 Revenue Estimate for Personal Income Taxes estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through April 2009, these redemptions have totaled $40.2 million.

Sales and Use Tax collections are estimated at a total $823.2 million in the Revised FY 2009 Revenue Estimates, a decrease of $8.9 million from the level estimated in the Supplemental FY 2009 Budget and $7.8 million below the November 2008 REC adopted estimate. The FY 2009 Supplemental Budget included $1.1 million of increased collections over the estimate adopted at the November 2008 Conference reflecting increased sales tax collections from the higher retail price of cigarettes. The higher retail price of cigarettes is due to the increase in the State's cigarette excise tax from $2.46 to $3.46 per pack of 20 cigarettes. Under Rhode Island law all federal and State cigarette excise taxes must be included in the base price of cigarettes prior to the application of wholesale and retail minimum price markups. The State's sales tax is then applied to this marked up cost of cigarettes which results in the final retail price of cigarettes. The Revised FY 2009 Revenue Estimate for Sales and Use Taxes signifies negative growth of -2.5 percent over final FY 2008 collections. Sales and Use Taxes are anticipated to contribute 26.8 percent to total general revenues in FY 2009.

Motor Vehicle Operator License and Vehicle Registration Fees were revised to $50.8 million, an increase of $2.8 million over the Supplemental FY 2009 budget estimate. The General Assembly did not adopt any changes to Motor Vehicle licenses and registration fees in the FY 2009 Supplemental Budget thereby making the November 2008 adopted estimate the relevant benchmark. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Motor Vehicle licenses and fees is 4.5 percent more and is projected to comprise 1.7 percent of all general revenues in FY 2009.

Motor Carrier Fuel Use Taxes are projected at $1.0 million for FY 2009 an increase of $70,000 over the Supplemental FY 2009 Budget estimate and $8,527 more than audited FY 2008 collections. The General Assembly did not adopt any changes to Motor Carrier Fuel Use taxes in the FY 2009 Supplemental Budget from the November 2008 adopted estimate.

Cigarettes Taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, are estimated to total $131.0 million in FY 2009. Relative to the FY 2009 Supplemental Budget the adopted estimate is $933,333 less whereas relative to the November 2008 estimate, the May 2009 adopted estimate is $11.4 million more. In the FY 2009 Supplemental Budget, the General Assembly increased the state's cigarette excise tax from $2.46 to $3.46 per pack of 20 cigarettes and increased the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent. Compared to FY 2008 audited cigarettes taxes collections, the adopted estimate represents an increase of $16.3 million, or 14.2 percent.

Alcohol Taxes are projected at $10.8 million for FY 2009, a decrease of 3.1 percent from audited FY 2008 collections and 2.7 percent over the levels adopted at the November 2008 Revenue Estimating Conference. No change to alcohol tax revenues were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November estimates and the final enacted estimate equal.

General Business Taxes are projected to comprise 11.8 percent of total general revenue collections in FY 2009. Business Corporations Tax revenues are projected to yield $112.0 million, a $4.0-million increase over the levels adopted at the November 2008 Revenue Estimating Conference and the Supplemental FY 2009 Budget. Business Corporations Tax collections are estimated to be 25.6 percent lower than audited FY 2008 collections. Business Corporations Taxes are expected to constitute 3.4 percent of total general revenues in FY 2009. The supplemental FY 2009 Business Corporations Tax estimate, as well as those adopted in the May 2009 Revenue Estimating Conference, has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes. Through April 2009, these redemptions have totaled $1.2 million.

Health Care Provider Assessments are estimated to be $600,000 lower than the levels estimated in the Supplemental FY 2009 Budget. This decrease is a result of the reduction in Medicaid reimbursement rates to nursing facilities by 5 percent and the reduction in the direct labor cost center ceiling from 112 percent to 110 percent of the statewide median. These initiatives decrease total payments to nursing homes by $6.5 million and $2.0 million, respectively, thereby lowering the gross revenue base upon which the 5.5 percent nursing home provider tax is applied. Compared to FY 2008 audited health care provider assessment collections, the adopted estimate represents a decrease of -9.3 percent.

Insurance Companies Gross Premiums Taxes are estimated at a total of $80.4 million for FY 2009 as adopted by the May 2009 Revenue Estimating Conference and are forecasted to be 18.2 percent higher than audited FY 2008 collections. The Revised FY 2009 Revenue Estimate is $9.4 million less than the estimate included in the FY 2009 Supplemental Budget but $3.4 million more than the estimate adopted at the November 2008 Conference. The difference between the supplemental FY 2009 estimate and the November 2008 adopted estimate was due to the General Assembly's acceptance of the Governor's proposals to increase the gross premiums tax rate for health maintenance organizations, non-profit hospital and medical service corporations, and non-profit dental service corporations from 1.75 percent to 2.0 percent and to remove the exemption from the Insurance Companies Gross Premiums tax for managed care plans organized pursuant to Title XIX of the Social Security Act effective January 1, 2009. The supplemental FY 2009 Insurance Companies Gross Premiums Tax estimate, as well as that adopted at the May 2009 Revenue Estimating Conference, has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against Insurance Companies Gross Premiums taxes. Through April 2009, these redemptions have totaled $6.5 million. Insurance Premiums Taxes are projected to comprise 1.6 percent of total general revenues in FY 2009.

The May 2009 Conference increased the Supplemental FY 2009 Financial Institution Taxes estimate to $4.1 million, reflecting 106.5 percent growth. At a total of $4.1 million, Financial Institutions Taxes represent 0.1 percent of total revised general revenues in FY 2009. Relative to audited FY 2008 collections, the Revised FY 2009 Revenue Estimate for Financial Institutions Taxes is 125.6 percent more. The supplemental FY 2009 Financial Institutions Tax estimate, as well as the level adopted at the May 2009 Revenue Estimating Conference, has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through April 2009, these redemptions have totaled $3.0 million.

FY 2009 Bank Deposits Taxes are projected at the level adopted at the November 2008 Conference and in the Supplemental FY 2009 budget, a total of $1.7 million. The FY 2009 level of Bank Deposits Taxes yields a growth rate of –0.6 percent when compared to audited FY 2008 collections.

FY 2009 Public Utilities Gross Earnings Taxes are $10.5 million more than the levels adopted at the November 2008 Conference and incorporated in the Supplemental FY 2009 Budget. The Revised FY 2009 estimate is projected at $115.0 million and comprises 3.7 percent of total general revenues in FY 2009. The revised estimate represents an increase of 15.7 percent over audited FY 2008 Public Utilities Gross Earnings tax collections.

Inheritance and Gift Taxes are estimated at $30.2 million, reflecting 7.9 percent growth over the levels adopted at the November 2008 Revenue Estimating Conference and incorporated into the FY 2009 Supplemental Budget. At this level, the Revised FY 2009 Revenue Estimate for Inheritance and Gift Taxes are expected to constitute 1.0 percent of total general revenues. The Revised FY 2009 Revenue Estimate for Inheritance and Gift Taxes is 14.5 percent less than audited FY 2008 collections. The Revised FY 2009 Revenue Estimates for Realty Transfer Taxes are projected at 3.8 percent lower than the levels adopted at the November 2008 Conference. Thus, the Revised FY 2009 Revenue Estimates for Realty Transfer Taxes are $7.5 million, which represents negative growth of -26.6 percent from audited FY 2008 levels. Racing and Athletics Taxes are estimated at the level adopted at the November 2008 Conference. This estimate represents a decline of $312,860, or –11.1 percent, from audited FY 2008 collections. Total Racing and Athletics Taxes are expected at $2.5 million. The adopted total of all Other Taxes is 1.3 percent of total general revenues in FY 2009. No change to Other Taxes were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November 2008 estimates and the final enacted estimate equal.

Revised FY 2009 departmental receipts are estimated to generate $19.8 million less than the level projected in the Supplemental FY 2009 Budget. The FY 2009 departmental receipts estimate adopted at the May 2009 Revenue Estimating Conference was $314.0 million including all changes made by the General Assembly in the FY 2009 Supplemental Budget. Revised FY 2009 departmental receipts comprise 10.2 percent of estimated total general revenues. Relative to audited FY 2008 departmental receipt collections, the Revised FY 2009 Revenue Estimate for departmental receipts yields a growth rate of –11.9 percent. In the licenses and fees category of departmental receipts, $111.4 million is expected as a result of the re-institution of the hospital licensing fee at 4.78 percent of 2007 net patient revenues for FY 2009.

The Revised FY 2009 Revenue Estimates for departmental revenues includes an enacted increase in the reinstatement fee for a suspended motor vehicle registration from $50 to $250 and an increase in the fee for the issuance of a certificate of title from $25 to $50. The General Assembly also increased the fee for the reinstatement of a suspended operator's license from $50 to $150 for all non-Driving-Under-the-Influence (DUI) license suspensions and to $350 for DUI related license suspensions. The revised departmental revenue estimates also includes the following other initiatives that reflect a change from the estimates adopted at the November 2008 Conference for departmental receipts:

- $78,929 from increasing the entry fee for Small and Consumer Claims Mediation from $30.00 to $50.00 with one-half of the $20.00 increase to be deposited as general revenue;
- $10,000 from a grant provided by the American Cancer Society to further women cancer screening activities;
- $124,802 from the National Council on Aging to expand a chronic disease self-management program for adults aged 60 and over.

The Other Sources component total of $369.1 million in the Revised FY 2009 Revenue Estimate represents a decrease of ─33.6 percent, or $186.9 million, compared to audited FY 2008 Other Sources collections. Revised Other Sources revenues are expected to comprise 12.0 percent of total general revenues for FY 2009. The Revised FY 2009 estimate of Other Sources revenues is $11.5 million less than the level estimated in Supplemental FY 2009 budget due primarily to an $11.0 million drop in the Lottery Transfer.

The Revised FY 2009 Revenue Estimate for Other Miscellaneous Revenues is $163.4 million lower than the audited FY 2008 level, a decrease of 89.9 percent. This decrease is due in large part to the inclusion of tobacco securitization proceeds worth $124.0 million in FY 2008 that do not repeat in FY 2009. Other Miscellaneous Revenues are projected at $18.4 million in Revised FY 2009, amounting to 0.6 percent of all general revenues.

Within the Gas Tax Transfer component, the Revised FY 2009 Revenue Estimate shows a $75,000 decrease from the FY 2009 level adopted at the November 2008 Conference. The Gas Tax Transfer is estimated at $4.4 million, comprising 0.1 percent of total general revenues in FY 2009. Relative to the audited FY 2008 transfer, the revised FY 2009 gas tax transfer is less by ─2.5 percent. No change to Gas Tax collections were adopted by the General Assembly when it enacted the FY 2009 Supplemental Budget, making the November 2008 estimates and the same as the final enacted estimate.

Within the Lottery category, the Revised FY 2009 Revenue Estimate is $16.2 million less than the audited FY 2008 transfer, a decrease of ─4.6 percent. The Revised FY 2009 Revenue Estimate is also $11.0 million lower than the level adopted at the November 2008 Revenue Estimating Conference and comprises 11.0 percent of the total general revenues in FY 2009. The General Assembly adopted no changes from the November 2008 Conference estimate for the Lottery Transfer, making the November 2008 estimates and the final enacted estimate comparable.

In March 2008, UGTR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565 million loan package to UGTR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. If UTGR, Inc. files for bankruptcy or is placed in bankruptcy by its lenders, it is uncertain as to what, if any, impact such a bankruptcy would have with respect to the lottery revenues the State expects to receive from the operations of Twin River, which is estimated to total $237.5 million in FY 2009. The Department of Revenue and the Division of Lotteries continue to closely monitor the situation and will need to approve any buyer of the Twin River facility. In addition, the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River.

The final category of general revenue receipts is the Unclaimed Property transfer. This transfer is expected to decrease by $7.2 million or —46.7 percent, from the audited FY 2008 transfer. The source of this decrease is primarily due to the non-recurrence of the demutualization proceeds that were received in FY 2008. The Revised FY 2009 Revenue Estimate for Unclaimed Property transfer is projected to be $8.2 million compared to $9.3 million adopted at the November 2008 Conference and incorporated into the FY 2009 Supplemental Budget. The Unclaimed Property transfer is expected to comprise 0.3 percent of all general revenues in FY 2009.

FY 2010 Proposed Revenues

The estimates from the May 2009 Revenue Estimating Conference, as adjusted by changes to estimates proposed by the Governor in his recommended FY 2010 Budget (the "Governor's Revised FY 2010 Estimate"), reflects general revenues of $3.016 billion, a decrease of -1.8 percent from the Revised FY 2009 Revenue Estimate. The Governor's Revised FY 2010 Estimate is comprised of $2.915 billion of revenue estimated at the May 2009 Revenue Estimating Conference and $101.4 million of changes as proposed by the Governor to the May 2009 adopted estimates.

The largest source of FY 2010 general revenues is the Personal Income Tax, with estimated receipts of $939.6 million, the same amount as the May 2009 Revenue Estimating Conference estimate for FY 2010. The Governor's Revised FY 2010 Estimate signifies growth of -3.2 percent over the Revised FY 2009 Revenue Estimate. Personal Income Taxes are anticipated to contribute 31.2 percent of total general revenues in FY 2010.

Sales and Use Tax collections are expected to yield $815.0 million in FY 2010, the same level as adopted at the May 2009 Revenue Estimating Conference for FY 2010. The Governor's Revised FY 2010 Estimate signifies growth of -1.0 percent over the Revised FY 2009 Revenue Estimate. Sales and Use Taxes are anticipated to contribute 27.0 percent to total general revenues in FY 2010.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $50.4 million in FY 2010, the same amount as was adopted at the May 2009 Revenue Estimating Conference. The Governor's Revised FY 2010 Estimate signifies growth of -0.8 percent over the Revised FY 2009 Revenue Estimate. Motor Vehicle operator license and vehicle registration fees are estimated to make-up 1.7 percent of all general revenues in FY 2010.

Motor Carrier Fuel Use Taxes are estimated to reach $920,000 in FY 2010, the same as the May 2009 Revenue Estimating Conference adopted estimate. Motor Carrier Fuel Use Taxes are expected to grow at a rate of -8.0 percent over the Revised FY 2009 Revenue Estimate.

Cigarette tax revenues are expected to total $148.0 million in FY 2010, equal to adopted estimate agreed upon at the May 2009 Revenue Estimating Conference. Cigarette tax revenues are projected to grow 13.0 percent from the Revised FY 2009 Revenue Estimate and comprise 4.9 percent of total general revenues in FY 2010.

Alcohol Tax revenues are projected to increase by $100,000 or 0.9 percent in FY 2010 from the Revised FY 2009 Revenue Estimate.

General Business taxes represent 3.3 percent of total general revenue collections in the Governor's Revised FY 2010 Estimate. Business Corporation Tax revenues are expected to yield $98.5 million, a decrease of $14.5 million from the FY 2010 estimate agreed to at the May 2009 Revenue Estimating Conference. This decrease is the result of the Governor's proposal to begin to phase out the Business Corporation tax over a five year period beginning on January 1, 2010. For FY 2010, the Governor's proposed tax rate decrease is to 7.5 percent, which is 1.5 percentage-points lower than the current business corporation tax.

Insurance Companies Gross Premiums taxes are projected to reach $81.9 million in FY 2010. This amount is the same as the estimate adopted at the May 2009 Revenue Estimating Conference. Health Care Provider

Assessments taxes are estimated to decrease by -25.4 percent, or $12.3 million, over the Revised FY 2009 Revenue Estimate. This reduction is due to the repeal of the group home provider tax and the rebasing of the nursing home provider tax as a result of the implementation of the Global Medicaid Waiver. Health Care Provider Assessments will comprise 1.2 percent of total general revenues in FY 2010.

All the other components of general business taxes excluding Business Corporations and Health Care Provider Assessments taxes are estimated at the levels adopted at the May 2009 Revenue Estimating Conference. Public Utilities Gross Earnings Taxes are estimated to reach $115.0 million and comprise 3.8 percent of general revenues. Financial Institution taxes are estimated to reach $3.75 million in FY 2010, the same as the Revised FY 2009 Revenue Estimate. In FY 2010, Bank Deposit taxes are estimated to be $30,000 more than as the Revised FY 2009 Revenue Estimate.

Inheritance and Gift Taxes are projected to decline by $1.5 million from the $30.2 million adopted at the May 2009 Revenue Estimating Conference. The source of this decrease is due to the Governor's proposal to increase the estate tax exemption amount to $1.0 million from its current level of $675,000. Realty Transfer Taxes are estimated at the same level adopted at the May 2009 Revenue Estimating Conference with anticipated collections of $7.2 million. Racing and Athletics Taxes are also estimated at the level adopted at the May 2009 Revenue Estimating Conference. This estimate represents a decline of $400,000, or -16.0 percent, from the revised FY 2009 estimate. Total Racing and Athletics Taxes projected in FY 2010 is $2.1 million. Other taxes will comprise 1.3 percent of total general revenues in FY 2010.

FY 2010 departmental receipts are expected to generate $2.0 million more than the revised FY 2009 budget. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $316.0 million in FY 2010, or 10.5 percent of total general revenues. In the licenses and fees category, $112.5 million is expected due primarily to the Governor's proposal to reinstate the Hospital Licensing fee for one year using the current rate of assessment of 4.78 percent and the current base of FY 2007 net patient revenues. The FY 2010 recommended departmental revenues figure includes the following proposals:

- $111.4 million from reinstituting the Hospital Licensing Fee;
- $894,100 resulting from the increased fee of $20.00 for Bureau of Criminal Identification background checks;
- $25,000 from imposing a penalty for Late Renewal of Office of Food Protection Licenses;

The other sources component total of $360.5 million in FY 2010 represents a decrease of $8.6 million, or -2.3 percent, compared to the Revised FY 2009 Revenue Estimate. The change in other sources of revenue affects the Gas Tax Transfer and the Other Miscellaneous Revenues category.

The Governor's Revised FY 2010 Estimate for Other Miscellaneous Revenues is $900,000 lower than the Revised FY 2009 Revenue Estimate, a decrease of 4.9 percent. Other Miscellaneous Revenues are anticipated to generate $17.5 million in FY 2010 an increase of $11.0 million from the level adopted at the May 2009 Revenue Estimating Conference. The source of this increase primarily comes from the sales of two state-owned properties, the Aime Forand Building and the Pastore Parcel.

Within the Gas Tax Transfer component, the Governor's Revised FY 2010 Estimate shows a hundred percent change from the Revised FY 2009 Revenue Estimate. The Governor proposes the transfer of the $0.01 of the Gas Tax allocation from the General Fund to the Department of Transportation, which totals $4.4 million.

Within the Lottery category, the Governor's Revised FY 2010 Estimate is $100,000 below the Revised FY 2009 Revenue Estimate, or zero growth. The Governor recommends no changes from the May 2009 Revenue Estimating Conference estimate for Lottery. In FY 2010, the Lottery Transfer is expected to be $338.0 million and comprise 11.2 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. In FY 2010, this transfer is expected to decrease by $3.2 million or -39.0 percent, from the Revised FY 2009 Revenue Estimate. The Unclaimed Property transfer is projected to be $5.0 million in FY 2010, and comprises 0.2 percent of all general revenues.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2007 through 2010 and expenditures for the fiscal years 2007 through 2010. General Fund data on expenditures for FY 2007 and FY 2008 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller for such fiscal years, and post audited by the Auditor General. Expenditures for Enacted FY 2009 reflect the budget enacted by the General Assembly in June 2008. Expenditures for Revised FY 2009 reflect the supplemental budget enacted by the General Assembly in April 2009. Pension reform savings described under "Free Surplus" is not reflected in the FY 2009 revised expenditure data and, if enacted, would provide savings which are not accounted for in the budget. The Governor's FY 2010 proposed expenditures includes pension reform savings. The FY 2010 recommended expenditures shown in the tables are those contained in the Governor's Recommended Budget submitted on March 10, 2009 and includes a $42,950,000 repayment which he expected would be required under this budget proposal. That appropriation is not required under the legislative plan adopted in April 2009 and, therefore, would not be included in the FY 2010 expenditure levels when enacted. The FY 2010 budget requires adjustments of $130.5 million in order to be balanced, or $97.6 million after adjusting for the $42.9 million aforementioned appropriation. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted Sources.

General Fund revenues for FY 2007 and FY 2008 reflect the audited actual revenues as reported by the State Controller. FY 2009 Enacted Revenues reflect those estimated at the May 2008 Revenue Estimating Conference adjusted by changes enacted by the 2008 General Assembly in the 2009 Budget. FY 2009 May Revenue Estimating Conference (REC) revenues reflect the budget enacted by the General Assembly in June 2008 adjusted by changes in revenue estimates adopted at the November 2008 Revenue Estimating Conference, as a result of legislative changes contained in the April 2009 Supplemental Budget, and further revised by the Conferees at the May 2009 Revenue Estimating Conference. The May 2009 Revenue Estimating Conference revenues for FY 2010 reflect those adopted by the Conferees at the May 2009 Conference, excluding any changes proposed but not yet enacted. The FY 2010 recommended revenues reflects the May 2009 Revenue Estimating Conference estimates adjusted by changes proposed by the Governor. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 May 2009 REC[1]	FY 2010 May 2009 REC[1]	FY 2010 Recommend [2]
Personal Income Tax	$1,065,367,487	$1,073,616,875	$1,124,235,000	$970,600,000	$939,600,000	$939,600,000
General Business Taxes						
Business Corporations	148,149,226	150,468,827	161,000,000	112,000,000	113,000,000	98,500,000
Public Utilities Gross Earnings	102,109,351	99,436,915	100,000,000	115,000,000	115,000,000	115,000,000
Financial Institutions	4,423,263	1,830,270	1,100,000	4,130,000	3,750,000	3,750,000
Insurance Companies	56,624,296	67,997,274	77,823,696	80,400,000	81,900,000	81,900,000
Bank Deposits	1,673,925	1,710,050	1,700,000	1,700,000	1,730,000	1,730,000
Health Care Provider Assessment	47,969,855	53,356,431	47,432,000	48,400,000	37,700,000	36,126,589
Sales and Use Taxes						
Sales and Use	873,203,817	844,197,089	863,100,000	823,200,000	815,000,000	815,000,000
Motor Vehicle	46,878,903	48,610,020	45,667,548	50,800,000	50,400,000	50,400,000
Motor Fuel	1,311,762	991,473	1,200,000	1,000,000	920,000	920,000
Cigarettes	120,480,817	114,674,498	114,500,000	131,000,000	148,000,000	148,000,000
Alcohol	10,705,751	11,140,941	11,100,000	10,800,000	10,900,000	10,900,000
Other Taxes						
Inheritance and Gift	34,683,979	35,333,925	38,000,000	30,200,000	30,200,000	28,712,020
Racing and Athletics	2,921,166	2,812,860	2,600,000	2,500,000	2,100,000	2,100,000
Realty Transfer	12,737,438	10,223,094	10,900,000	7,500,000	7,200,000	7,200,000
Total Taxes	**2,529,241,036**	**2,516,400,542**	**2,600,358,244**	**2,389,230,000**	**2,357,400,000**	**2,339,838,609**
Departmental Receipts	**277,790,450**	**356,546,075**	**347,627,559**	**314,000,000**	**203,700,000**	**316,022,557**
Taxes and Departmentals	**2,807,031,486**	**2,872,946,617**	**2,947,985,803**	**2,703,230,000**	**2,561,100,000**	**2,655,861,166**
Other Sources						
Gas Tax Transfer	4,704,602	4,513,745	4,630,000	4,400,000	4,400,000	0
Other Miscellaneous	67,471,487	181,810,134	19,400,000	18,400,000	6,500,000	17,500,000
Lottery	320,989,832	354,321,087	365,500,000	338,100,000	338,000,000	338,000,000
Unclaimed Property	11,456,513	15,387,030	9,200,000	8,200,000	5,000,000	5,000,000
Other Sources	**404,622,434**	**556,031,996**	**398,730,000**	**369,100,000**	**353,900,000**	**360,500,000**
Total General Revenues	**$3,211,653,920**	**$3,428,978,613**	**$3,346,715,803**	**$3,072,330,000**	**$2,915,000,000**	**$3,016,361,166**

(1) Reflects estimated revenues adopted at the May 2009 Revenue Estimating Conference.

(2) Reflects May Revenue Estimating Conference revenue estimates adjusted by changes proposed by the Governor in his FY 2010 Budget presented in March 2009, which have not yet been considered by the General Assembly.

Expenditures from All Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$596,272,093	$617,461,725	$560,884,005	$613,839,288	$685,057,084
Business Regulation	11,619,330	11,812,170	11,663,704	11,102,841	12,445,442
Labor and Training	446,997,207	499,662,135	484,805,942	648,282,362	726,084,649
Revenue(1)	233,997,809	254,603,213	249,139,675	231,739,728	227,920,497
Legislature	32,350,516	33,829,223	35,615,553	34,959,668	36,468,724
Lieutenant Governor	874,724	850,412	901,418	860,771	973,262
Secretary of State	7,397,017	6,819,947	7,403,864	7,097,652	6,440,579
General Treasurer	24,775,355	39,662,095	31,489,283	28,249,066	31,161,135
Board of Elections	4,392,090	1,926,493	2,175,218	2,047,960	1,850,141
Rhode Island Ethics Commission	1,222,289	1,343,029	1,405,309	1,409,450	1,437,730
Governor's Office	4,738,217	4,957,880	5,158,611	4,698,679	5,836,754
Commission for Human Rights	1,247,126	1,340,711	1,382,968	1,404,873	1,424,747
Public Utilities Commission	5,473,869	5,433,284	6,869,214	6,848,694	7,012,531
Rhode Island Commission on Women	98,629	105,953	107,208	108,377	109,462
Subtotal - General Government	**$1,371,456,271**	**$1,479,808,270**	**$1,399,001,972**	**$1,592,649,409**	**$1,744,222,737**
Human Services					
Office of Health & Human Services	640,980	3,848,200	14,787,081	8,833,660	9,277,812
Children, Youth, and Families	311,770,978	226,983,230	209,941,252	249,502,568	247,814,655
Elderly Affairs	35,951,870	34,383,268	33,579,723	34,235,830	33,169,875
Health	104,636,983	126,552,009	126,077,776	133,924,145	134,056,949
Human Services	1,574,255,610	1,847,633,989	1,775,182,036	1,778,224,489	1,875,872,580
Mental Health, Retardation, & Hospitals	481,493,543	489,441,696	457,490,509	466,970,947	470,632,735
Governor's Commission on Disabilities	845,947	541,108	911,985	701,391	926,400
Commission On Deaf and Hard of Hearing	306,372	288,790	368,807	371,300	380,146
State Council on Developmental Disabilities	421,932	395,288	450,543	-	-
Office of the Child Advocate	551,198	485,449	558,800	554,997	588,148
Office of the Mental Health Advocate	385,295	419,127	431,171	440,483	448,423
Subtotal - Human Services	**$2,511,260,708**	**$2,730,972,154**	**$2,619,779,683**	**$2,673,759,810**	**$2,773,167,723**
Education					
Elementary and Secondary	1,067,364,090	1,092,600,521	1,145,530,047	1,169,022,307	1,155,007,685
Higher Education - Board of Governors	734,735,310	784,746,691	819,589,009	834,935,839	878,398,870
RI Council on the Arts	2,922,282	2,934,389	3,275,655	3,226,450	3,474,826
RI Atomic Energy Commission	1,087,486	1,474,561	1,532,900	1,183,832	1,140,115
Higher Education Assistance Authority	23,939,108	25,921,954	26,649,807	32,959,393	28,631,338
Historical Preservation and Heritage Comm.	2,209,943	2,195,180	2,323,114	2,660,991	2,626,768
Public Telecommunications Authority	2,395,158	2,114,570	2,132,366	2,016,569	1,908,358
Subtotal - Education	**$1,834,653,377**	**$1,911,987,866**	**$2,001,032,898**	**$2,046,005,381**	**$2,071,187,960**

Expenditures from All Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	21,914,608	22,873,248	23,731,514	24,309,863	24,182,213
Corrections	170,117,176	198,729,607	186,497,239	184,714,118	190,005,506
Judicial(2)	91,679,516	94,506,571	97,349,720	96,536,952	95,984,801
Military Staff	32,572,998	23,773,234	28,419,792	43,344,407	30,685,749
Public Safety(3)	71,170,055	73,150,505	87,825,459	93,536,124	95,980,961
Office Of Public Defender	8,778,424	9,302,799	9,716,729	9,643,638	9,809,087
Subtotal - Public Safety	**$396,232,777**	**$422,335,964**	**$433,540,453**	**$452,085,102**	**$446,648,317**
Natural Resources					
Environmental Management	76,027,147	70,373,524	88,958,152	87,168,403	89,537,646
Coastal Resources Management Council	3,897,901	5,474,935	5,236,662	4,088,463	5,541,521
Water Resources Board	1,792,983	1,635,666	1,478,002	1,561,863	1,480,485
Subtotal - Natural Resources	**$81,718,031**	**$77,484,125**	**$95,672,816**	**$92,818,729**	**$96,559,652**
Transportation					
Transportation	368,686,783	305,436,562	370,026,380	392,964,982	483,283,224
Subtotal - Transportation	**$368,686,783**	**$305,436,562**	**$370,026,380**	**$392,964,982**	**$483,283,224**
Total	**$6,564,007,947**	**$6,928,024,941**	**$6,919,054,202**	**$7,250,283,413**	**$7,615,069,613**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from General Revenues

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$464,765,390	$520,058,764	$461,660,272	$455,684,253	$498,875,056
Business Regulation	$10,859,698	10,333,679	10,118,066	9,307,245	9,577,234
Labor and Training	$7,146,778	6,377,174	6,513,092	6,696,080	6,667,994
Revenue(1)	$34,528,687	35,086,502	37,849,916	33,254,816	36,368,064
Legislature	$30,941,664	32,377,685	34,099,202	33,451,335	34,912,012
Lieutenant Governor	$874,724	850,412	901,418	860,771	973,262
Secretary of State	$6,150,445	5,488,114	6,307,144	6,407,527	5,966,241
General Treasurer	$2,636,773	2,668,892	2,563,767	2,465,934	2,500,299
Board of Elections	3,625,842	1,315,331	1,512,874	1,552,690	1,850,141
Rhode Island Ethics Commission	$1,222,289	1,343,029	1,405,309	1,409,450	1,437,730
Governor's Office	$4,672,436	4,957,880	5,158,611	4,698,679	5,836,754
Commission for Human Rights	$987,833	951,872	991,659	932,418	1,016,242
Public Utilities Commission	$499,163	475,034	-	-	-
Rhode Island Commission on Women	$98,629	105,953	107,208	108,377	109,462
Subtotal - General Government	**$569,010,351**	**$622,390,321**	**$569,188,538**	**$556,829,575**	**$606,090,491**
Human Services					
Office of Health & Human Services	$250,294	363,333	5,223,297	3,836,576	3,448,389
Children, Youth, and Families	$189,391,302	151,491,614	137,133,720	162,051,787	158,722,427
Elderly Affairs	$18,809,664	16,969,063	16,071,786	13,957,794	11,687,598
Health	$31,490,514	29,985,420	32,281,674	30,753,976	30,596,230
Human Services	$703,752,922	815,777,935	767,224,135	651,883,148	642,064,842
Mental Health, Retardation, & Hospitals	$238,316,374	241,952,595	219,361,864	182,926,530	168,779,509
Governor's Commission on Disabilities	$518,631	350,480	413,651	387,862	366,450
Commission On Deaf and Hard of Hearing	$301,850	289,412	368,807	371,300	380,146
State Council on Developmental Disabilities	-	0	0	0	0
Office of the Child Advocate	$513,524	445,443	519,657	514,442	547,048
Office of the Mental Health Advocate	$385,295	419,127	431,171	440,483	448,423
Subtotal - Human Services	**$1,183,730,370**	**$1,258,044,422**	**$1,179,029,762**	**$1,047,123,898**	**$1,017,041,062**
Education					
Elementary and Secondary	$888,448,123	908,826,348	931,218,471	875,390,470	861,797,078
Higher Education - Board of Governors	$189,489,620	189,982,771	179,856,018	172,860,842	174,885,270
RI Council on the Arts	$2,112,363	2,111,963	2,094,847	1,905,796	1,983,986
RI Atomic Energy Commission	$827,654	834,101	824,470	786,847	775,346
Higher Education Assistance Authority	$6,708,495	10,219,792	7,323,051	7,292,984	7,305,741
Historical Preservation and Heritage Comm.	$1,615,594	1,494,562	1,348,825	1,297,516	1,298,364
Public Telecommunications Authority	$1,312,264	1,316,196	1,365,306	1,249,509	1,142,702
Subtotal - Education	**$1,090,514,113**	**$1,114,785,733**	**$1,124,030,988**	**$1,060,783,964**	**$1,049,188,487**

Expenditures from General Revenues

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	$19,799,874	20,550,412	21,212,039	21,134,410	21,774,743
Corrections	$155,796,271	193,138,298	178,623,504	178,682,061	182,390,562
Judicial(2)	$82,039,511	82,799,851	85,000,000	82,797,231	83,907,229
Military Staff	$2,533,905	2,320,832	3,739,948	3,575,260	3,529,979
Public Safety(3)	$63,975,375	62,946,519	66,828,094	34,656,938	66,518,758
Office Of Public Defender	$8,564,734	9,030,938	9,468,259	9,318,047	9,583,189
Subtotal - Public Safety	**$332,709,670**	**$370,786,850**	**$364,871,844**	**$330,163,947**	**$367,704,460**
Natural Resources					
Environmental Management	$38,071,852	36,032,812	35,779,384	34,011,362	35,651,578
Coastal Resources Management Council	$2,076,370	1,985,139	1,877,703	2,034,354	2,027,574
Water Resources Board	$1,648,213	1,226,089	1,378,002	1,352,046	1,370,485
Subtotal - Natural Resources	**$41,796,435**	**$39,244,040**	**$39,035,089**	**$37,397,762**	**$39,049,637**
Transportation					
Transportation	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-
Total	**$3,217,760,939**	**$3,405,251,366**	**$3,276,156,221**	**$3,032,299,146**	**$3,079,074,137**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Federal Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$46,562,576	$39,828,801	$33,952,039	$71,317,579	$91,347,447
Business Regulation	43,291	114,130	-	87,641	-
Labor and Training	29,931,444	28,883,497	35,594,755	56,577,194	92,322,826
Revenue(1)	1,147,680	1,470,903	1,894,095	2,698,597	1,943,239
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	976,109	911,443	541,139	296,287	-
General Treasurer	476,081	799,601	1,170,081	1,100,489	1,293,540
Board of Elections	766,248	611,162	662,344	495,270	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	-	-	-	-	-
Commission for Human Rights	259,293	388,839	391,309	472,455	408,505
Public Utilities Commission	92,650	70,662	100,547	102,659	103,600
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$80,255,372**	**$73,079,038**	**$74,306,309**	**$133,148,171**	**$187,419,157**
Human Services					
Office of Health & Human Services	93,852	3,168,914	7,593,011	4,324,922	4,544,633
Children, Youth, and Families	120,424,524	72,217,463	69,839,591	84,523,990	85,504,945
Elderly Affairs	12,057,604	11,980,485	12,257,937	14,678,036	16,460,162
Health	60,912,005	80,827,914	68,180,665	78,221,330	78,444,370
Human Services	867,561,431	1,024,128,776	999,808,193	1,118,173,379	1,225,366,325
Mental Health, Retardation, & Hospitals	240,445,805	241,728,740	222,757,014	272,720,673	284,303,513
Governor's Commission on Disabilities	162,175	77,450	189,769	135,851	174,949
Commission On Deaf and Hard of Hearing	4,522	(622)	-	-	-
State Council on Developmental Disabilities	421,932	395,288	450,543	-	-
Office of the Child Advocate	37,674	40,006	39,143	40,555	41,100
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$1,302,121,524**	**$1,434,564,414**	**$1,381,115,866**	**$1,572,818,736**	**$1,694,839,997**
Education					
Elementary and Secondary	**174,313,591**	**175,708,363**	**191,008,411**	**270,833,422**	**278,150,906**
Higher Education - Board of Governors	2,871,077	4,924,539	3,646,277	4,488,591	11,997,554
RI Council on the Arts	653,685	612,251	741,355	801,429	1,055,840
RI Atomic Energy Commission	101,942	352,771	407,277	103,116	30,000
Higher Education Assistance Authority	8,846,030	8,610,378	12,550,536	18,766,778	14,575,320
Historical Preservation and Heritage Comm.	508,937	509,240	479,640	845,462	819,367
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$187,295,262**	**$190,717,542**	**$208,833,496**	**$295,838,798**	**$306,628,987**

Expenditures from Federal Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	1,274,491	1,298,123	1,263,609	1,313,294	1,274,540
Corrections	9,252,612	2,688,836	2,712,735	3,280,874	2,196,668
Judicial(2)	1,412,645	1,872,594	1,939,312	2,706,941	1,445,452
Military Staff	27,561,826	19,515,282	22,949,023	36,786,928	25,018,046
Public Safety(3)	1,999,004	5,957,636	6,232,120	44,397,613	10,232,874
Office Of Public Defender	213,690	271,861	248,470	325,591	225,898
Subtotal - Public Safety	**$41,714,268**	**$31,604,332**	**$35,345,269**	**$88,811,241**	**$40,393,478**
Natural Resources					
Environmental Management	21,320,143	18,024,013	33,435,438	34,508,404	32,067,164
Coastal Resources Management Council	1,659,031	1,779,206	1,453,450	1,659,109	1,608,438
Water Resources Board	64,170	-	-	-	-
Subtotal - Natural Resources	**$23,043,344**	**$19,803,219**	**$34,888,888**	**$36,167,513**	**$33,675,602**
Transportation					
Transportation	231,342,605	189,355,117	263,437,353	286,069,476	381,348,383
Subtotal - Transportation	**$231,342,605**	**$189,355,117**	**$263,437,353**	**$286,069,476**	**$381,348,383**
Total	**$1,865,772,375**	**$1,939,123,662**	**$1,997,927,181**	**$2,412,853,935**	**$2,644,305,604**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Restricted Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$6,784,583	$9,973,069	$8,876,034	$15,419,816	$17,387,399
Business Regulation	716,341	1,364,361	1,545,638	1,707,955	2,868,208
Labor and Training	15,552,019	20,098,434	24,905,914	24,701,721	25,314,950
Revenue(1)	705,160	789,994	925,663	799,483	845,292
Legislature	1,408,852	1,451,538	1,516,351	1,508,333	1,556,712
Lieutenant Governor	-	-	-	-	-
Secretary of State	270,463	420,390	555,581	393,838	474,338
General Treasurer	21,474,117	35,987,392	27,502,060	24,486,449	27,165,006
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	(3,617)	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	4,882,056	4,887,588	6,768,667	6,746,035	6,908,931
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$51,789,974**	**$74,972,766**	**$72,595,908**	**$75,763,630**	**$82,520,836**
Human Services					
Office of Health & Human Services	296,834	315,953	1,970,773	672,162	1,284,790
Children, Youth, and Families	1,767,022	2,731,750	1,757,941	2,284,059	2,203,059
Elderly Affairs	741,000	956,578	620,000	970,000	392,115
Health	12,204,993	15,692,703	25,486,027	24,717,414	24,784,937
Human Services	2,941,257	7,027,278	8,024,708	7,940,462	8,316,413
Mental Health, Retardation, & Hospitals	183,295	2,587,327	4,590,000	5,258,101	5,203,044
Governor's Commission on Disabilities	1,692	13,178	8,565	11,127	10,001
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$18,136,093**	**$29,324,767**	**$42,458,014**	**$41,853,325**	**$42,194,359**
Education					
Elementary and Secondary	4,432,359	6,507,062	7,363,165	7,250,840	7,501,077
Higher Education - Board of Governors	1,074,589	715,937	1,041,526	666,433	667,543
RI Council on the Arts	-	-	-	94,225	-
RI Atomic Energy Commission	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-
Historical Preservation and Heritage Comm.	85,412	191,378	494,649	518,013	509,037
Public Telecommunications Authority	-	-	-	-	-
Subtotal - Education	**$5,592,360**	**$7,414,377**	**$8,899,340**	**$8,529,511**	**$8,677,657**

Expenditures from Restricted Receipts

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	678,356	867,559	980,866	1,114,433	932,930
Corrections	-	(61)	-	-	-
Judicial(2)	7,272,677	8,395,390	8,710,408	9,324,149	9,807,120
Military Staff	242,449	158,275	315,321	346,833	337,449
Public Safety(3)	1,905,648	1,103,585	434,000	835,000	609,000
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$10,099,130**	**$10,524,748**	**$10,440,595**	**$11,620,415**	**$11,686,499**
Natural Resources					
Environmental Management	15,257,111	13,483,302	16,411,875	13,514,137	15,246,049
Coastal Resources Management Council	162,500	120,000	250,000	395,000	250,000
Water Resources Board	-	327,378	-	109,817	-
Subtotal - Natural Resources	**$15,419,611**	**$13,930,680**	**$16,661,875**	**$14,018,954**	**$15,496,049**
Transportation					
Transportation	1,451,818	(160,669)	1,447,246	1,450,000	1,500,000
Subtotal - Transportation	**$1,451,818**	**($160,669)**	**$1,447,246**	**$1,450,000**	**$1,500,000**
Total	**$102,488,986**	**$136,006,669**	**$152,502,978**	**$153,235,835**	**$162,075,400**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Other Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
General Government					
Administration(1)	$78,159,544	$47,601,091	$56,395,660	$71,417,640	$77,447,182
Business Regulation	-	-	-	-	-
Labor and Training	394,366,966	444,303,030	417,792,181	560,307,367	601,778,879
Revenue(1)	197,616,282	217,255,814	208,470,001	194,986,832	188,763,902
Legislature	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-
Secretary of State	-	-	-	-	-
General Treasurer	188,384	206,210	253,375	196,194	202,290
Board of Elections	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-
Governor's Office	69,398	-	-	-	-
Commission for Human Rights	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-
Subtotal - General Government	**$670,400,574**	**$709,366,145**	**$682,911,217**	**$826,908,033**	**$868,192,253**
Human Services					
Office of Health & Human Services	-	-	-	-	-
Children, Youth, and Families	188,130	542,403	1,210,000	642,732	1,384,224
Elderly Affairs	4,343,602	4,477,142	4,630,000	4,630,000	4,630,000
Health	29,471	45,972	129,410	231,425	231,412
Human Services	-	700,000	125,000	227,500	125,000
Mental Health, Retardation, & Hospitals	2,548,069	3,173,034	10,781,631	6,065,643	12,346,669
Governor's Commission on Disabilities	163,449	100,000	300,000	166,551	375,000
Commission On Deaf and Hard of Hearing	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-
Subtotal - Human Services	**$7,272,721**	**$9,038,551**	**$17,176,041**	**$11,963,851**	**$19,092,305**
Education					
Elementary and Secondary	170,017	1,558,748	15,940,000	15,547,575	7,558,624
Higher Education - Board of Governors	541,300,024	589,123,444	635,045,188	656,919,973	690,848,503
RI Council on the Arts	156,234	210,175	439,453	425,000	435,000
RI Atomic Energy Commission	157,890	287,689	301,153	293,869	334,769
Higher Education Assistance Authority	8,384,583	7,091,784	6,776,220	6,899,631	6,750,277
Historical Preservation and Heritage Comm.	-	-	-	-	-
Public Telecommunications Authority	1,082,894	798,374	767,060	767,060	765,656
Subtotal - Education	**$551,251,642**	**$599,070,214**	**$659,269,074**	**$680,853,108**	**$706,692,829**

Expenditures from Other Funds

	FY 2007 Actual	FY 2008 Actual	FY 2009 Enacted	FY 2009 Revised	FY 2010 Recommend
Public Safety					
Attorney General	161,887	157,154	275,000	747,726	200,000
Corrections	5,068,293	2,902,534	5,161,000	2,751,183	5,418,276
Judicial(2)	954,683	1,438,736	1,700,000	1,708,631	825,000
Military Staff	2,234,818	1,778,845	1,415,500	2,635,386	1,800,275
Public Safety(3)	3,290,028	3,142,765	14,331,245	13,646,573	18,620,329
Office Of Public Defender	-	-	-	-	-
Subtotal - Public Safety	**$11,709,709**	**$9,420,034**	**$22,882,745**	**$21,489,499**	**$26,863,880**
Natural Resources					
Environmental Management	1,378,041	2,833,397	3,331,455	5,134,500	6,572,855
Coastal Resources Management Council	-	1,590,590	1,655,509	-	1,655,509
Water Resources Board	80,600	82,199	100,000	100,000	110,000
Subtotal - Natural Resources	**$1,458,641**	**$4,506,186**	**$5,086,964**	**$5,234,500**	**$8,338,364**
Transportation					
Transportation	135,892,360	116,242,114	105,141,781	105,445,506	100,434,841
Subtotal - Transportation	**$135,892,360**	**$116,242,114**	**$105,141,781**	**$105,445,506**	**$100,434,841**
Total	**$1,377,985,647**	**$1,447,643,244**	**$1,492,467,822**	**$1,651,894,497**	**$1,729,614,472**

(1) Department of Administration history adjusted for Taxation and Division of Motor Vehicles transferred in FY2007 to new Department of Revenue. In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) Judicial includes Judicial Tenure and Discipline.

(3) Agencies merged with Department of Public Safety include State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Free Surplus

State law provides that all unexpended or unencumbered balances of general revenue appropriations, whether regular or special, shall lapse to General Fund surplus at the end of each fiscal year, provided, however, that such balances may be reappropriated by the Governor in the ensuing fiscal year for the same purpose for which the monies were originally appropriated by the General Assembly. The unexpended balances of the Judicial branch and the Legislative branch are reappropriated at their request by law. Free surplus is the amount available at the end of any fiscal year for future appropriation by the General Assembly.

The Governor is required to submit a balanced budget. The General Assembly is also required to enact a balanced budget. Over the last several years, the State has faced budget shortfalls after the budget was enacted.

The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish five year forecasts of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that outyear expenditures will exceed revenues, and at times by a substantial amount. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

Due to the past fiscal challenges facing the State, the budget has from time to time incorporated certain significant one-time resources. The enacted FY2002 and FY2003 budgets incorporated the use of the proceeds from the securitization of the tobacco settlement payments due the State under the Master Settlement Agreement (MSA) entered into by the Attorney General in November 1998. The tobacco securitization proceeds included in the budget as enacted are based on the actual sale of the State's right to receive *all* of its tobacco settlement payments for the 2004–2043 period. The bonds were sold by the Tobacco Settlement Financing Corporation on June 27, 2002 in the amount of $685.4 million. The net proceeds of the sale, after funding the costs of issuance, capitalized interest, and the debt service reserve account, totaled $544.2 million.

The budget used the net tobacco bond proceeds as follows: $295.3 million was used in June 2002 to defease $247.6 million of outstanding general obligation and certificate of participation debt (or $295.5 million reflecting accreted value of capital appreciation bonds), and the remaining $248.9 million was made available for operating budget expenditures in FY 2002–FY 2004. The debt defeasance resulted in debt service savings of $51.6 million in FY 2003 and total debt service savings through FY 2012 of $343.5 million. The legislatively enacted budgets used $135.0 million of the net proceeds to finance operating expenditures in FY 2002, allocated $113.5 million of resources to finance FY 2003 budgeted expenditures, and allocated the remaining $1.7 million (including interest earnings) in FY 2004.

In his FY 2008 Budget, the Governor proposed that the State sell the rights to the residual tobacco settlement payments reflecting those revenues from the Master Settlement Agreement which will be received by the State after the 2002 bonds of the Tobacco Settlement Financing Corporation are fully repaid. The Tobacco Settlement Financial Corporation sold $197.0 million of such bonds on June 27, 2007, and the net proceeds to the State totaled $195.0 million. The budget enacted by the General Assembly allocated $42.5 million in FY 2007 and $124.0 million in FY 2008 for working capital purposes, and provided $28.4 million for heavy equipment/vehicles and capital projects. There was an additional $1.7 million of interest on invested tobacco bond proceeds which was available for transfer to the Rhode Island Capital Plan Fund for these capital projects.

The State's Annual Comprehensive Financial Report for FY 2008 reveals a deficit of $42.95 million for the fiscal year ended June 30, 2008. This is a result of revenues falling below enacted estimates by $7.1 million and expenditures exceeding appropriations by $37.4 million. Additionally, the Governor is required by law to reappropriate unexpended balances from FY 2008 for the General Assembly amounting to $1.7 million. The Governor sought appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at $102.8 million at the end of FY 2008. The General Assembly did not make an appropriation to resolve the FY 2008 $42.95 million deficit. The deficit of $42.95 million, when combined with the $102.8 million reserve fund, results in approximately $60 million of combined balances. The FY 2009 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2008. The budget enacted by the General Assembly in June 2008 for FY 2009 was predicated upon available resources of $3.2762 billion net of reserve fund contributions, and expenditures of $3.2762 billion resulting in an estimated closing surplus of $0.1 million.

The General Assembly enacted a FY 2009 Supplemental Budget of expenditures of $3.032 billion from general revenues, $243.9 million less than originally enacted, and $372.9 million less than FY 2008 actual expenditures. The reduction in general revenue spending is the result of both reductions in real expenditures and shifts from state general revenue sources to one-time federal fund sources. Much of this shifting is the result of the American Recovery and Reinvestment Act of 2009.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $789 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package in a range from $825 million to over $1 billion (not including unemployment benefits, supplemental nutrition assistance programs, Pell grants, or child support enforcement). This includes approximately $451.5 million over 27 months for Rhode Island's Medicaid programs, approximately $137 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165 million of fiscal stabilization funds to be used primarily as education aid. While formula based funds have been included in the enacted FY 2009 Supplemental budget, the full impact of such stimulus funds may be greater than that reflected in the enacted FY 2009 Supplemental Budget and the Governor's recommended FY 2010 Budget as there are also competitive grant funds which will be available. In the FY2009 Supplemental Budget Act, the General Assembly included $131.3 million in additional Medicaid matching funds, and $1.3 million in enhanced Title IVE funds thereby reducing general revenue expenditures by the same amount based on the federal act that raised the federal Medicaid match percentage by 11.3 points retroactive to October 1, 2008.

The FY 2009 Supplemental Budget also maximized use of state fiscal stabilization funds for state budget relief by utilizing $38.3 million of federal education funds to relieve state general revenue support to local governments. Additionally, there was $30 million of federal state fiscal stabilization funds included in the FY 2009 enacted supplement budget which relieved general revenue expenditures in the Department of Public Safety. However, the actual amount now determined to be available for FY 2009 is $20.9 million, and it is expected that the 2009 Budget will be further amended to shift $10 million from FY 2009 to FY 2010.

The FY 2009 Supplemental Budget has relied upon approximately $200 million of one-time federal stimulus funds to offset expenditures in FY 2009, which funds are not likely to be available for budget purposes after FY 2011. As a result, the State will face the challenge of addressing the loss of such funds in future budget years if revenues remain depressed due to the economic downturn.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2008 through 2010. FY 2008 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2009 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2008. Due to downward revenue revisions of $233.0 million by the November 2008 Revenue Estimating Conference, spending increases, and carry over deficit of $42.9 million from FY 2008, the State was facing a $362 million deficit for FY 2009. The FY 2009 Supplemental Budget reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009 to bring the budget into balance. The FY 2009 Third Quarter Report estimates reflect the results of the May Revenue Estimating Conference, which lowered revenue estimates by an additional $70 million, and the May Caseload Estimating Conference which lowered costs by $5.6 million, and an estimated increase in other expenditures of $11.3 million. The net result is a deficit of $73.5 million to the Enacted FY 2009 Supplemental Budget. The FY 2010 data is derived from the Governor's recommended FY 2010 budget submitted to the General Assembly in March 2009, adjusted to reflect no opening surplus and lower revenues as projected by the May 2009 Revenue Estimating Conference. There is a $130 million deficit projected by the May 2009 Revenue Estimating Conference compared to the Governor's submission for FY 2010.

General Revenue Budget Surplus Statement

	FY2008 Actual (1)	FY2009 Enacted Budget(2)	FY2009 Enacted Supplemental(3)	FY2009 Third Quarter Report(4)	FY2010 Governor's Recommendation(5)
Surplus					
Opening Surplus	$ -	$ 3,199,106	$ (42,950,480)	$ (42,950,480)	$ -
Adjustment					
Reappropriated Surplus	3,640,364	-	1,738,518	1,738,518	
Subtotal	**3,640,364**	**3,199,106**	**(41,211,962)**	**(41,211,962)**	**-**
General Taxes	2,516,400,542	2,600,358,244	2,600,358,244	2,600,358,244	2,417,090,000
Revenue estimators' revision	-		(198,228,244)	(198,228,244)	(59,690,000)
Changes to the Adopted Estimates	-		27,845,838	(10,792,087)	(17,561,391)
Subtotal	**2,516,400,542**	**2,600,358,244**	**2,429,975,838**	**2,391,337,913**	**2,339,838,609**
Departmental Revenues	356,546,075	347,627,559	347,627,559	347,627,559	222,500,000
Revenue estimators' revision	-		(16,127,559)	(16,127,559)	(18,800,000)
Changes to the Adopted Estimates	-		213,731	(19,607,913)	112,322,557
Subtotal	**356,546,075**	**347,627,559**	**331,713,731**	**311,892,087**	**316,022,557**
Other Sources					
Gas Tax Transfers	4,513,745	4,630,000	4,630,000	4,630,000	4,475,000
Revenue estimators' revision	-		(155,000)	(230,000)	(75,000)
Changes to the Adopted Estimates					(4,400,000)
Other Miscellaneous	181,810,134	19,400,000	19,400,000	19,400,000	9,819,836
Rev Estimators' revision-Miscellaneous	-		(2,802,960)	(2,133,246)	(3,319,836)
Changes to the Adopted Estimates	-		1,133,246	1,133,246	11,000,000
Lottery	354,321,087	365,500,000	365,500,000	365,500,000	349,400,000
Revenue Estimators' revision-Lottery	-		(16,400,000)	(27,400,000)	(11,400,000)
Unclaimed Property	15,387,030	9,200,000	9,200,000	9,200,000	5,600,000
Revenue Est revision-Unclaimed Property	-		100,000	(1,000,000)	(600,000)
Subtotal	**556,031,996**	**$ 398,730,000**	**$ 380,605,286**	**$ 369,100,000**	**$ 360,500,000**
Total Revenues	**$ 3,428,978,613**	**$ 3,346,715,803**	**$ 3,142,294,855**	**$ 3,072,330,000**	**$ 3,016,361,166**
Transfer to Budget Reserve	**(68,579,573)**	**(73,698,128)**	**(68,185,576)**	**(66,646,349)**	**(72,392,668)**
Transfer from Budget Reserve		-	-	-	-
Total Available	**$ 3,364,039,404**	**$ 3,276,216,781**	**$ 3,032,897,316**	**$ 2,964,471,688**	**$ 2,943,968,498**
Actual/Enacted Expenditures	**$ 3,405,251,366**	**3,276,156,221**	**3,276,156,221**	**3,276,156,221**	**3,079,074,137**
Enacted changes in expenditure			(245,595,593)	(245,595,593)	
Caseload Estimating Conference Expenditure Change				(5,589,061)	(4,655,179)
Other projected expenditure change				11,307,748	
Reappropriations	-	-	1,738,518	1,738,518	
Total Expenditures	**$ 3,405,251,366**	**$ 3,276,156,221**	**$ 3,032,299,146**	**$ 3,038,017,833**	**$ 3,074,418,958**
Free Surplus	**$ (42,950,480)**	**$ 60,560**	**$ 598,170**	**$ 0**	**$ 0**
Budget Balancing Plan Required				**$ 73,546,145**	**$ 130,450,460**
Reappropriations	(1,738,518)	-	-	-	-
Total Ending Balances	**$ (41,211,962)**	**$ 60,560**	**$ 598,170**	**$ (73,546,145)**	**$ (130,450,460)**
Budget Reserve and Cash Stabilization Account(6)	**$ 102,869,358**	**$ 113,897,107**	**$ 105,377,709**	**$ 102,998,904**	**$ 114,621,724**

(1) Reflects the audited annual consolidated financial report for FY 2008, reflecting a deficit of $42,950,480. While the Governor requested an appropriation of $42,950,480 from the Budget Reserve Fund by the General Assembly, no appropriation was made. The Budget Reserve Fund remains fully funded. The carryover deficit from 2008 was addressed in the FY 2009 supplemental through additional expenditure reductions and revenues, resulting in a balanced budget at the time the supplemental budget was enacted.

(2) Reflects the FY 2009 budget enacted by the General Assembly in June 2008, and amended by modifications to revenue estimates by the May 2008 Revenue Estimating Conference.

(3) Reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009.

(4) Reflects the FY 2009 supplemental budget enacted by the General Assembly in April 2009, the results of the May 2009 Revenue and Caseload Estimating Conference, and actual expenditures and projected agency spending to the end of the year.

(5) Assumes zero opening surplus for FY2010 pending resolution of the FY2009 deficit. The Governor's proposed FY2009 supplemental budget resulted in a surplus of $9.7 million at the close of FY2009 which would have been available in FY2010. The Governor's recommended FY2010 budget assumed a $1.4 million balance. Revenues reflect the May Revenue Estimating Conference, as adjusted by changes proposed by the Governor, which require legislative action not yet taken. The Governor's FY 2010 Budget included an appropriation of $42.950 million to repay the Budget Reserve Fund which is no longer needed.

(6) The Budget Reserve and Cash Stabilization funding is based upon a statutory formula which is contingent upon revenues and is capped at an increasing percentage of total resources.

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years the State has sought to enhance the timeliness of completion of the Comprehensive Annual Financial Report. The report for the fiscal year ending June 30, 2005 was issued in February 2006. The report for fiscal year ending June 30, 2006 was issued in January 2007. The FY2007 report was issued in early April 2008, after passage of legislation by the General Assembly to appropriate $19.4 million from the Budget Reserve and Cash Stabilization Account for FY 2007. The report for fiscal year ending June 30, 2008 was issued in early April 2009, after passage of the FY 2009 Supplemental Budget which did not include the appropriation from the Budget Reserve Fund as requested by the Governor to resolve the FY 2008 deficit.

As part of the auditing process for the fiscal year ending June 30, 2008, the State's Auditor General observed certain deficiencies in the State's financial reporting and management practices, which are reflected in the State's Auditor General's reports entitled "Single Audit Report" for that fiscal year, a copy of which may be obtained from the Office of the Auditor General, 86 Weybosset Street, Providence, Rhode Island 02903. The State has dedicated substantial resources to resolving these issues and continues to attempt to address deficiencies as they are raised.

STATE INDEBTEDNESS

Authorization and Debt Limits

Under the State Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people, except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. By judicial interpretation, the limitation stated above has been judged to include all debts of the State for which its full faith and credit are pledged, including general obligation bonds and notes, bonds and notes guaranteed by the State, and debts or loans insured by agencies of the State, such as the Industrial-Recreational Building Authority. However, non-binding agreements of the State to appropriate monies in aid of obligations of a State agency, such as the provisions of law governing the capital reserve funds of the Port Authority and Economic Development Corporation, now known as the Rhode Island Economic Development Corporation, the Housing and Mortgage Finance Corporation, or to appropriate monies to pay rental obligations under State long-term leases, such as the State's lease agreements with the Convention Center Authority, are not subject to this limitation.

Public Finance Management Board

The Public Finance Management Board was created during the 1986 Session of the General Assembly for the purpose of providing advice and assistance, upon request, to issuers of tax-exempt debt in the State. The Board is charged with the responsibility of collecting, maintaining and providing information on State, municipal, and public or quasi-public corporation debt sold and outstanding, and serves as a statistical center for all State and municipal debt issues. The Chair of the Public Finance Management Board is the General Treasurer of the State, and personnel within the Treasurer's Office provide staffing.

The Board is also authorized to allocate the tax-exempt bond issuance capacity among all issuers in the State of Rhode Island, pursuant to Section 146 of the Internal Revenue Code of 1986. While all issuers of tax-exempt debt are required to give written notice to the Board of a proposed debt issuance, failure to do so does not affect the validity of the issuance of any bond or note. The lead underwriter or purchaser of any debt issue of the State, its departments, authorities, agencies, boards and commissions is required by the Rules and Regulations of the Board to pay an amount equal to one-fortieth of one percent of the principal amount of a new money issue as a fee.

Sinking Fund Commission

During the 1998 session of the General Assembly, legislation was enacted that reconstituted the Sinking Fund Commission, which shall have control and management of all sinking funds established for the redemption of any bonds or certificates of indebtedness issued by the State. To address the State's relatively high debt levels, the General Assembly appropriated general revenues of $4.0 million in FY 1999, and $865,245 in FY 2000 to be utilized by the Commission to defease or refund State debt. The Sinking Fund will also receive funds in an amount equal to the annual interest earnings on bond funds. During FY 2000, the Sinking Fund allocated a net $5.5 million to defease debt associated with the Alpha Beta Corporation project financed by the Rhode Island Economic

Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million.

Tax Anticipation Notes

Notwithstanding the limitations upon borrowing indicated above, the State Constitution permits the General Assembly to provide for certain short-term borrowings without the consent of the people. Thus, the State is authorized to borrow in any fiscal year without consent of the people an amount in anticipation of State tax receipts not in excess of 20.0 percent of the tax receipts for the prior fiscal year, and may borrow an additional amount in anticipation of all other non-tax receipts not in excess of 10.0 percent of such receipts in the prior fiscal year, provided the aggregate of all such borrowings must not exceed 30.0 percent of the actual tax receipts during the prior fiscal year. Any such borrowing must be repaid during the fiscal year in which such borrowing took place. No money shall be borrowed in anticipation of such receipts in any fiscal year until all money so borrowed in all previous fiscal years shall have been repaid. The maximum amount of borrowing is further constrained by statute such that the aggregate borrowing shall not be in excess of the amount stipulated by the General Assembly by general law. During the 1997 Session, the General Assembly authorized the use of commercial paper as a means of short-term borrowing under these constitutional and statutory provisions.

The State has undertaken a series of measures to improve the timing of receipts and disbursements and to reduce the level of short-term borrowing. These measures include accelerating the collection of certain taxes, the partial restructuring of the State's disbursement pattern, and moving certain special revenue funds into the General Fund as accounts within the General Fund.

Since FY 1990, the State has utilized the powers described above in the following manner:

Fiscal Year	Maximum Principal Amount Outstanding	Percent of Prior Year's Tax Receipts
1990	$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4

Net Tax Supported State Debt

The State has multiple categories of State debt, including without limitation, direct debt, guaranteed debt, and other obligations subject to annual appropriation. The following table shows these obligations. The gross debt totals are adjusted for those obligations covered by revenue streams of the quasi-independent agencies. The intent of this presentation is to be consistent with rating agencies' practices.

As of May 1, 2009, authorized but unissued direct debt totaled $269,326,822 and there was no authorized but unissued guaranteed debt.

Net Tax Supported Debt Ratios
(in thousands)

	Debt Outstanding June 30, 2005	Debt Outstanding June 30, 2006	Debt Outstanding June 30, 2007	Debt Outstanding June, 30, 2008[3]
Direct Debt:				
Variable Rate General Obligations	$ 22,665	$ 19,665	$ 16,365	$ 14,165
Various Purpose Bonds Outstanding	778,250	822,881	897,119	982,923
Subtotal	**$ 800,915**	**$ 842,546**	**$913,483**	**$997,088**
Other Debt Subject to Annual Appropriation:				
RI Refunding Bond Authority Lease Rental Bonds	74,615	60,320	42,710	24,235
Convention Center Authority Outstanding [1]	202,855	287,185	279,935	270,960
Economic Development Corporation – Transportation	42,255	79,920	76,290	72,560
Certificates of Participation – Master Equipment Lease	9,505	13,580	19,790	14,395
Certificates of Participation – Intake Center	13,025	10,655	8,160	5,535
Certificates of Participation – Attorney General	2,795	2,795	2,575	2,230
Certificates of Participation – DLT Howard Complex	18,275	17,150	15,970	13,375
Certificates of Participation – Shepards Building	25,080	23,655	22,135	20,980
Certificates of Participation – Pastore Steam Plant	23,440	23,440	22,360	22,160
Certificates of Participation – Kent County Courthouse	58,910	56,685	54,405	52,075
Certificates of Participation – Traffic Tribunal Court Complex	21,565	21,565	20,765	19,940
Certificates of Participation – Training School	51,985	51,985	50,205	48,370
Certificates of Participation – Technology Initiative	-	-	23,490	21,000
Certificates of Participation – DOA Energy Conservation	-	-	6,000	6,000
Certificates of Participation – URI Energy Conservation	-	-	6,735	6,735
Rhode Island Housing/Traveler's Aid/NOP Program	13,060	18,754	15,502	18,152
Economic Development – Masonic Temple	-	-	14,280	9,775
Economic Development – Dow Chemical Corporation	24,542	-	-	-
Economic Development – URI Power Plant	13,514	12,869	12,194	11,494
Economic Development – McCoy Stadium	6,180	5,245	4,275	3,265
Subtotal	**601,601**	**685,803**	**697,776**	**643,236**
Performance Based Agreements [2]				
Economic Development – Fidelity Building I	21,847	21,154	20,402	19,592
Economic Development – Fidelity Building II	10,000	10,000	10,000	9,766
Economic Development – Fleet Bank Lease	10,015	9,830	9,630	9,412
Subtotal	**41,862**	**40,984**	**40,032**	**38,772**
Gross Debt	1,444,379	1,569,333	1,651,292	1,679,096
Less: Adjustments for Agency Payments:	(54,976)	(29,662)	(28,848)	(27,766)
Net Tax Supported Debt	**$1,389,403**	**$1,539,672**	**$1,622,444**	**$1,651,331**
Debt Ratios				
Personal Income	**$37,627,250**	**$38,839,898**	**$41,170,292**	**42,708,653**
Debt as a Percent of Personal Income	**3.69%**	**3.96%**	**3.94%**	**3.87%**

(1) Convention Center Authority defeased debt using proceeds from the sale of the Westin Hotel. Also, excludes the impact of the issuance by the Convention Center Authority of $70,735,000 Rhode Island Convention Center Authority Refunding Revenue Bonds, 2009 Series A and $485,000 Rhode Island Convention Center Authority Refunding Revenue Bonds, 2009 Series B (Federally Taxable) on March 25, 2009 and the redemption by the Convention Center Authority of its outstanding Variable Rate Refunding Bonds 2001, Series A in the principal amount of $59,210,000.

(2) Excludes contract for Providence Place Mall described under "Major Sources of State Revenues – Sales and Use Tax".

(3) Excludes the impact of the State's issuance of $86,875,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Series B, $8,500,000 General Obligation Capital Development Loan of 2008, Series C (Federally Taxable) and $12,445,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Refunding Series D issued on December 18, 2008. Excludes the impact of the redemption on January 2, 2009 of the State's outstanding Multi-Modal General Obligation Bonds consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,565,000. Also, it excludes the impact of approximately $150 million of Historic Structures Tax Credit bonds being issued by the Economic Development Corporation in June 2009, which bonds will be secured by payment obligations of the State subject to annual appropriation by the General Assembly.

Direct debt is authorized by the voters as general obligation bonds and notes. Current interest bonds require the State to make annual payments of principal and semi-annual payments of interest on bonds outstanding, and the capital appreciation bonds of the State require the payment of principal and interest at maturity. As of June 30, 2008, the State had $997.1 million of general obligation tax supported bonds outstanding. On December 18, 2008, however, the State issued $86,875,000 General Obligation Bonds Capital Development Loan of 2008, Series B, $8,500,000 General Obligation Bonds Capital Development Loan of 2008, Series C (Federally Taxable) and $12,445,000 General Obligation Bonds Consolidated Capital Development Loan of 2008, Refunding Series D. Also, on January 2, 2009, the State redeemed its outstanding Multi-Modal General Obligation Bonds Consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,565,000.The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2009 through FY 2028.

Debt Service Schedule for General Obligation Debt Issued for FY 2009-2028*

Fiscal Year	Principal	Interest	Total Debt Service
2009	54,553,740	45,828,472	100,382,212
2010	63,494,000	49,449,450	112,943,450
2011	64,695,000	45,954,662	110,649,662
2012	77,275,000	42,706,242	119,981,242
2013	85,535,000	38,607,265	124,142,265
2014	79,155,000	34,620,118	113,775,118
2015	75,480,000	30,754,639	106,234,639
2016	71,410,000	27,174,351	98,584,351
2017	71,435,000	23,633,711	95,068,711
2018	63,830,000	20,350,663	84,180,663
2019	59,800,000	17,278,276	77,078,276
2020	53,925,000	14,616,231	68,541,231
2021	53,005,000	12,163,514	65,168,514
2022	44,085,000	9,894,753	53,979,753
2023	44,895,000	7,816,116	52,711,116
2024	35,330,000	5,822,179	41,152,179
2025	29,340,000	4,042,125	33,382,125
2026	30,830,000	2,566,283	33,396,283
2027	16,710,000	1,393,626	18,103,626
2028	15,960,000	579,988	16,539,988
Total	$1,090,742,740	$435,252,662	$1,525,995,402

* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of May 1, 2009. Excludes guaranteed and contingent debt.

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of May 1, 2009 which has been approved by referenda of the electors.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of May 1, 2009*
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
RI Water Pollution Revolving Loan Fund and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, Ch. 434-P.L. of 1990	4,900,000
State Police HQ/Fire Training Academy	Ch. 65-P.L. of 2002**	40,070,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Transportation	Ch. 595-P.L. of 2004	950,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	5,800,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	29,785,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	4,500,000
Higher Education	Ch. 246-P.L. of 2006	59,290,000
Transportation	Ch. 246-P.L. of 2006	5,992,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	4,200,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Affordable Housing	Ch. 246-P.L. of 2006	25,000,000
Transportation	Ch.100-P.L.of 2008	87,215,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	2,500,000
Total Direct Debt		**$269,326,822**

Source: State Budget Office

**Reflects reduction of $1,552,805 in authorization which will not be issued since premium received in 2007 upon the sale by the State of its $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds was allocated to the projects related to such Bonds.*

***The balance of this authorization will extinguish and is not recommended for extension as the remaining balance is for the State Police project which is being funded through other means.*

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of May 1, 2009, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $20,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities").

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $26,205,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

Obligations Carrying Moral Obligation of State. Certain agencies of the State have the ability to issue bonds which are also secured by a capital reserve fund. If at any time the capital reserve fund falls below its funding requirement, the agency is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate the amount of the deficiency. See "Rhode Island Economic Development Corporation" and "Rhode Island Housing and Mortgage Finance Corporation" below.

Other Obligations Subject to Annual Appropriation. The State has entered into certain contractual agreements which, although of a long-term nature, are subject to annual appropriation by the General Assembly. Certain of these obligations are contractual agreements with State Agencies or Authorities (See "State Agencies and Authorities"). A brief description of the most significant of other such commitments for which the State has or may appropriate funds is provided below.

In December 1995, the State entered into a lease agreement with a financial institution which issued $4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2008, $2,230,000 of these certificates were outstanding.

The State has also entered into a lease agreement with a financial institution that issued $33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2008, $5,535,000 was outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in the certificates of participation in January 1997 to finance the renovation of a group of buildings at the State-owned John O. Pastore Center, formerly known as Howard Center in Cranston, Rhode Island for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2008, $13,375,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.07 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 Certificates of Participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2008, $21,420,000 in Certificates of Participation were outstanding.

In January 1998, the Economic Development Corporation issued revenue bonds in the amount of $11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. As of June 30, 2008, $3,265,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 of certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2008, $14,395,000 of certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2008, there was $22,160,000 of certificates outstanding.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of $13,060,000 of debt to provide funds for the relocation of the Traveler's Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional $2,250,000 for the Traveler's Aid project through the loan agreement. In 2006, the State financed $5.0 million. As of June 30, 2008, there was $18,152,000 outstanding. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects.

In November 2003, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold. As of June 30, 2008, $72,560,000 was outstanding. The State issued the third series of Motor Fuel Tax Revenue Bonds through the Economic Development Corporation in the amount of $12,410,000 on April 2, 2009.

In 2005, Rhode Island entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2008, there was $52,075,000 outstanding.

In 2005, Rhode Island entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2008, there was $19,940,000 outstanding.

In 2005, Rhode Island entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facilities and a Juvenile Detection Center. As of June 30, 2008, there was $48,370,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. As of June 30, 2008, there was $21,000,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. As of June 30, 2008, there was $12,735,000 outstanding.

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to $14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer. As of June 30, 2008, there was $9,775,000 outstanding.

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of May 1, 2009, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

	Total Authorization
Technology Projects	13,410,000
Energy Conservation	64,465,000
School for the Deaf	33,290,000
Subtotal- Certificates of Participation	**111,165,000**
Registry of Motor Vehicles System	$13,000,000
Economic Development Corporation – Historic Structures Tax Credit Fund	356,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$480,365,000

The State plans to issue approximately $58.1 million of Certificates of Participation in FY 2009 and it is estimated that $53.1 million of the energy conservation project authorization will be issued in FY 2010 or later. The State also anticipates the issuing of up to $13 million to fund the Registry of Motor Vehicles Systems in 2009. In June 2009, it is expected that the Economic Development Corporation will issue approximately $150 million of bonds to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved by quasi-public agencies and the Board of Governors for Higher Education which will be funded from non-general revenue sources.

Performance-based obligations of the Economic Development Corporation. In May 1996 the Economic Development Corporation issued $25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are provided for lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2008, $29.358 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.5 million in 2009, and are expected to reach $2.5 million for Phase I and $522,000 for Phase II annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank; bonds issued for that transaction totaled $11.0 million. As of June 30, 2008, $9.412 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only $3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately $300,000 per year.

Borrowing for the Employment Security Fund

The Employment Security Fund is comprised primarily of monies collected from a tax imposed on Rhode Island employers. These funds are used for the sole purpose of paying unemployment insurance benefits to eligible claimants. All funds are deposited in the unemployment trust fund which is administered by the United States Treasury.

An employer's contribution rate is determined by (a) the level of reserves in the fund and (b) the individual employer's history of unemployment. The level of reserves determines the tax rate schedule in effect for all covered employers in the State for a specific calendar year, while a particular company's experience with unemployment determines the tax rate within that schedule at which that company is assessed.

The balance in the Rhode Island Employment Security Fund was $104.9 million as of October, 2008. This was a decrease of $72.8 million or 41% from October 2007. The Rhode Island Department of Labor and Training projected that it would need to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2009 and FY 2010. The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 million repayment of the outstanding loan balance.

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below.

The first column of the chart presents the ending fund balance for each calendar year between 1975 and the balance as of April 2009. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) and employee benefits and loan repayments (disbursements) less any outstanding loan balance.

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	.02
1981	-71.0	-0-	9.26
1982	-76.6	-0-	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	61.0	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.6	-0-	-0-

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Borrowings from Federal Unemployment Account: Amount Repaid (Millions)
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	113.9	-0-	-0-
1994	110.3	-0-	-0-
1995	107.7	-0-	-0-
1996	112.4	-0-	-0-
1997	156.9	-0-	-0-
1998	219.9	-0-	-0-
1999	260.5	-0-	-0-
2000	295.6	-0-	-0-
2001	277.9	-0-	-0-
2002	253.7	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.8	-0-	-0-
2007	168.3	-0-	-0-
2008	79.2	-0-	-0-
2009 (as of April 2009)	-57.2	65.1	-0-

In March 2009, the Governor applied for repayable advances to the account of the State of Rhode Island in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. The amount of advances needed for FY 2009 was estimated to be no more than $32.0 million, $35.0 million and $10.0 million in March, April and May 2009, respectively. As of April 30, 2009, the amount borrowed totaled $65.1 million. It is expected that the borrowing will be continuous throughout FY 2010, and would reach $226.0 million.

Under the American Recovery and Reinvestment Act of 2009, the loans from the federal account do not bear interest through December 2010. Beginning in 2011, any interest due on federal loans must be paid by October 1st of each year. Failure to pay this interest by the due date would result in a loss of State employer FUTA tax credits and the loss of the State's UI Administrative grant. The interest due on federal loans cannot be paid out of the State's UI Trust fund or by UI Grant funds. If the state is unable to repay federal loans, there are provisions for automatic cuts in federal tax credits that employers receive when state law is in conformity with federal law. Currently, employers pay a federal unemployment tax (FUTA) of 6.2% to the federal government and receive a credit of 5.4%. The net federal tax is, therefore, 0.8%. However, after a couple of years of outstanding loans, the federal government would implement cuts in the federal credit of 0.3% for each additional year that the loans remain outstanding. This money would be applied against the state's federal loan balance.

State Agencies and Authorities

The General Assembly from time to time has authorized the creation of certain specialized independent authorities, districts and corporations to carry out specific governmental functions. In certain cases, bonds and other obligations issued by these entities have been guaranteed by the full faith and credit of the State; additionally, the State may provide significant financial assistance for their operations. In other cases, such entities, although empowered to issue bonds, may not pledge the full faith and credit of the State and, therefore, these bonds are not guaranteed by the State.

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24, in 1954, the Rhode Island Turnpike and Bridge Authority has rights and obligations under agreements which secure its outstanding bonds. On August 21, 1997 the Authority issued $42,985,000 Refunding Revenue Bonds Series 1997 providing escrowed funds to defease bond issues outstanding totaling $41,355,000, (the original issues in 1965 and 1967 totaled $61,000,000). On July 31, 2003 the Authority issued $35,765,000 Taxable Refunding Bonds and together with other funds paid the outstanding balance Series 1997 of Revenue Refunding Bonds. Accordingly, as of June 30, 2004 the Authority had no obligations related to the defeased Series 1997 bonds. The Authority voted to remove the tolls from the Mt. Hope Bridge on May 1, 1998. The Mt. Hope Bridge will continue to be maintained by the Authority. Tolls on the Claiborne Pell Bridge are the primary source of revenues and together with interest earned on investments are anticipated to be adequate to service debt and maintain the Authority's facilities. The outstanding balance of the 2003A issue of taxable refunding bonds is $25,795,747 at June 30, 2008.

Effective October 1, 1999, token purchases for $10 (11 tokens) and $50 (60 tokens) were authorized to provide savings to commuters as compared to the $1.00 per axle cash fare. In December 2008, the Authority implemented an EZ Pass system. Tokens are no longer accepted from motorists. Users of Rhode Island-issued EX Pass transponders pay $0.83 per trip and users of transponders issued by others pay $1.75 per trip. There is litigation pending in United States District Court challenging the difference in rates. Cash customers continue to pay $1.00 per axle.

Narragansett Bay Commission. The Commission is a public corporation of the State of Rhode Island, having a legal existence distinct from the State, and not constituting a part of State government, created in 1980 pursuant to Chapter 25 of title 46 of the General Laws of Rhode Island. The Act authorized the Commission to acquire, operate and upgrade the metropolitan Providence wastewater collection and treatment facilities. Full responsibility for the metropolitan Providence system was assumed on May 2, 1982. On January 1, 1992 the former Blackstone Valley District Commission was merged into the Narragansett Bay Commission.

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to $3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State.

Rhode Island Industrial-Recreational Building Authority. The Rhode Island Industrial-Recreational Building Authority was created in 1987, pursuant to legislation under Chapter 34, title 42 of the General Laws of Rhode Island and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to $80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default. Effective July 1, 2008, the General Assembly reduced the authorization to $20,000,000.

As of June 30, 2008, the Authority had outstanding mortgage agreements and other commitments for $14,946,868 mainly in connection with revenue bonds issued by the Rhode Island Industrial Facilities Corporation. In accordance with State law, all premiums received by the Authority and all amounts realized upon foreclosure or other proceeds of defaulted mortgages are payable into the Industrial Recreational Building Mortgage Insurance Fund. All expenses of the Authority and all losses on insured mortgages are chargeable to this Fund. As of June 30, 2008, the Fund had a balance of $2,510,743. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

Rhode Island Refunding Bond Authority. The Authority was created in 1987 under Chapter 8.1, title 35 of the General Laws of Rhode Island, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of providing a legal means to advance refund two series of general obligation bonds of the State of Rhode Island. The Authority is authorized to issue bonds and notes, secured solely by its revenues, derived from payments pursuant to a loan and trust agreement with the State of Rhode Island, subject to annual appropriation. The payment of such loans by the State is subject to and dependent upon annual appropriations being made by the General Assembly.

Article 2 of the Fiscal Year 1998 Appropriations Act, effective July 1, 1997, transferred the functions, powers, rights, duties and liabilities of the Rhode Island Public Buildings Authority to the Rhode Island Refunding Bond Authority. Until this consolidation, the Rhode Island Public Buildings Authority, created by Chapter 14 of title 37 of the General Laws of Rhode Island, was a body corporate and politic which was generally authorized to acquire, construct, improve, equip, furnish, install, maintain and operate public facilities and public equipment through the use of public financing, for lease to federal, State, regional and municipal government branches, departments and agencies, in order to provide for the conduct of the executive, legislative and judicial functions of government. The various types of projects financed by the Public Buildings Authority included judicial, administrative, educational, residential, rehabilitative, medical, correctional, recreational, transportation, sanitation, public water supply system and other projects.

The Public Buildings Authority had six series of bonds outstanding as of June 30, 1997, in the amount of $202,750,000, which are payable solely from revenues derived from lease rentals pursuant to lease agreements between the Authority and the State. The State's payment of such lease rentals is subject to and dependent upon annual appropriations being made by the General Assembly. In June 1998, the Refunding Bond Authority refunded portions of four of these series of bonds with the issuance of the 1998 Series A Bond in the amount of $39,875,000. The 1988 Series A Revenue Bonds were redeemed during the fiscal year ended June 30, 2003. In May 2003 the Authority issued $67,625,000 State Public Projects Revenue Bonds, Series 2003 A dated April 1, 2003 to refund the outstanding principal of State Public Projects Revenue Bonds, 1993 Series A originally issued by the Rhode Island Public Buildings Authority. Total net debt outstanding on the 1998 and 2003 issues as of June 30, 2008 totals $24,235,000.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws of Rhode Island as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. In November 1991 the Authority sold $225 million in bonds to finance the construction of the convention center and in July 1993 the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C bonds. The 1993 Series C Bonds were retired in 2008. In March 2009, the Authority issued $71.220 million in bonds to refund the 2001 Series A bonds and terminated an associated SWAP agreement

Currently the Authority has $275,810,000 principal outstanding debt excluding interest consisting of the following issues:

- 1993 Series B - $39,650,000
- 2003 Series A - 41,315,000
- 2005 Series A - 33,980,000
- 2006 Series A - 89,645,000
- 2009 Series A - 70,735,000
- 2009 Series B - 485,000

The Authority purchased the Dunkin' Donuts Civic Center from the City of Providence in December of 2005 for a purchase price of $28.5 million. The purchase price for the acquisition of the Dunkin Donuts Civic Center, together with funds for the renovation of and ancillary expenditures regarding the Dunkin Donuts Civic

Center, was financed in 2006 through a taxable bond issuance of $92.5 million constituting the 2006 Series A Bonds.

Pursuant to a Lease and Agreement dated as of November 1, 1991, between the Authority, as lessor and the State, as lessee, the Authority leased the Convention Center facilities to the State. Pursuant to a lease and agreement dated as of November 30, 2005, between the Authority, as lessor, and the State, as lessee, the Authority leased the Dunkin Donuts Civic Center to the State. The State is obligated to make lease payments in an amount sufficient to pay the operating expenditures of the Authority and the corresponding debt service on its obligations including, but not limited to, the bonds. The lease payments are subject to annual appropriation by the General Assembly.

Rhode Island Resource Recovery Corporation. The Rhode Island Resource Recovery Corporation (the Corporation), a quasi-public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws of Rhode Island, for the purpose of assisting municipalities in solving their waste disposal problems and for developing a more suitable alternative approach to the overall solid waste disposal problem through implementation of a resource recovery program. To accomplish its purposes, the Corporation has the power to issue negotiable notes and bonds subject to the provisions of Rhode Island General Law 35-18 and 23-19.

During January 2002, the Corporation issued Resource Recovery System Revenue Bonds, 2002 Series A (the Bonds), in the aggregate principal amount of $19,945,000. The Bond proceeds were used to finance the construction and equipping of a tipping facility to receive and handle commercial and municipal solid waste delivered to the facility. These bonds bear interest at rates that range from 3.5% to 5% and mature in varying installments beginning March 1, 2003 through March 1, 2022. The outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required on bonds over various years beginning in 2018 through 2022 at the principal amount of the bonds. The outstanding balance at June 30, 2008 totals $15,670,000.

The outstanding indebtedness is collateralized by all revenues of the Corporation, certain restricted funds created pursuant to the Bonds issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the Bonds.

During 2006, in conjunction with the purchase of several properties held for development, the Corporation issued various note payable agreements, bearing interest at 5% per annum, in the original amount of $4,700,000. The aggregate balance outstanding on these notes at June 30, 2008 and 2007 was $1,250,000 and $1,875,000 respectively. Future minimum debt payments are $625,000 in fiscal year 2008 and $625,000 in fiscal year 2009.

The General Assembly approved legislation establishing a mechanism for a State subsidy in implementing a comprehensive waste disposal program during its 1986 session. The General Law defines the State's financial participation as a subsidy to the local "tipping fee" paid by municipalities, and establishes a formula for calculating the subsidy. The State provided the Corporation with a $6,000,000 subsidy in FY 1994. Due to the improved financial condition of the Corporation, the General Assembly has required the Corporation to transfer the following annual amounts to the State's General Fund:

Fiscal Year	Amount
1995	$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0

2005	4,300,000
2006	7,500,000
2007	3,300,000
2008	5,000,000
	$59,215,000

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately $33,299,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses and trustee management fees through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000 as of June 30, 2008.

The cost of future remedial actions may exceed the amount of funds reserved. However, the Corporation projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. The Corporation would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and without the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the Corporation's Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as the Corporation is performing the remedy.

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and post closure care costs related to Phases II, III, IV and V. At June 30, 2008, the Corporation has approximately $39,636,000 in the trust funds to meet the financial requirements of closure and post closure care costs related to Phases II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care cost. The Corporation's total estimate of future landfill closure and postclosure costs is approximately $140,000,000 as of June 30, 2008. The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for licensure of Phase VI to RIDEM. The Corporation expects to record an approximately additional $80,000,000 of closure costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

As a result of concerns raised by the Executive Director of the Corporation regarding possible mismanagement of the Corporation prior to the beginning of his tenure in early 2007, the Governor requested the Bureau of Audits for the State to examine the Corporation in January 2008. The Bureau of Audits released in March 2008 preliminary results of its examination of the Corporation, which raised various issues of concern, including potential conflicts of interests violations in various land purchases, land purchases that exceeded comparable market prices, monies managed by an investment firm associated with a former board member, and charitable contributions from which board members and employees appeared to derive personal benefits. The forensic audit of the Corporation is ongoing. The Corporation has yet to determine the impact of forensic audit or other investigations of the Corporation other than the carrying value of certain assets held for development have been written down in fiscal year 2008.

Rhode Island Clean Water Finance Agency. Pursuant to Chapter 12.2 of title 46 of the Rhode Island General Laws, the Rhode Island Clean Water Finance Agency (the Agency) is a body politic and corporate and a public instrumentality of the State, having distinct legal existence from the State and not constituting a department of the State government. The purpose of the Agency is to operate revolving loan funds capitalized by federal grants, proceeds of the 1986 and 1990 general obligation bond referenda, and other revenues and borrowing as authorized. Eligible applicants to the revolving loan fund include local government units for water pollution control facility capital improvements and drinking water capital improvements. Project selection will be determined according to federal EPA criteria, DEM and DOH prioritization, and Agency criteria as to security and fiscal soundness.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2008, the Agency has issued bonds in the aggregate amount of $777,115,000 to fund $872,196,309 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2008 is $453,195,000 in the clean water state revolving fund (CWSRF wastewater projects), $59,485,000 for three conduit financings and $118,660,000 in the drinking water state revolving fund. Also, in years 1997 through 2008, the Agency made a total of $41,130,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $27,578,037 in direct loans out of the Drinking Water State Revolving Fund and $58,095,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund.

Rhode Island Public Transit Authority. The Public Transit Authority was created under Chapter 18, title 39 of the General Laws of Rhode Island, by the General Assembly in 1964 as a body politic and corporate in response to the continuing financial difficulties being experienced by private bus transportation companies in the State resulting in the disruption of service. The Authority, with assistance from the State and with the proceeds of a federal loan, acquired the assets of the former United Transit Company and is authorized to acquire any other bus passenger systems or routes in the State which have filed with the Chairman of the State Public Utilities Commission a petition to discontinue service, and which the Authority deems necessary in the public interest. The Authority has expanded its operations statewide and operates a fleet of approximately 257 buses and 140 vans carrying approximately 25.3 million passengers annually.

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to $1.00 to $1.50 and then to $1.75 in July 2008. The Authority, in an effort to build ridership, has maintained rates at a level that has necessitated State appropriations assistance to support its operations. In the fiscal year ended June 30, 2008, audited results of operations reveal that State-operating assistance to the Authority totaled $32,724,644, operating revenues totaled $32,643,162, and other revenues totaled $24,566,713.

In 2005, facing a series of budget deficits, the Authority eliminated liability insurance coverage for claims arising out of its operations, which insurance covered losses above $1 million and up to $5 million, based upon its past claims history. The elimination of liability insurance coverage has saved the Authority significant insurance premium expenses but has left the Authority uninsured should any major liability claim arise.

The Authority, as a result of a possible budget deficit that was expected to reach as high as $10 million for FY 2009 as compared to its $100 million budget, had scheduled hearings on service reductions that could have eliminated twenty (20%) percent of its bus service beginning in January 2009. The Governor has appointed a committee of directors from the Department of Revenue, Department of Transportation and the Department of Administration to work with the Authority to identify potential cost savings and operating efficiencies in order to address the Authority's short-term budget deficit without eliminating any of its current bus service and to provide recommendations and develop a strategic plan for the long-term success of the Authority. As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit, to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority's operations.

Rhode Island Economic Development Corporation. The Rhode Island Economic Development Corporation is a public corporation of the State for the purpose of stimulating the economic and industrial development of the State through assistance in financing of port, industrial, pollution control, recreational, solid waste and water supply facilities, and through the management of surplus properties acquired by the State from the federal government. The Corporation is generally authorized to acquire; contract and assist in the financing of its projects through the issuance of industrial development revenue bonds which do not constitute a debt or liability of the State.

The Corporation, which changed its name in 1995, was previously known as the Rhode Island Port Authority and Economic Development Corporation, created in 1974 under Chapter 64, title 42 of the General Laws of Rhode Island. The Corporation continues the function of the Port Authority, but also incorporates other activities performed by the State Department of Economic Development and provides assistance to economic related agencies including the

Rhode Island Airport Corporation and the Rhode Island Industrial Facilities Corporation. The new corporation provides a single State agency to deal with economic development for the State.

As of June 30, 2008, the Corporation had revenue bonds outstanding of $868,351,949 including conduit debt of $77,220,272 for the former Rhode Island Port Authority and Economic Development Corporation. Certain of the bonds of the Corporation can be secured, in addition to a pledge of revenues, by a capital reserve fund established by the Corporation for the applicable bond issue. In accordance with its enabling legislation, if at any time the balance in such capital reserve fund falls below its requirement, the Corporation is authorized to request the General Assembly to appropriate the amount of the deficiency. The General Assembly may, but is not obligated to, appropriate such amounts.

In February 1993, the Corporation issued $30,000,000 in taxable revenue bonds on behalf of Alpha Beta Technology, Inc. for acquisition, construction and equipping of a new plant facility for the clinical and commercial manufacture of biopharmaceutical products. In January 1999, this issue was placed in default. These bonds were secured by a letter of credit that was secured in part by the Corporation’s capital reserve fund. The bondholders were paid in full from a draw on the letter of credit. The Corporation repaid the debt to the letter of credit bank and receivership costs by utilizing funds on hand in FY 2000, the proceeds from the sale of the facility, and state appropriations authorized during the 1999 General Assembly. The state appropriations, disbursed in the amount of $5.8 million, were partially reimbursed as a result of additional receivership proceedings, resulting in net state support of $5.4 million. As of June 30, 1999, the balance outstanding was $28,675,000. As of January 1, 2000, there were no bonds outstanding for the original Alpha Beta debt. A new series of bonds in the amount of $25.0 million were issued to finance the purchase of the building for Collaborative Smithfield Corporation. These bonds are also secured by the Corporation’s capital reserve fund. On November 17, 2000, Dow Chemical Corp. assumed the bonds from Collaborative Smithfield Corp. On April 26, 2006, the total outstanding bonds were defeased.

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield, Rhode Island to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.’s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. At June 30, 2008, the outstanding balance was $19,591,677. In FY 2009, the State’s payment is expected to be $2.5 million.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield, Rhode Island. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation’s capital reserve fund. At June 30, 2008, the outstanding balance was $9,500,000.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, Rhode Island to be utilized for Fleet National Bank. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, the State has provided for credits if certain targeted new job goals are met. No expenditures have been made to date. At June 30, 2008, the outstanding balance was $9,415,000.

Bonds secured by the Corporation’s capital reserve fund (including bonds for Fidelity Management Resources and Fleet National Bank described above) carry a moral obligation of the State. If at any time, certain reserve funds of the Corporation pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. The General Assembly may (but it is not obligated to) appropriate the amount of the deficiency.

In January 1998, the Corporation issued revenue bonds in the amount of $11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. At June 30, 2008, the outstanding balance was $3,265,000.

In May 2000 the Corporation issued revenue note obligations in the amount of $40,820,000 to finance a portion of the costs of the Providence Place Mall. Such financing will be supported by two-thirds of the sales taxes generated at the mall (up to a cap of $3.68 million in years 1-5, and $3.56 million in years 6-20) as provided in the Mall Act (R.I.G.L. § 42-63.5-1 et. seq.) enacted by the General Assembly in 1996 and by Public Investment and HOV Agreement. It is expected that sales tax revenues generated at the Mall will be sufficient to fully support the revenue note obligations. Sales tax generated at the Mall is recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient, and the Economic Development Corporation is not responsible for payment from its resources.

In July 2007, the Rhode Island Economic Development Corporation provided $14 million to an affiliate of Sage Hospitality, the developer of the old Masonic Temple located in Providence, Rhode Island, in the form of a 40 year loan, at an interest rate of ½ of one per cent, in exchange for the extinguishment of no less than $24 million in Rhode Island Historic Preservation Tax Credits that have not yet been issued on the project to redevelop the old Masonic Temple into a Renaissance Hotel. The Corporation borrowed funds for the transaction from Bank of America and the Governor agreed to request the General Assembly to appropriate each fiscal year funds sufficient to repay the obligation of the Corporation during FY 2008 through FY 2010. It is anticipated that the net savings to the State would be approximately $7.0 million over the period of time those tax credits may otherwise have been used.

Rhode Island Airport Corporation. RIAC was created by the Rhode Island Economic Development Corporation (EDC) on December 9, 1992 as a public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State of Rhode Island (State) and the EDC, and having many of the same powers and purposes as EDC. RIAC is a component unit of the EDC, which is a component unit of the State. RIAC is empowered, pursuant to its Articles of Incorporation and Rhode Island law, to undertake the planning, development, management, acquisition, ownership, operation, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility", as defined in Title 42, Chapter 64 of the Rhode Island General Laws, as amended (the "Act"). "Airport facility" is defined in the Act in part as "developments consisting of runways, hangers, control towers, ramps, wharves, bulkheads, buildings, structures, parking areas, improvements, facilities, or other real or personal property, structures, parking areas, improvements, facilities, or other real or personal property, necessary, convenient, or desirable for the landing, takeoff, accommodation, and servicing of aircraft of all types, operated by carriers engaged in the transportation of passengers or cargo, or for the loading, unloading, interchange, or transfer of the passengers or their baggage, or the cargo, or otherwise for the accommodation, use or convenience of the passengers or the carriers or their employees (including related facilities and accommodations at sites removed from landing fields or other areas), or for the landing, taking off, accommodation, and servicing of aircraft owned or operated by persons other than carriers".

Pursuant to its Articles of Incorporation, the powers of RIAC are vested in its Board of Directors consisting of seven members; one member is appointed by the Mayor of the City of Warwick and the remaining six members are appointed by the Governor of the State. Each of the six directors appointed by the Governor serves a staggered four year term. The director appointed by the Mayor of the City of Warwick serves at the pleasure of the Mayor.

Pursuant to the State Lease Agreement, RIAC leased T.F. Green Airport (Airport) and the five general aviation airports (collectively, "Airports") from the State for a term ending June 30, 2038, at a rental of $1.00 per year. RIAC has also acquired all of the personal property and other assets of the State located at or relating to the Airports. In consideration of RIAC's assumption of the Rhode Island Department of Transportation's (RIDOT) responsibilities with respect to the Airports, the State and RIDOT have assigned to RIAC all of their rights to the revenues of the Airports, the proceeds of State General Obligation (G.O.) Bonds related to the Airports, Federal Aviation Administration (FAA) grant agreements, a Federal Highway Administration grant, insurance proceeds, all contracts including concession agreements and the prior airline agreements, and all licenses and permits.

RIAC operates on a fiscal year basis beginning on July 1 and continuing through the following June 30th of each year. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has utilized State G.O. Bonds issued on behalf of RIAC for the intended use at the Airports. Per the Lease Agreement, RIAC is obligated to repay to the State the principal and interest on any G.O. Bonds issued for airport purposes.

The powers of RIAC are vested in its Board of Directors consisting of seven members. RIAC does not have the power to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 commercial carrier. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

North Central Airport

Located approximately fifteen miles north of the Airport, North Central Airport is classified as a reliever airport by the FAA and is located in Lincoln.

Quonset Airport

This airport is located in North Kingstown, approximately ten miles south of the Airport. The Rhode Island Air National Guard moved its operations from the Airport to Quonset Airport in 1986. The Rhode Island Army National Guard also maintains a presence at the Quonset Airport. Quonset Airport also has additional industrial facilities which are leased to several companies by the Quonset Development Corporation (QDC), a subsidiary of the EDC. Quonset Airport is classified by the FAA as a reliever airport.

Westerly Airport

Located in the southwest portion of Rhode Island in Westerly, Westerly Airport is approximately thirty-five miles from the Airport. Westerly is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

Newport Airport

This airport is located in Middletown, approximately seventeen miles from the Airport. Newport Airport is classified as a general aviation airport.

Block Island Airport

Situated on Block Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 8,000 commuter passengers annually.

As of June 2008, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by fifteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Three airlines provide all-cargo service.

Airport Use & Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2008:

- American Airlines
- Continental Airlines
- Delta Airlines
- Northwest Airlines

- Southwest Airlines
- United Airlines
- US Airways

The term of the Airline Agreements extend through June 30, 2010, and establish procedures for the annual adjustment of signatory airline terminal rates and aircraft landing fees collected for the use and occupancy of terminal and airfield facilities.

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for the federal fiscal year 2006 according to the latest published data in the "Terminal Area Forecast Summary" produced by the U.S. Department of Transportation, Federal Aviation Administration. This compares with rankings of 57th busiest in federal fiscal year 2005, 57th in federal fiscal years 2003 and 2004, and 56th, in federal fiscal year 2002.

Actual enplaned passengers for fiscal year 2008 were 45,038 below 2007, resulting in a decrease of 1.8%. The decline in enplanements at the Airport is attributable to the cessation of services by Spirit Airlines in April 2007 and the reduction in available seat capacities as several mainline carriers continue to shift their service to regional jet and commuter affiliates.

Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State for State G.O. Bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient moneys to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2008 and 2007 was $11.678 million and $13.195 million, respectively.

In 1994, RIAC issued $30 million General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2008 and 2007 was $6.07 million for both years.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2008 and 2007 was $35.08 million and $54.46 million, respectively.

In 2000, RIAC issued $8.38 million Series A and $42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5 %. The balance outstanding as of June 30, 2008 and 2007 was $5.19 million and $6.31 million, respectively.

In 2003, RIAC issued $31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of $31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was $23.585 million and $26.415 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.190 million in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARBs, respectively. The refunding issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2008 and June 30, 2007 was $50.06 million and $50.095 million respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2008 and 2007 was $114.87 million and $115.075 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B Airport Revenue Bonds dated May 30, 2008 maturing annually from 2008 through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2008 was $51.165 million.

Long Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.765 million as of June 30, 2008 and June 30, 2007. The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

The Trust Estate consists of: (i) Facility Revenues (which include (CFCs); (ii) moneys, including investment earnings, in funds and accounts pledged under the Indenture; (iii) certain insurance proceeds required to be deposited in such funds and accounts under the Indenture; and (iv) EDC's right, title and interest to receive loan payments from RIAC under the EDC Loan Agreement.

As part of the financing for the Intermodal Facility Project, RIAC and the EDC have secured additional funds under the US Department of Transportation's (USDOT's) Transportation Infrastructure Finance and Innovation Act (TIFIA) provisions for the payment of eligible project costs of the Intermodal Facility up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund to be funded from CFCs on the Date of Operational Opening in an amount equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2008 and June 30, 2007 approximately $83 thousand had been drawn on the TIFIA loan, respectively.

Rhode Island Industrial Facilities Corporation. The Rhode Island Industrial Facilities Corporation is a public body corporate and agency of the State established under Chapter 37.1, title 45 of the General Laws of Rhode Island. The Corporation is authorized to acquire, construct, finance and lease the following projects: (a) any land, building or other improvement, and all real and personal properties, including, but not limited to, machinery and equipment or any interest therein, whether or not in existence or under construction, which shall be suitable for manufacturing, warehousing, or other industrial or commercial purposes or suitable for pollution abatement or control, for the reconstruction, modernization or modification of existing industrial plants for the abatement or control of industrial pollution or suitable for solid waste disposal, or for any combination of such purposes including working capital, but shall not include raw materials, work in process or stock in trade; (b) any railroad rolling stock and vehicles for the transportation of freight; (c) the construction and/or acquisition costs of marine craft and necessary machinery, equipment and gear to be used primarily and continuously in the fishing industry; (d) the construction and/or acquisition costs and necessary machinery and equipment of any marine craft for research or other uses considered to be an integral part of any land-based industrial concern which would qualify for a loan guarantee through the Rhode Island Industrial-Recreational Building Authority; (e) acquisition costs of any existing building, machinery and equipment for any project which would otherwise qualify for a loan guarantee through the Rhode Island Industrial-

Recreational Building Authority; and (f) any "recreational project" as described in Chapter 34 of title 42, relating to the loan guarantee program of the Rhode Island Industrial-Recreational Building Authority.

The Corporation is authorized to issue its revenue bonds and notes from time to time for any of its corporate purposes. All bonds and notes issued by the Corporation shall be payable solely out of the revenues and receipts derived from the leasing or sale by the Corporation of its projects, or from any other financing arrangement which may be designated in the proceedings of the Corporation under which the bonds or notes shall be authorized to be issued. As of June 30, 2008, the Corporation had an outstanding principal balance of conduit debt of $86,095,236. Except for any obligations secured by mortgages which are insured by the Rhode Island Industrial-Recreational Building Authority, the State shall not be liable for the payment of the principal of or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage obligation or agreement of any kind whatsoever which may be undertaken by the Corporation nor shall such bonds and notes be construed to constitute an indebtedness of the State. Outstanding mortgage obligations of the Corporation which are insured by the Rhode Island Industrial-Recreational Building Authority totaled $14,946,868 as of June 30, 2008.

Rhode Island Housing and Mortgage Finance Corporation. The Rhode Island Housing and Mortgage Finance Corporation is a public corporation and instrumentality of the State created in 1973 to assist in the construction and financing of low and moderate income housing and health care facilities in the State. In addition to its general powers, the Corporation is authorized to issue revenue bonds and to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2008 was $1,616,370,000 consisting of $1,493,874,000 of long-term bonds and $122,496,000 of short-term or convertible-option bonds. Included in the total outstanding is $321,813,000 in bonds, which are secured in part by capital reserve funds which have aggregated to $39,001,000 on June 30, 2008. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2008, the Authority held $609,252,368 Federal Family Education Loans that were insured by the Rhode Island Higher Education Assistance Authority and other Guarantors. The Authority also held on September 30, 2008, $153,147,816 in Rhode Island Family Education Loans and $241,289,363 in College Bound Loans. As of September 30, 2008, the Authority had $988,590,000 of tax-exempt and taxable bonds outstanding.

Rhode Island Higher Education Assistance Authority. The Authority was created in 1977 under Chapter 57, title 16 of the General Laws as a public corporation of the State having a distinct legal existence from the State and not constituting a department of State government. It was created for the purpose of guaranteeing eligible loans to students and parents of students attending eligible institutions and of administering other programs of post-secondary student financial assistance assigned by law to the Authority (e.g. Rhode Island State Scholarship/Grant Program and College Bound*fund*®, Rhode Island's IRS Section 529 college savings program). Guarantees made by the Authority shall not constitute a pledge of the faith and credit of the State, but shall be payable solely from the revenues and assets of the Authority.

Rhode Island Water Resources Board Corporate. Pursuant to Chapter 15.1 of title 46 of the Rhode Island General Laws, the Water Resources Board Corporate is a body politic and corporate and a public instrumentality of the State having a distinct legal existence from the State. The purpose of the Board is to foster and guide the development of water resources including the establishment of water supply facilities and lease the same to cities, towns, districts and other municipal, quasi-municipal or private corporations or companies engaged in the water supply business in Rhode Island, contract for the use of the same by such parties, or sell to such parties the water derived from, carried by or processed in such facilities. The Board is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water and the water surcharge (.01054). On July 13, 1989, the Board issued bonds for the benefit of the Providence Water Supply Board. On August 7, 1997 the Board issued refunding bonds in the amount of $9,930,000 to advance refund the Providence Project Bonds which were redeemed on September 15, 1999. The amount of the Refunding Bonds outstanding as of June 30, 2008 was $2,000,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of $11,835,000. On November 15, 2002, the Board issued $11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of $7,847,700. The excess proceeds were used to fund Phase III of public drinking water protection. The amount of the Series 2002 refunding bonds outstanding as of June 30, 2008 was $7,530,000.

Rhode Island Health and Educational Building Corporation. The Corporation was organized in 1966 as a Rhode Island non-business corporation with the name of Rhode Island Educational Building Corporation. In 1967, the Corporation was constituted as a public body corporate and an agency of the State by the Rhode Island General Assembly under Chapter 38.1, title 45 of the General Laws. The Corporation has broad powers to assist in providing educational facilities for colleges and universities operating in the State, to assist hospitals in the State in the financing of health care facilities, to assist students and families of students attending institutions for higher education in the State to finance the cost or a portion of the cost of higher education, to assist in financing a broad range of non-profit health care providers, and to assist in financing non-profit secondary schools; child day care centers; adult day care centers; and free standing assisted living facilities; and to assist it in carrying out its powers, the Corporation may issue bonds and notes which are special obligations of the Corporation payable from revenues derived from the project financed or other monies of the participating educational institution or health care institution available for such purpose. The State is not liable for the payment of the principal, premium, if any, or interest on any bonds or notes of the Corporation, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Corporation, and none of the bonds or notes of the Corporation nor any of its agreements or obligations shall be construed to constitute an indebtedness of the State. As of June 30, 2008, the Corporation had $2,420,465,710 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

Tobacco Settlement Financing Corporation. The Tobacco Settlement Financing Corporation ("TSFC") was created in 2002 as a public corporation, having distinct legal existence from the State and not constituting a department of state government. The TSFC was created to finance the acquisition from the State of the State's right, title and interest in the State's rights to receive the moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company and (ii) the Consent Decree and Final Judgment of the Rhode Island Superior Court for Providence County dated December 17, 1998, as the same has been and may be corrected, amended or modified, in the class action styled State of Rhode Island v. American Tobacco, Inc., et al. (Docket No. 97-3058), including without limitation, the rights of the State to receive the moneys due to it thereunder.

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts", as defined in the Act, after December 2003. As of June 30, 2008, the TSFC had $646,535,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional $197.0 million of its TASC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $843,535,000 of bonds outstanding as of June 30, 2008.

In accordance with the Act, the TASC bonds are payable both as to principal and interest solely out of the assets of the TSFC pledged for such purpose; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or the interest on the TASC bonds. The TASC bonds do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State. In accordance with Generally Accepted Accounting Practices, the financial statements of the TSFC do not assign a value to the future revenues from the Master Settlement Agreement.

EMPLOYEE RELATIONS

Under State law, all State employees, with certain exceptions, have the right to organize, to designate representatives for the purpose of collective bargaining and to negotiate with the Governor or his designee on matters pertaining to wages, hours and other conditions of employment, except the State employees' retirement system. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other than the State Police. With respect to the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, an arbitrator's decision involving wages is binding. For all other bargaining units, the arbitrators' decision on issues involving wages is advisory only, and subject to subsequent mutual agreement of the parties.

Below the level of State government, municipal employees, including uniformed and non-uniformed employees and teachers have rights similar to State employees to organize, engage in collective bargaining and submit unresolved issues to arbitration. State law or judicial interpretation forbids all such employees to engage in any work stoppage, slowdown or strike. Police and Firefighters have binding arbitration on all matters including wages. The decision of the arbitrators on contract term disputes is binding on the parties with respect to all matters, including those involving the expenditure of money. With respect to teachers and non-uniformed employees, the arbitrators' decision is binding on all unresolved issues other than those involving the expenditure of money, which matters remain subject to the subsequent mutual agreement of the parties.

As of May 9, 2009 the State had 14,313 paid employees. This equates to approximately 13,461 full-time equivalent positions. Of this amount, 10,862 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,806 employees, or 35.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (822 employees); the Rhode Island Brotherhood of Correctional Officers (1,133 employees); the American Association of University Professors (687 employees) to name a few. In addition, there are 3,451 non-union employees. Contracts with all but two of the collective bargaining units expired on or prior to June 30, 2008. During the summer of 2008, the Administration negotiated a four year agreement which required approval of the various union memberships, and which reflected a portion of the savings to the State needed in order to accomplish the proposed $50.2 million general revenue savings in personnel costs to balance originally enacted the FY 2009 Budget. In 2008, the Rhode Island Brotherhood of Correctional Officers were awarded through arbitration, contractual provisions through 2006. The Brotherhood and the State have begun negotiations for the subsequent contract period. The State Police union has a contract which expired on April 20, 2009, and discussions have been started on that contract.

As part of the FY 2009 budget, the Governor recommended, and the General Assembly agreed, that State Government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The FY 2009 Enacted Budget included targeted reductions of 629.7 FTE positions in certain agencies based upon specific programmatic reductions. It is projected that this reduction will save $41.0 million from all fund sources in FY 2009. The FY 2009 Enacted Budget also includes $60.6 million in savings, of which $33.4 million is general revenues for personnel savings which were to be the result of negotiations with the unions. Additionally, the Governor's recommendation, and the FY 2009 Enacted Budget, assumed $30.5 million in savings from all fund sources ($16 million general revenues) from permanent position eliminations as a result of retirements for FY 2009. The FY 2009 Enacted Budget assumed that 400 non-critical positions will be eliminated upon the incumbent's retirement. Overall, the FY 2009 Enacted Budget provides that state employee full time equivalent positions be reduced from the FY 2008 enacted level of 15,987.3 to 14,958.6 in FY 2009, a reduction of 1,028.7 positions. As a result of changes enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there have been a significant number of state employees who have retired. As of May 9, 2009, there were 13,461 FTE positions filled, 1,497 less than the authorized amount in the FY 2009 Enacted Budget and 1,014 less than the authorized amount in the FY 2009 Supplemental Budget. As a result of the significant decline in the number of State employees from the levels provided for in the enacted budget for FY 2008, the State will be confronted with the challenge of reorganizing staffing to effectively render services to its residents with fewer employees.

STATE RETIREMENT SYSTEMS

Employees' Retirement System

The State of Rhode Island Employees' Retirement System ("ERSRI") is a multiple employer, cost-sharing, public employee retirement system that acts as a common investment and administrative agent for pension benefits to be provided to State employees who meet eligibility requirements as well as teachers and certain other employees employed by local school districts in Rhode Island. A separate retirement program is maintained for members of the faculty of the State University and colleges and certain administrative employees in education and higher education. This program is provided through Teachers' Insurance and Annuity Association Plan ("TIAA").

The ERSRI provides retirement, disability and death benefit coverage, as well as health insurance benefits for members retiring on or after July 1, 1989. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies ("LEA") and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. Additionally, the State created the Judicial Retirement Benefits Trust ("JRBT") to fund retirement benefits for judges hired after December 31, 1989 and the State Police Retirement Benefits Plan ("SPRBP") to fund retirement benefits for state police officers originally hired after July 1, 1987. These two plans are significantly smaller than the ERSRI for state employees and teachers. As of June 30, 2007, there are 44 active members and five retirees and beneficiaries of the JRBT and 179 active members and three retirees and beneficiaries of the SPRBT. Pensions for state police officers and judges hired prior to the dates reflected above for each of the plans are funded on a pay as you go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods are set by statute. As of the June 30, 1999 valuation, Rhode Island General Laws 36-10-2 and 36-10-2.1 provide for a funding method of Entry Age Normal ("EAN") and amortization of the Unfunded Actuarial Accrued Liability ("UAAL") over a period not to exceed thirty (30) years as of June 30, 1999. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the UAAL. The contribution rates are intended to be sufficient to pay normal cost and to amortize UAAL in level payments over a fixed period of 22 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

The State's total contributions (exclusive of contributions by LEA for teachers) to the ERSRI, JRBT and SPRBP were $151.26 million in FY 2006, $195.23 million in FY 2007, and $219.86 million in FY 2008, and are estimated to be $255 million in FY 2009 and $255.8 million for FY 2010 based upon the actuarial report as of June 30, 2007. The State has made 100% of its actuarially determined contributions to the pension system during the past fifteen years. For more detailed information regarding the funding policy and annual pension costs of the State, see Note 13 – Employer Pension Plans to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

Progress Toward Realization of Financing Objectives

As of June 30, 2007, the date of the last actuarial valuation, the total UAAL for the pension plans was $4.86 billion, which consists of $1.84 billion for State employees, $3.01 billion for teachers, $5 million for state police and $2.8 million for judges. For further information relating to the funding progress of the ERSRI, the State pension plan in which substantially all of the unfunded actuarial accrued liability resides, see the table later provided entitled "Schedule of Funding Progress".

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio increased from 54.6% to 57.5% during the period July 1, 2006 to June 30, 2007, while for teachers the ratio increased from 52.7% to 55.4% over the same period. During the same period, the funded ratio increased from 86.8% to 91.3% for the judges and increased for the state police from 86.0% to 90.2%. These are based on the Entry Age Normal funding method effective June 30, 1999.

The State's unfunded pension liability as reflected in the actuarial valuation as of June 30, 2007, is primarily due to the level of benefits being provided to employees under the plans and the failure of investment returns under the plans to historically meet the annual investment return assumption of 8.25%. The average annual return for the plans based on the market value of assets over the period from July 1, 1997 to June 30, 2007 was 7.37%. The average annual return for the plans based on the actuarial value of assets over the same period was 6.59%.

As a result of the recent decline in the number of State workers employed to contribute to the pension system and the recent increase in State worker retirements, the State pension system is likely to be placed under further financial stress. In addition, subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds have declined significantly, consistent with overall declines in the domestic and international financial markets, which is likely to place even further financial stress on the State's pension system. At March 31, 2009 declines were approximately 25% compared to the fair value of investments at June 30, 2008. However, the State Investment Commission has adopted a long term investment policy for the system's investments, which includes diversification of holdings pursuant to an asset allocation model. Furthermore, the impact of the funded status of the plans and required contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing method employed in the actuarial value of the assets.

In order to address the growing concern with the level of contributions that will be needed to support the current pension system, the Governor's recommended FY 2009 supplemental budget included legislation directed at the growing burden on the State to fund larger and larger annual contributions by changing State employee and teacher pension benefits. The General Assembly did not include the pension changes in the FY 2009 Supplemental Budget enacted, but did provide for the creation of a special fund to set aside contributions from April 2, 2009 to June 30, 2009. In the supplemental budget act the General Assembly expressed its intent to make pension changes that demonstrate the necessary due diligence to ensure they treat employees and taxpayers fairly, address the system's unfunded liability, and produce immediate savings for FY 2009 and FY 2010. Upon enactment of final pension changes, the funds set aside would then be used to fund those changes with any balances returned to the appropriate funds, including local teacher pension shares.

Pension Reform

Article 7 of the Fiscal Year 2006 Appropriations Act (Chapter 117 of the RI Public Laws of 2005) enacted and signed by the Governor on June 30, 2005 provided for major changes in the retirement age, accrual of benefits, and cost of living adjustments for all non-vested (less than 10 years of service) State employees and teachers effective July 1, 2005. Pursuant to State law, State employees contribute 8.75% of salary and teachers contribute 9.5% of salary. These contribution rates were not changed as part of the reform. The pension reform changes affected those employees with less than 10 years of contributory service as of July 1, 2005 and are reflected in the Tier II column below. Tier I members are those members who were vested as of July 1, 2005, and will be eligible to retire under the former provisions.

For State employees and teachers, the 2005 pension reform provided Tier I benefits outlined below for those members who vested as of July 1, 2005, and Tier II benefits for those who were not vested as of that date.

Change in Age Eligibility

Tier I Members	Tier II – Enacted Reform
28 Years of Service or Age 60 with 10 Years of Service	Age 59 with 29 Years of Service or Age 65 with 10 Years of Service

Change in Benefit Accrual Rates

Years of Service (YOS)	Tier I	Tier II Enacted Reform
1 to 10	1.7 %	1.60 %
11 to 20	1.9 %	1.80 %
21 to 25	3.0 %	2.00 %
26 to 30	3.0 %	2.25 %
31 to 34	3.0 %	2.50 %
35	2.0%	2.50%
36 to 37	0.0 %	2.50 %
38	0.0 %	2.25 %
Maximum Accrual	80% at 35 YOS	75% at 38 YOS

Change in Cost of Living Adjustment

Tier I	Tier II – Enacted Reform
3.0 % annually effective on the 3rd January 1 after retirement	Prior calendar year's U.S. Consumer Price Index, up to a maximum of 3.0 %, effective on the 3rd anniversary after retirement

Social Security Option

Tier I	Tier II – Enacted Reform
Retirees can opt to receive a higher pension prior to being social security eligible and a reduced pension upon receiving social security	Option not available

Article 22 of the FY 2009 Appropriation Act modified the State Police pensions by adding five years to retirement thresholds for state police troopers hired after July 1, 2007. They would be eligible to retire after 25 years of service and must retire after 30 years of service. The benefit would be 50.0 percent of final salary at 25 years increasing in 3.0 percent increments for additional years served up to 65.0 percent for 30 years. Current troopers may retire after 20 years of service with 50.0 percent of pay increasing to a maximum of 65.0 percent for 25 years at which time retirement is mandatory.

Article 35 of the FY 2009 Appropriation Act reduced pension benefits for judges hired after January 1, 2009 from 100.0 percent of their average salary for the three highest consecutive years to 90.0 percent for those retiring with the full benefit. Judges are eligible for the full benefit when they have 20 years of service and are at least 65 years old or if they have 15 years of service and are at least 70. The reduced benefit is an option for judges of any age who have served 20 years or those 65 and older who have served 10 years. This article also requires an additional 10.0 percent reduction in pension benefits if the retiree opts for a survivor benefit, which pays a spouse or minor child 50.0 percent of the retiree's pension after death. Current judges have a survivor benefit without reduction in their pensions.

GASB 25 and Funding Progress

Accounting requirements for ERSRI are set by Governmental Accounting Standards Board Statement No. 25 ("GASB 25"). The Schedule of Funding Progress shows a historical summary of the funded ratios and other information for ERSRI. The notes to required supplementary information shows other information needed in connection with disclosure under GASB 25.

GASB 25 requires that plans calculate an Annual Required Contribution ("ARC"), and, if actual contributions received are less than the ARC, this must be disclosed. The ARC must be calculated in accordance with certain parameters. In particular, it must include a payment to amortize the UAAL. This amortization payment eventually will have to be computed using a funding period no greater than 30 years, but a 40-year maximum amortization period may be used during a ten-year transition period. Further, the amortization payment included in the ARC may be computed as a level amount, or it may be computed as an amount that increases with payroll. However, if payments are computed on a level percent of payroll approach, the payroll growth assumption may not anticipate future membership growth.

The table below shows the calculated contribution rates. This is the ARC for State Employees and Teachers, respectively. The payroll growth rate used in the amortization calculations is as determined by method approved by the Retirement Board, and does not include any allowance for membership growth.

Development of Contribution Rates
June 30, 2007

		State Employees	Teachers
1.	Compensation		
	(a) Supplied by ERSRI	$ 626,192,680	$ 902,193,640
	(b) Adjusted for one-year's pay increase	660,044,273	959,372,837
2.	Actuarial accrued liability	4,332,888,818	6,750,125,236
3.	Actuarial value of assets	2,493,428,522	3,737,981,686
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,839,460,296	3,012,143,550
5.	Remaining amortization period at valuation date	22	22
6.	Contribution effective for fiscal year ending:	June 30, 2010	June 30, 2010
7.	Payroll projected for two-year delay	717,340,241	1,042,652,395
8.	Amortization of UAAL	136,637,617	224,654,455
9.	Normal cost		
	(a) Total normal cost rate	10.39%	11.83%
	(b) Employee contribution rate	8.75%	9.50%
	(c) Employer normal cost rate (a - b)	1.64%	2.33%
10.	Employer contribution rate as percent of payroll		
	(a) Employer normal cost rate	1.64%	2.33%
	(b) Amortization payments (8 / 7)	19.05%	21.55%
	(c) Total (a + b)	20.69%	23.88%
11.	Estimated employer contribution amount (7 x 10(c))	$ 148,417,696	$ 248,985,392

Schedule of Funding Progress *
(As required by GASB #25)

Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Accrued Liability (3)	Unfunded Actuarial Accrued Liability (UAAL) (3)-(2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
State Employees						
June 30, 1999	$2,201,890,748	$2,607,397,329	$405,506,581	84.4%	$494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
June 30, 2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%
June 30, 2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%
Teachers						
June 30, 1999	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	120.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	141.5%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June,30 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%
June 30, 2006	3,394,086,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%
June 30, 2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%

*Restated June 30, 2003 based on adoption of Chapter 117 of the Public Laws of 2005, Article 7

Schedules Of Contributions From The Employers And Other Contributing Entity

ERS Fiscal Year Ended June 30	State Employees Annual Required Contribution	State Employees Percentage Contributed	Teachers (State) Annual Required Contribution	Teachers (State) Percentage Contributed	Teachers (Local) Annual Required Contribution	Teachers (Local) Percentage Contribution
2007	$118,389,603	100%	$70,531,472	100%	$109,415,227	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%

Notes to Required Supplementary Information (as required by GASB #25)

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2007	June 30, 2007
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of Payroll - Closed	Level percent of Payroll - Closed
Remaining amortization period	22 years	22 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase	4.50% to 9.0%	4.50% to 13.25%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A	3.00%	3.00%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

OTHER BENEFITS

In addition to benefits provided to State employees by the State Retirement System described above, State employees since 1956 have also been covered under the provisions of the Federal Old-Age and Survivor's Insurance Program (Title II of the Federal Social Security Act). Benefit rates, State, and member contributions are governed by federal law. The State is also subject to the unemployment compensation provisions of the federal employment security law. Contributions under this program by the State are made by annual appropriation of actual benefit costs incurred rather than a percentage of payroll.

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan. Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2007 was determined to be approximately $788.2 million, including $679.5 million for State employees, $54.6 million for State Police, $29.7 million for Legislators, and $14 million for Judges, and $10.2 million for the State's share for teachers. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2009, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 7.91%, 29.83%, 116.91% and 11.64% (no rate for teachers), respectively. This unfunded liability related to retiree medical benefits as of June 30, 2007 reflects an increase from such unfunded liability of $657.5 million as of June 30, 2005 (based on a discount rate of 3.566%). The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liability as of June 30, 2007 utilizing an investment rate of 5.0% was $655.2 million. The total contributions made by the State and the other participating employees for retiree medical benefits were $28.4 million in FY2008, which contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and administrative costs. The State has not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities, which continue to grow. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted which would require the State to fund on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities. The actuarial valuation report as of June 30, 2007 reflected that the annual required contribution for FY2010 would be $56,917,900 (based on a discount rate of 3.566%). During the 2009 Session of the General Assembly, the actuarial funding requirement was delayed until FY2011 due to budget constraints. For further information on retiree medical benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. No appropriation for this settlement amount is reflected in the FY 2009 Enacted Budget.

In November 2007, the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island were ordered by an arbitrator to pay a contractor $3.3 million in damages relating to the construction of a new facility. This decision has been appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island, and a decision has not been rendered yet on the matter. There is no specific appropriation made for this judgment.

On September 26, 2008, the Rhode Island Council 94 and certain members of the union filed an action in the State Superior Court. Rhode Island Council 94 requested the Court declare that the new laws relative to retiree health coverage, effective October 1, 2008, are unconstitutional and violate State collective bargaining laws. The changes in the laws with respect to retiree health coverage were adopted in order to reduce costs to the State for retiree health benefits by approximately $9.8 million. The Court has denied the motion made by the Rhode Island Council 94 for a temporary restraining order against the implementation of such new laws. The State intends to vigorously contest the lawsuit.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor was hired by the contractor to, among other things, drill and install twenty-one shafts to allow for placement and erection of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to present and for the costs of building repairs from 1999 to present relating to the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for the amounts it paid for salaries of directors and guidance counselors from 1990 to present relating to the Chariho Career and Technical Center. Each of the claims has been assigned for administrative hearing within the Department of Education. It is unknown if any of the other six (6) school districts that operate regional vocational-technical career centers in the State will raise similar claims. The Department of Education intends to vigorously contest the claims. If either of the school districts were successful in being granted some or all of the relief requested, it is unknown what impact it would have on future funding to be provided by the State to the school districts with respect to their respective area vocational-technical career centers.

FINANCIAL STATEMENTS

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2008, and the report thereon by the Auditor General, a certified public accountant appointed by the Joint Committee on Legislative Services.

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EXHIBIT A – Audited Financial Statements of the State for the Fiscal Year Ended June 30, 2008

EXHIBIT A

ERNEST A. ALMONTE, CPA, CFF
Auditor General
ernest.almonte@oag.ri.gov

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

♦ Integrity
♦ Reliability
♦ Independence
♦ Accountability

INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 9% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 55% of the assets and 1% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the governmental activities, the business-type activities, the aggregate discretely presented component units, the Convention Center Authority major fund, and the aggregate remaining fund information, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in notes 1, 13 and 14, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and GASB Statement No. 50 *Pension Disclosures* as of July 1, 2007.

As disclosed in note 18D, the General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and compliance will be included in the State's *Single Audit Report*.

The Management's Discussion and Analysis, on pages A-3 through A-17, the Budgetary Comparison Schedules on pages A-65 through A-74, and the Schedules of Funding Progress on pages A-74 through A-75 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernest A. Almonte

Ernest A. Almonte, CPA, CFF
Auditor General

April 9, 2009

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities at June 30, 2008 by $952.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,433.6) million was reported as unrestricted net assets, $626.5 million was restricted net assets, and $1,759.2 million was invested in capital assets, net of related debt.
- **Changes in Net Assets:** In the Statement of Activities the State's total net assets decreased by $199.2 million in fiscal year 2008. Net assets of governmental activities decreased by $153.5 million, while net assets of the business-type activities decreased by $45.7 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of $685.2 million, a decrease of $236.3 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of ($43.0) million, a decrease of $43.0 million. The State Legislature opted to not transfer funds from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by general revenue expenditures exceeding appropriations (see note 18D for significant variances). This has no effect on total fund balance.
  - ♦ The Budget Reserve Account ended the fiscal year with a balance of $102.9 million, an increase of $24.2 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $7.6 million, which was an increase of $4.7 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of $152.7 million a decrease of $67.3 million in comparison with the previous fiscal year, reflecting the use of bond proceeds for infrastructure capital assets. Of the fund balance, $13.6 million is reserved for debt.
- The Rhode Island State Lottery transferred $354.3 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $33.3 million in comparison with the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's financial condition at the end of the year. These financial statements are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned, and expenses at the time the related liabilities are incurred.

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of government activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

  Governmental funds include the general fund and special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center

Authority Fund (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Major Features of the Basic Financial Statements

	Government-wide Financial Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: Proprietary Funds	Fund Financial Statements: Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	Activities of the State that are not proprietary or fiduciary	Activities of the State that are operated similar to private businesses	Instances in which the State is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of net assets Statement of changes in fund net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally mandated budget.

Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, grouped by fund type and presented in single columns in the basic financial statements, internal service funds, fiduciary funds, discretely presented component units and the statistical section.

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled $952.1 million at the end of fiscal year 2008, compared to $1,151.3 million at the end of the prior fiscal year. The primary reason for the $199.2 million decrease was that prior year resources were used to fund some of the current year expenses. Governmental activities have unrestricted net assets of ($1,418.2) million.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. An additional portion of the State's net assets represent resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Assets as of June 30, 2008
(Expressed in Thousands)

	Govermental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 1,413,844	$ 1,618,791	$ 223,419	$ 320,999	$ 1,637,263	$ 1,939,790
Capital assets	2,726,232	2,604,474	208,595	168,763	2,934,827	2,773,237
Total assets	4,140,076	4,223,265	432,014	489,762	4,572,090	4,713,027
Long-term liabilities outstanding	2,476,054	2,459,742	268,980	279,650	2,745,034	2,739,392
Other liabilities	834,561	780,606	40,353	41,768	874,914	822,374
Total liabilities	3,310,615	3,240,348	309,333	321,418	3,619,948	3,561,766
Net assets:						
Invested in capital assets, net of related debt	1,820,078	1,691,793	(60,902)	(109,435)	1,759,176	1,582,358
Restricted	427,588	373,788	198,928	294,395	626,516	668,183
Unrestricted	(1,418,205)	(1,082,664)	(15,345)	(16,616)	(1,433,550)	(1,099,280)
Total net assets	$ 829,461	$ 982,917	$ 122,681	$ 168,344	$ 952,142	$ 1,151,261

As indicated above, the State reported a balance in unrestricted net assets of ($1,433.6) million at June 30, 2008 in the Statement of Net Assets. This deficit results primarily from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges which are reflected in discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and insure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as provide funding for cultural facilities and
- Capital improvements for privately-owned and operated group homes for developmentally disabled citizens of the State as well as children who are dependant on the State for care.

In the above instances, the primary government records a liability for the general obligation bonds but no related capitalized asset is recorded. A cumulative deficit in unrestricted net assets results from financing these types of projects through the years.

Changes in Net Assets

The State's net assets decreased by $199.2 million during the current fiscal year. Total revenues of $8,029.2 million were less than expenses of $8,228.4 million. Approximately 35.1% of the State's total revenue came from taxes, while 24.2% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 38.0% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 33.3% and education, 16.5%. In fiscal year 2008, governmental activity expenses exceeded program revenues, which resulted in the use of $3,016.8 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2008 exceeded expenses by $261.4 million.

The cumulative effect of the prior period adjustment is fully explained in Note 18 Section C.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 449,812	$ 351,861	$ 2,601,083	$ 2,028,470	$ 3,050,895	$ 2,380,331
Operating grants and contributions	1,827,704	1,716,318	3,285	4,607	1,830,989	1,720,925
Capital grants and contributions	112,712	151,528			112,712	151,528
General revenues:						
Taxes	2,820,709	2,842,828			2,820,709	2,842,828
Interest and investment earnings	32,466	37,539	9,531	12,137	41,997	49,676
Miscellaneous	121,273	106,543	8,341	8,137	129,614	114,680
Gain on sale of capital assets	3,026				3,026	
Payments from component units	39,284	10,108			39,284	10,108
Total revenues	5,406,986	5,216,725	2,622,240	2,053,351	8,029,226	7,270,076
Program expenses:						
General government	894,766	858,729			894,766	858,729
Human services	2,736,956	2,519,745			2,736,956	2,519,745
Education	1,361,310	1,320,384			1,361,310	1,320,384
Public safety	428,351	391,354			428,351	391,354
Natural resources	90,087	91,758			90,087	91,758
Transportation	240,644	281,518			240,644	281,518
Interest	133,298	107,211			133,298	107,211
Lottery			2,042,722	1,487,239	2,042,722	1,487,239
Convention Center			41,007	42,859	41,007	42,859
Employment insurance			259,246	210,060	259,246	210,060
Total expenses	5,885,412	5,570,699	2,342,975	1,740,158	8,228,387	7,310,857
Change in net assets before transfers	(478,426)	(353,974)	279,265	313,193	(199,161)	(40,781)
Transfers	324,928	304,906	(324,928)	(304,906)		
Change in net assets	(153,498)	(49,068)	(45,663)	8,287	(199,161)	(40,781)
Net assets - Beginning	982,917	1,031,985	168,344	160,057	1,151,261	1,192,042
Cumulative effect of prior period adjustments	42				42	
Net assets - Beginning, as restated	982,959	1,031,985	168,344	160,057	1,151,303	1,192,042
Net assets - Ending	$ 829,461	$ 982,917	$ 122,681	$ 168,344	$ 952,142	$ 1,151,261

Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $685.2 million, a decrease of $236.3 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $102.9 million for a "rainy day" account, (2) $46.7 million for continuing appropriations, (3) $87.8 million principally for liquidating debt, (4) $136.1 million for employment insurance programs and (5) $40.8 million for other restricted purposes. Approximately 45.8% or $313.8 million of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance (deficit) of the General Fund was ($43.0) million, while total fund balance was $106.7 million.

Revenues and other sources of the General Fund totaled $5,354.0 million in fiscal year 2008, an increase of $297.6 million from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

			Increase (decrease) from 2007	
	2008	2007	Amount	Percent
Taxes:				
Personal income	$ 1,073,617	$ 1,065,367	$ 8,250	0.77%
Sales and use	1,019,614	1,052,582	(32,968)	-3.13%
General business	374,800	360,949	13,851	3.84%
Other	48,370	50,343	(1,973)	-3.92%
Subtotal	2,516,401	2,529,241	(12,840)	-0.51%
Federal grants	1,740,283	1,629,715	110,568	6.78%
Restricted revenues	126,090	109,184	16,906	15.48%
Licenses, fines, sales, and services	322,864	242,560	80,304	33.11%
Other general revenues	41,200	35,337	5,863	16.59%
Subtotal	2,230,437	2,016,796	213,641	10.59%
Total revenues	4,746,838	4,546,037	200,801	4.42%
Other sources	607,153	490,969	116,184	23.66%
Transfer from budget reserve		19,423	(19,423)	-100.00%
Total revenue and other sources	$ 5,353,991	$ 5,056,429	$ 297,562	5.88%

Expenditures and other uses totaled $5,391.5 million in fiscal year 2008, an increase of $276.0 million (5.40%) from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

	2008	2007	Increase (decrease) from 2007 Amount	Percent
General government	$ 626,052	$ 633,893	$ (7,841)	-1.24%
Human services	2,727,534	2,512,286	215,248	8.57%
Education	1,289,124	1,267,255	21,869	1.73%
Public safety	410,605	396,029	14,576	3.68%
Natural resources	72,982	81,518	(8,536)	-10.47%
Debt Service:				
Principal	92,077	79,954	12,123	15.16%
Interest	68,478	61,396	7,082	11.53%
Total expenditures	5,286,852	5,032,331	254,521	5.06%
Other uses	104,650	83,129	21,521	25.89%
Total expenditures and other uses	$ 5,391,502	$ 5,115,460	$ 276,042	5.40%

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the fiscal year, unreserved fund balance of the ISTEA fund was $7.6 million, while the total fund balance was $48.4 million. Total fund balance of the ISTEA fund increased by $15.6 million during the current fiscal year. The primary reasons for the increase was the collection of approximately $7.9 million of the federal receivable that had not been previously recognized in the fund financial statements because it was a long-term receivable and approximately $4.7 million of unspent gas tax revenue.

GARVEE Fund. The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of $152.7 million, a decrease of $67.3 million. The reason for this change was that it is a capital projects fund and current year expenditures were funded out of the prior year balance.

General Fund Budgetary Highlights

According to the State's Constitution, in FY2008 general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Beginning in FY2009, this will decrease by .2% a year until FY2013 when the spending cap will be 97%. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established. Adjustments to general revenue receipt estimates resulted in a decrease of $36.9 million, -1.1%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $39.5 million, -1.2%.

Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

	Original Budget vs. Final Budget Change (In thousands)	Percent
General revenues		
Taxes		
Personal Income	$ (13,757)	-1.3%
Business Corporations	(10,707)	-6.4%
Public Utilities Gross Earnings	(12,000)	-11.0%
Insurance Companies	(5,334)	-7.7%
Sales and Use	(55,324)	-6.1%
Motor Vehicle	(5,035)	-10.0%
Cigarettes	5,600	5.0%
Inheritance and Gift	7,900	26.2%
Departmental Revenue	(5,370)	-1.5%
Other Miscellaneous	40,691	29.0%
Transfer from Lottery	17,100	5.0%
Other General Revenue	(663)	
Total Change in Estimated Revenue	$ (36,899)	-1.1%
General revenue appropriations		
Department		
Administration	$ 19,359	3.8%
Revenue	(3,410)	-8.8%
Children, Youth and Families	2,727	1.8%
Health	(3,318)	-9.6%
Human Services	(18,176)	-2.2%
Mental Health, Retardation and Hospitals	(9,262)	-3.8%
Elementary and Secondary Education	(2,960)	-0.3%
Board of Governors for Higher Education	(6,085)	-3.1%
Corrections	(3,403)	-1.8%
Judicial	(3,273)	-3.8%
Environmental Management	(2,200)	-6.0%
Other	(9,463)	
Total Change in Appropriations	$ (39,464)	-1.2%

The General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures. Actual general revenues were $7.1 million less than estimated revenues and actual general revenue expenditures were $35.8 million more than budgeted amounts. Expenditures in three departments exceeded appropriations from general revenues by a significant amount: the Department of Human Services by $22.8 million; the Department of Mental Health Retardation and Hospitals by $7.8 million; and the Department of Corrections by $8.6 million.

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to $2,934.8 million, net of accumulated depreciation of $1,641.4 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 5.8% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

Actual expenditures to purchase or construct capital assets were $277.2 million for the year. Of this amount, $147.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $115.9 million.

State of Rhode Island's Capital Assets as of June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Capital assets not being depreciated						
Land	$ 341,907	$ 338,987	$ 45,558	$ 45,558	$ 387,465	$ 384,545
Works of Art	239	135			239	135
Intangibles	136,510	111,537			136,510	111,537
Construction in progress	777,066	597,005	1,568	25,142	778,634	622,147
Total capital assets not being depreciated	1,255,722	1,047,664	47,126	70,700	1,302,848	1,118,364
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	517,249	520,733	163,303	161,266	680,552	681,999
Building improvements	208,342	208,342			208,342	208,342
Equipment	224,926	220,661	83,395	13,060	308,321	233,721
Intangibles	8,428	8,428			8,428	8,428
Infrastructure	2,064,005	2,052,745			2,064,005	2,052,745
	3,026,650	3,014,609	246,698	174,326	3,273,348	3,188,935
Less: Accumulated depreciation	1,556,140	1,457,799	85,228	76,263	1,641,368	1,534,062
Total capital assets being depreciated	1,470,510	1,556,810	161,470	98,063	1,631,980	1,654,873
Total capital assets (net)	$ 2,726,232	$ 2,604,474	$ 208,596	$ 168,763	$ 2,934,828	$ 2,773,237

Significant capital projects include relocation of a major segment of interstate highway as well as construction of new youth correctional facilities and a State Police headquarters.

Additional information on the State's capital assets can be found in the notes to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,222.9 million of which $997.1 million is general obligation debt,

$358.1 million is special obligation debt and $867.7 million is debt of the blended component units. Additionally, accreted interest of $11.2 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $16.4 million during the current fiscal year. This increase is the net of a $83.6 million increase in general obligation debt, a decrease of $32.0 million in special obligation debt and a decrease of $35.2 million in blended component unit debt. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued $178.3 million of general obligation bonds of which $46.6 million were refunding bonds used to refund $47.3 million of outstanding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to $275.0 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Other Post-Employment Benefits

In accordance with GASB Statement No. 45 the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2005 has determined the State's unfunded actuarial accrued liability to be approximately $643.6 million. Based on a discount rate of 3.566%, the State and other participating employers' annual required contribution was determined to be $46.1 million and the net OPEB obligation as of June 30, 2008 was $17.7 million.

In order to address this unfunded liability and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree health. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Conditions Expected to Affect Future Operations

At the November 2008 Revenue Estimating Conference (REC) the enacted FY 2009 estimate of general revenues was revised downward by $233.6 million. Of the 21 general revenue sources that are estimated at the REC, 12 were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales and Use Tax, and Business Corporation Tax. In addition, the estimated Lottery Transfer to the general fund was revised downward as were Departmental Receipts. The revised FY 2009 estimate of total general revenues is $3.113 billion, a 7.0 percent decrease from the enacted FY 2009 estimate.

In addition, the first quarter report for FY 2009 prepared by the Budget Office and issued on November 17, 2008 projects that expenditures will exceed appropriations for a number of programs by $127.6 million. In total the general revenue deficit for FY 2009 is projected to be $357.4 million according to the first quarter report for FY 2009 prepared by the Budget Office.

On January 7, 2009 the Governor submitted a supplemental budget proposal for FY 2009 to the General Assembly. This proposal, which was subsequently revised by the Governor to incorporate the impact of the American Recovery and Reinvestment Act, included a number of measures designed to eliminate the FY 2009 budget deficit discussed above. On April 8, 2009 the General Assembly enacted a revised supplemental budget for FY 2009.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $787 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package in a range from $825 million to over $1 billion, which is believed to include approximately $451.5 million over 27 months for Rhode Island's Medicaid programs, approximately $137 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165 million of fiscal stabilization funds to be used primarily as education aid. The full impact of such stimulus funds have not been reflected in the State's FY 2009 and FY 2010 deficit projections previously noted. The State has prepared necessary certifications by the Governor to receive funds under the American Recovery and Reinvestment Act. This process, which is ongoing, includes review of the federal act to determine if any state legislative action will be required, and requesting the General Assembly to take such legislative action, in order to qualify for the funds.

The Blue Ribbon Panel for Transportation Funding formed by the Governor in March 2008 released its report dated as of December 23, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair but that state and federal funding only currently provides approximately $354 million per year. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation.

The owner and operator of Twin River, one of the two licensed video lottery facilities in the State, had entered into a forbearance agreement with its lenders (who had provided a $565 million loan package) as a result of its default on loan payments. The forbearance agreement expired January 31, 2009 and no resolution to restructuring the loan package has been reached yet on the matter. In addition, the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River. The State continues to closely monitor the situation.

Subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds have declined significantly, consistent with overall declines in the domestic and international financial markets. At March 31, 2009 declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the System's investments, which includes diversification of holdings pursuant to an asset allocation model. Additionally, the impact on the funded status of the plans and required contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing method employed in the actuarial value of assets.

Economic Factors

The unemployment rate for the State of Rhode Island was 9.1 percent in the fourth quarter of 2008, which is an increase from the rate of 5.8 percent during the fourth quarter of 2007. As of February 2009, the State's rate has risen to 10.5 percent. This compares unfavorably with the U.S. rate of 8.1 percent and reflects the fact that Rhode Island's economy felt the effects of the downturn in the housing market sooner than the country as a whole and has been hit again with the widening national recession.

One of the "main threats" to the State's economy is the high tax burden imposed on Rhode Island businesses and households. Rhode Island's heavy tax burden is attributable to high property taxes at the local level and high personal income tax rates at the state level. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts. To address this problem, Governor Carcieri formed a Tax Policy Strategy Workgroup to come up with proposals to make Rhode Island's tax system a competitive advantage in recruiting firms and increasing jobs in the state. The Workgroup reported its proposals to the Governor in March 2009.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. The State's Comprehensive Annual Financial Report may be found on the State Controller's home page, http://controller.admin.ri.gov/index.php. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2008
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 438,381	$ 16,990	$ 455,371	$ 252,825
Funds on deposit with fiscal agent	185,601	127,528	313,129	
Investments	241		241	96,793
Receivables (net)	409,757	55,276	465,033	238,721
Restricted assets:				
Cash and cash equivalents		20,939	20,939	311,851
Investments	72,280		72,280	403,103
Other assets				10,066
Due from primary government				4,181
Due from component units	12,690		12,690	757
Internal balances	3,700	(3,700)		
Due from other governments and agencies	184,795	1,426	186,221	5,282
Inventories	2,626	684	3,310	2,747
Other assets	55,104	749	55,853	16,167
Total current assets	1,365,175	219,892	1,585,067	1,342,493
Noncurrent assets:				
Investments				141,957
Receivables (net)	6,873		6,873	3,121,577
Restricted assets:				
Cash and cash equivalents				152,904
Investments				121,395
Other assets				136,270
Due from component units	30,315		30,315	
Capital assets - nondepreciable	1,255,722	47,125	1,302,847	629,486
Capital assets - depreciable (net)	1,470,510	161,470	1,631,980	1,303,552
Other assets	11,481	3,527	15,008	64,262
Total noncurrent assets	2,774,901	212,122	2,987,023	5,671,403
Total assets	4,140,076	432,014	4,572,090	7,013,896
Liabilities				
Current Liabilities:				
Cash overdraft	3,735		3,735	455
Accounts payable	511,253	16,483	527,736	86,932
Due to primary government				12,690
Due to component units	4,181		4,181	68
Due to other governments and agencies		1,888	1,888	1,454
Deferred revenue	13,449	2,582	16,031	25,817
Other current liabilities	109,362	4,295	113,657	264,164
Notes payable	1,860		1,860	
Current portion of long-term debt	190,721	9,473	200,194	203,309
Obligation for unpaid prize awards		5,632	5,632	
Total current liabilities	834,561	40,353	874,914	594,889
Noncurrent Liabilities:				
Due to primary government				30,315
Due to other governments and agencies				3,963
Net OPEB obligation	16,112	62	16,174	4,237
Deferred revenue		8,895	8,895	679
Due to component units				689
Notes payable	416		416	10,780
Loans payable				254,868
Obligations under capital leases	220,831		220,831	14,928
Compensated absences	12,210		12,210	29,595
Bonds payable	2,153,132	260,023	2,413,155	3,809,942
Other liabilities	73,353		73,353	142,366
Total noncurrent liabilities	2,476,054	268,980	2,745,034	4,302,362
Total liabilities	3,310,615	309,333	3,619,948	4,897,251
Net Assets				
Invested in capital assets, net of related debt	1,820,078	(60,902)	1,759,176	993,498
Restricted for:				
Budget reserve	102,869		102,869	
Transportation	1,388		1,388	
Assistance to Other Entities	52,495		52,495	
Debt	87,520	20,939	108,459	620,573
Employment insurance program	136,145	177,989	314,134	
Other	44,998		44,998	139,080
Nonexpendable-education	2,173		2,173	92,210
Unrestricted	(1,418,205)	(15,345)	(1,433,550)	271,284
Total net assets	$ 829,461	$ 122,681	$ 952,142	$ 2,116,645

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2008
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental activities	Primary Government: Business-type activities	Primary Government: Totals	Component Units
Primary government:								
Governmental activities:								
General government	$ 894,766	$ 178,590	$ 71,303	$ 512	$ (644,361)	$	$ (644,361)	$
Human services	2,736,956	167,241	1,433,431	1,522	(1,134,762)		(1,134,762)	
Education	1,361,310	36,241	182,036	71	(1,142,962)		(1,142,962)	
Public safety	428,351	36,194	30,873	731	(360,553)		(360,553)	
Natural resources	90,087	31,753	17,816	9,741	(30,777)		(30,777)	
Transportation	240,644	(207)	92,245	100,135	(48,471)		(48,471)	
Interest and other charges	133,298				(133,298)		(133,298)	
Total governmental activities	5,885,412	449,812	1,827,704	112,712	(3,495,184)		(3,495,184)	
Business-type activities:								
State lottery	2,042,722	2,396,401				353,679	353,679	
Convention center	41,007	19,137				(21,870)	(21,870)	
Employment security	259,246	185,545	3,285			(70,416)	(70,416)	
Total business-type activities	2,342,975	2,601,083	3,285			261,393	261,393	
Total primary government	$ 8,228,387	$ 3,050,895	$ 1,830,989	$ 112,712	(3,495,184)	261,393	(3,233,791)	
Component units:	$ 1,270,657	$ 897,571	$ 46,196	$ 103,402				(223,488)
General Revenues:								
Taxes					2,820,709		2,820,709	
Interest and investment earnings					32,466	9,531	41,997	60,345
Miscellaneous					121,273	8,341	129,614	28,188
Gain on sale of capital assets					3,026		3,026	
Transfers					324,928	(324,928)		
Payments from component units					39,284		39,284	
Payments from primary government								248,245
Total general revenues and transfers					3,341,686	(307,056)	3,034,630	336,778
Change in net assets					(153,498)	(45,663)	(199,161)	113,290
Net assets - beginning as restated					982,959	168,344	1,151,303	2,003,355
Net assets - ending					$ 829,461	$ 122,681	$ 952,142	$ 2,116,645

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Balance Sheet
Governmental Funds
June 30, 2008
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 154,513	$ 32,874	$	$ 218,268	$ 405,655
Funds on deposit with fiscal agent			157,206	28,395	185,601
Investments				241	241
Restricted investments				72,280	72,280
Receivables (net)	349,985	13,126		42,662	405,773
Due from other funds	2,676	5,585		8,084	16,345
Due from component units	12,000				12,000
Due from other governments and agencies	142,591	42,206		9	184,806
Loans to other funds	15,108			63,721	78,829
Other assets	45,636			2	45,638
Total assets	$ 722,509	$ 93,791	$ 157,206	$ 433,662	$ 1,407,168
Liabilities and Fund Balances					
Liabilities					
Cash overdraft				52	52
Accounts payable	435,131	19,161	3,558	30,885	488,735
Due to other funds			931	13,364	14,295
Due to component units		3,547		634	4,181
Loans from other funds	63,721			7,408	71,129
Notes payable		1,860			1,860
Deferred revenue	41,780	20,174			61,954
Other liabilities	75,222	618		3,931	79,771
Total liabilities	615,854	45,360	4,489	56,274	721,977
Fund Balances					
Reserved for:					
Budget reserve	102,869				102,869
Appropriations carried forward	46,736				46,736
Debt			13,630	74,125	87,755
Transportation capital projects		40,827			40,827
Employment insurance programs				136,145	136,145
Unreserved, reported in:					
General fund	(42,950)				(42,950)
Special revenue funds		7,604		67	7,671
Capital projects funds			139,087	164,878	303,965
Permanent fund				2,173	2,173
Total fund balances	106,655	48,431	152,717	377,388	685,191
Total liabilities and fund balances	$ 722,509	$ 93,791	$ 157,206	$ 433,662	$ 1,407,168

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to Statement of Net Assets for Governmental Activities
June 30, 2008
(Expressed in Thousands)

Fund balance - total governmental funds		$ 685,191
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	4,275,879	
Accumulated depreciation	(1,552,736)	
		2,723,143
Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.		
Compensated absences	(66,568)	
Bonds payable	(2,234,392)	
Net premium/discount and deferred amount on refunding	(23,119)	
Cost of issuance	9,390	
Obligations under capital leases	(236,060)	
Premium	(6,101)	
Cost of issuance	2,090	
Interest payable	(22,978)	
Other Liabilities	(99,560)	
		(2,677,298)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Receivables	8,172	
Due from component units	31,005	
Deferred revenue	48,505	
		87,682
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities.		10,743
Net assets - total governmental activities		$ 829,461

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 2,516,401	$ 135,412	$	$ 166,272	$ 2,818,085
Licenses, fines, sales, and services	322,864			465	323,329
Departmental restricted revenue	126,090	(207)			125,883
Federal grants	1,740,283	196,327			1,936,610
Income from investments	2,779	830	9,228	18,685	31,522
Other revenues	38,421	4,555		53,425	96,401
Total revenues	4,746,838	336,917	9,228	238,847	5,331,830
Expenditures:					
Current:					
General government	626,052			177,509	803,561
Human services	2,727,534				2,727,534
Education	1,289,124			563	1,289,687
Public safety	410,605				410,605
Natural resources	72,982			2	72,984
Transportation		244,638			244,638
Capital outlays			78,454	186,259	264,713
Debt service:					
Principal	92,077	2,626	32,045	16,620	143,368
Interest and other charges	68,478	479	19,146	43,472	131,575
Total expenditures	5,286,852	247,743	129,645	424,425	6,088,665
Excess (deficiency) of revenues over (under) expenditures	(540,014)	89,174	(120,417)	(185,578)	(756,835)
Other financing sources (uses):					
Bonds and notes issued				131,755	131,755
Refunding bonds issued				46,570	46,570
Proceeds from the sale of Certificates of Participation				59,185	59,185
Premium and accrued interest				7,241	7,241
Operating transfers in	541,610	28,198	53,175	101,445	724,428
Payments from component units	39,231	53			39,284
Other	26,312			10	26,322
Payment to refunded bonds escrow agent				(111,253)	(111,253)
Discount on issuance of debt				(4)	(4)
Operating transfers out	(104,650)	(101,813)		(196,549)	(403,012)
Total other financing sources (uses)	502,503	(73,562)	53,175	38,400	520,516
Net change in fund balances	(37,511)	15,612	(67,242)	(147,178)	(236,319)
Fund balances - beginning	144,166	32,819	219,959	524,566	921,510
Fund balances - ending	$ 106,655	$ 48,431	$ 152,717	$ 377,388	$ 685,191

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (236,319)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.		
Capital outlay	227,169	
Depreciation expense	(106,520)	
Net gain (loss) on sale of capital assets	(6,826)	
		113,823
Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt service		
Principal	143,368	
Payment to escrow agent	107,740	
Interest and other charges	(9,392)	
Proceeds from sale of debt	(237,510)	
Deferral of premium/discount	(3,743)	
Amortization of premium/discount	6,817	
Deferral of issuance costs	2,166	
Amortization of issuance costs	(1,295)	
		8,151
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.		
Compensated absences	10,607	
Program expenses	(46,487)	
Program revenue	875	
Capital grant revenue	3,807	
General revenue - taxes	2,624	
General revenue-misc	2,138	
		(26,436)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		(12,717)
Change in net assets - total governmental activities		$ (153,498)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2008
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 12,744	$ 2,651	$ 1,595	$ 16,990	$ 32,726
Restricted cash and cash equivalents		20,939		20,939	
Funds on deposit with fiscal agent			127,528	127,528	
Receivables (net)	4,506	916	49,854	55,276	2,686
Loans to other funds					2,100
Due from other funds					3,943
Due from other governments and agencies			1,426	1,426	
Inventories	684			684	2,626
Other assets	395	354		749	9,398
Total current assets	18,329	24,860	180,403	223,592	53,479
Noncurrent assets:					
Capital assets - nondepreciable		47,125		47,125	
Capital assets - depreciable (net)	908	160,562		161,470	3,148
Other assets		3,527		3,527	
Total noncurrent assets	908	211,214		212,122	3,148
Total assets	19,237	236,074	180,403	435,714	56,627
Liabilities					
Current Liabilities:					
Cash overdraft					3,683
Accounts payable	10,091	6,392		16,483	22,522
Due to other funds	1,674	1,500	526	3,700	2,293
Due to other governments and agencies			1,888	1,888	
Loans from other funds					9,800
Deferred revenue	295	2,287		2,582	
Other current liabilities	2,108	2,187		4,295	
Bonds payable		9,473		9,473	
Obligations under capital leases					7,481
Obligation for unpaid prize awards	5,632			5,632	
Total current liabilities	19,800	21,839	2,414	44,053	45,779
Noncurrent Liabilities:					
Deferred revenue	8,750	145		8,895	
Bonds payable		260,023		260,023	
Net OPEB obligations	62			62	107
Total noncurrent liabilities	8,812	260,168		268,980	107
Total liabilities	28,612	282,007	2,414	313,033	45,886
Net Assets					
Invested in capital assets, net of related debt	908	(61,810)		(60,902)	3,148
Restricted for:					
Debt		20,939		20,939	
Employment insurance programs			177,989	177,989	
Unrestricted	(10,283)	(5,062)		(15,345)	7,593
Total net assets	$ (9,375)	$ (45,933)	$ 177,989	$ 122,681	$ 10,741

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	**R.I. Convention Center**	**Employment Security**	**Totals**	**Internal Service Funds**
Operating revenues:					
Charges for services	$ 2,396,401	$ 18,605	$ 185,501	$ 2,600,507	$ 310,057
Grants			3,285	3,285	
Miscellaneous		532	44	576	
Total operating revenues	2,396,401	19,137	188,830	2,604,368	310,057
Operating expenses:					
Personal services	4,754	11,874		16,628	9,614
Supplies, materials, and services	216,039	8,080		224,119	317,258
Prize awards	1,821,683			1,821,683	
Depreciation and amortization	246	9,063		9,309	386
Benefits paid			251,273	251,273	
Total operating expenses	2,042,722	29,017	251,273	2,323,012	327,258
Operating income (loss)	353,679	(9,880)	(62,443)	281,356	(17,201)
Nonoperating revenues (expenses):					
Interest revenue		2,022	7,509	9,531	942
Other nonoperating revenue	2,514		5,827	8,341	
Interest expense		(11,990)		(11,990)	
Other nonoperating expenses			(7,973)	(7,973)	28
Total nonoperating revenue (expenses)	2,514	(9,968)	5,363	(2,091)	970
Income (loss) before transfers	356,193	(19,848)	(57,080)	279,265	(16,231)
Transfers in		31,661	1,622	33,283	7,778
Transfers out	(355,568)		(2,643)	(358,211)	(4,266)
Change in net assets	625	11,813	(58,101)	(45,663)	(12,719)
Total net assets - beginning	(10,000)	(57,746)	236,090	168,344	23,460
Total net assets - ending	$ (9,375)	$ (45,933)	$ 177,989	$ 122,681	$ 10,741

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	$ 2,409,271	$ 19,854	$ 185,904	$ 2,615,029	$ 311,341
Cash received from grants			3,285	3,285	
Cash payments to suppliers for goods and services	(4,630)	(8,107)		(12,737)	(317,086)
Cash payments to employees for services	(4,790)	(11,757)		(16,547)	(3,070)
Cash payments to prize winners	(1,830,030)			(1,830,030)	
Cash payments for commissions	(213,686)			(213,686)	
Cash payments for benefits			(251,273)	(251,273)	
Other operating revenue (expense)			829	829	28
Net cash provided by (used for) operating activities	356,135	(10)	(61,255)	294,870	(8,787)
Cash flows from noncapital financing activities:					
Loans from other funds					5,050
Loans to other funds					(5,368)
Repayment of loans to other funds					(1,250)
Operating transfers in		31,661	1,622	33,283	7,778
Operating transfers out	(356,884)		(3,905)	(360,789)	(2,927)
Net transfers from (to) fiscal agent			59,629	59,629	
Negative cash balance implicitly financed					3,683
Repayment of prior year negative cash balance implicitly financed					(2,692)
Net cash provided by (used for) noncapital financing activities	(356,884)	31,661	57,346	(267,877)	4,274
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(9,163)		(9,163)	
Interest paid on capital obligations		(11,589)		(11,589)	
Acquisition of capital assets	1	(49,929)		(49,928)	(125)
Proceeds from bonds					
Net cash provided by (used for) capital and related financing activities	1	(70,681)		(70,680)	(125)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		43,791		43,791	
Interest on investments	1,404	2,052		3,456	942
Net cash provided by (used for) investing activities	1,404	45,843		47,247	942
Net increase (decrease) in cash and cash equivalents	656	6,813	(3,909)	3,560	(3,696)
Cash and cash equivalents, July 1	12,088	16,777	5,504	34,369	36,422
Cash and cash equivalents, June 30	$ 12,744	$ 23,590	$ 1,595	$ 37,929	$ 32,726
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	353,679	(9,880)	(62,443)	281,356	(17,201)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	246	9,063		9,309	386
Other revenue (expense) and operating transfer in (out)	468		785	1,253	28
Net changes in assets and liabilities:					
Receivables, net	4,072	1	403	4,476	2,270
Inventory	286			286	(384)
Prepaid items		(63)		(63)	
Other assets	87	8		95	
Accounts and other payables	(2,551)	145		(2,406)	(430)
Accrued expenses	12			12	6,544
Deferred revenue	113	716		829	
Prize awards payable	(277)			(277)	
Total adjustments	2,456	9,870	1,188	13,514	8,414
Net cash provided by (used for) operating activities	$ 356,135	$ (10)	$ (61,255)	$ 294,870	$ (8,787)

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2008

(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 3,337	$	$ 25,650
Deposits held as security for entities doing business in the State			77,016
Receivables			
Contributions	33,533		
Due from state for teachers	18,769		
Miscellaneous	2,146		2,175
Total receivables	54,448		2,175
Investments, at fair value			
Equity in Short-Term Investment Fund	3,530		
Equity in Pooled Trust	7,815,849		
Other investments		2,175	
Total investments before lending activities	7,819,379	2,175	
Invested securities lending collateral	1,116,709		
Property and equipment, at cost, net of accumulated depreciation	7,724		
Total assets	9,001,597	2,175	104,841
Liabilities			
Securities lending liability	1,116,709		
Accounts payable	8,210		3,818
Net OPEB liability	52		
Deposits held for others			101,023
Total liabilities	1,124,971		104,841
Net assets held in trust for pension and other benefits	$ 7,876,626	$ 2,175	$

The notes to the financial statements are an integral part of this statement.

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 175,894	$
Employer contributions	295,494	
State contributions for teachers	82,456	
Interest on service credits purchased	2,444	
Total contributions	556,288	
Investment income		
Net appreciation in fair value of investments	(684,418)	(333)
Interest	128,146	
Dividends	88,977	50
Other investment income	6,592	138
	(460,703)	(145)
Less investment expense	28,619	
Net income (loss) from investing activities	(489,322)	(145)
Securities Lending		
Securities lending income	53,865	
Less securities lending expense	46,037	
Net securities lending income	7,828	
Total net investment income (loss)	(481,494)	(145)
Total additions	74,794	(145)
Deductions		
Benefits		
Retirement benefits	518,188	
Cost of living adjustment	136,801	
SRA Plus Option	28,821	
Supplemental benefits	1,090	
Death benefits	2,804	
Total benefits	687,704	
Refund of contributions	10,840	
Administrative expense	8,422	
Distribution		156
Total deductions	706,966	156
Change in net assets	(632,172)	(301)
Net assets held in trust for pension benefits		
Net assets - beginning	8,508,798	2,476
Net assets - ending	$ 7,876,626	$ 2,175

The notes to the financial statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity **or** (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. The entities that were deemed to be component units were included because the State appoints a voting majority of the entity's governing body and the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State.

Blended Component Units

These component units are entities, which are legally separate from the State, but are so intertwined with the State that they are in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2008

Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC) - This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905.

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2008

a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC) - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island Higher Education Assistance Authority (RIHEAA) - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Public Transit Authority (RIPTA) - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and State governments. For more detailed information, a copy of their financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Telecommunications Authority (RIPTCA) - This Authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

The College Crusade of Rhode Island (TCCRI) - This is a Rhode Island nonprofit corporation, formerly named the Rhode Island Children's Crusade for Higher Education, formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the The College Crusade of Rhode Island, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

> **Invested in capital assets, net of related debt.** This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced

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> by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted net assets.** This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.
>
> **Unrestricted net assets.** This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The State does not allocate indirect costs to the functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and all enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets, liabilities, revenues, **or** expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, **and**
- Total assets, liabilities, revenues, **or** expenditures/expenses of that fund are at least 5% of the **same** respective total for all funds being evaluated.

Since the activity of the **Intermodal Surface Transportation Fund** (ISTEA) and the GARVEE fund are so closely related and the same personnel are responsible for the accounting and financial reporting for both funds, management has determined that if either fund meets the criteria of a major fund the other fund will also be reported as a major fund.

The State reports the following major funds:

General Fund. This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund. This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

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Employment Security Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds. These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

Capital Projects Funds. These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

Permanent Fund. The Permanent School Fund accounts for certain appropriations and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types:

Internal Service Funds. These funds account for, among other things, employee and retiree medical benefits, State fleet management, unemployment and workers' compensation for State employees, industrial prison operations, surplus property, telecommunications and other utilities, and records maintenance.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, and Judicial Retirement Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

Private Purpose Trust Fund. The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds. These funds account for assets held by the State pending distribution to others or pledged to the State as required by statute and health insurance for certain retirees.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting,* in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State's enacted budget designates the source of funds for expenditures. When a type of expenditure is allocable to multiple funding sources, federal and restricted funds are generally utilized first.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the governmental activities and business-type activities are the unexpended portion of debt instruments sold primarily for capital acquisitions and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

G. Investments

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience. Within governmental funds, an allowance for unavailable amounts is also reflected.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. The Due From/(To) Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Inventories of university and colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

L. Capital Assets

Capital assets, which include land, non-depreciable intangibles, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Non-depreciable intangibles consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

Applicable capital assets are depreciated using the straight-line method (using a half-year convention). Capitalization thresholds and estimated useful lives for depreciable capital asset categories of the primary government are as follows:

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	$1 million	20 years
Buildings	$1 million	20 - 50 years
Building Improvements	$1 million	10 - 20 years
Furniture and equipment	$5,000	3 - 10 years
Intangibles	$1 million	5 years
Infrastructure	$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements.

Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component unit financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' useful life.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. Bond discounts, premiums, and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the outstanding principal method.

For Proprietary fund types and component units, bond discounts, premiums, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds

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and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(D)).

O. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

Other liabilities includes escrow deposits, accrued salary and fringe benefits for the governmental fund types, accrued interest payable, accrued salaries, accrued vacation and sick leave for the business fund types and escrow deposits, landfill closure costs, accrued expenses, arbitrage and interest payable for the component units.

Q. Fund Balances

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2008, the State adopted several new accounting standards issued by GASB:

GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, establishes standards for the measurement, recognition and display of OPEB expense/expenditures, and, if applicable, required supplementary information (RSI) in the financial statements of governmental employers.

GASBS No. 50, Pension Disclosures, amends existing Statements 25 and 27 and more closely aligns the financial reporting for pensions with those for other postemployment benefits (OPEB) and requires defined benefit pension plans to disclose additional information in the Notes to the Basic Financial Statements and Required Supplementary Information.

The State will adopt the following new pronouncements in future years:

GASBS No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* effective for the State's fiscal year ending June 30, 2009.

GASBS No. 51 – *Accounting and Financial Reporting for Intangible Assets*, effective for the State's fiscal year ending June 30, 2010.

GASBS No. 52 – *Land and Other Real Estate Held as Investments by Endowments*, effective for the State's fiscal year ending June 30, 2009.

GASBS No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, effective for the State's fiscal year ending June 30, 2010.

The impact of these pronouncements on the State's financial statements has not been determined.

Note 2. Cash, Cash Equivalents, Investments and Funds on Deposit with Fiscal Agent

Cash

Primary Government

At June 30, 2008, the carrying amount of the State's cash deposits was $90,682,000 and the bank balance was $126,066,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, $984,000 was covered by federal depository insurance and $50,675,000 was collateralized with securities held by the pledging financial institution, or its agent but not in the State's name. The remaining amount, $74,406,000 was uninsured and uncollateralized. The carrying amount and bank balance includes $11,132,000 of certificates of deposit.

During the year, the State issued $220,000,000 in General Obligation Tax Anticipation Notes for working capital. The notes were repaid in full as of June 30, 2008. Additionally, during fiscal year 2008, the General Fund borrowed $85.0 million from the Rhode Island Temporary Disability Insurance Fund and approximately $63.7 million from the Rhode Island Capital Plan Fund for working capital. The loan from the Rhode Island Temporary Disability Insurance Fund was repaid in full at June 30, 2008, while the Rhode Island Capital Plan Fund loan remained outstanding at June 30, 2008.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum

capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2008.

Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Of the State's investments equaling $72,521,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $72,280,000.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2008, the State's investments in Morgan Stanley and GE Capital Corporation commercial paper were rated A1+ by Standard & Poor's and P1 by Moody's. The State's investments in Hanover FDG Co, LLC and JP Morgan Chase commercial paper were rated A1 by Standard & Poor's and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in money market mutual funds included the following: UBS Select Treasury Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 20 days; Fidelity Institutional Money Market Funds Class I Government Portfolio which was rated AAAm by Standard & Poor's with an average maturity of 56 days; The Reserve - US Government Fund which was rated AAAm by Standard & Poor's with an average maturity of 48 days; Fidelity Institutional Prime Money Markets which was rated AAAm by Standard & Poor's with an average maturity of 44 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; and Wells Fargo Advantage Treasury Plus which was rated AAAm by Standard & Poor's with an average maturity of 6 days.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name.

The portfolio concentrations (expressed in thousands) are as follows.

Type	Issuer	Amount	Percentage
Repurchase Agreements	Citizens Bank	$38,044	5.9%
Commercial Paper	Hanover FDG	52,019	8.1%
Investment Agreements	AIG Matched Funding Corp	100,796	15.7%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State's investments (expressed in thousands) at June 30, 2008 are as follows.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 29,796	$ 29,796	$ 0	$ 0	$ 0
Money Market Mutual Funds	296,079	296,079	0	0	0
Commercial Paper	87,950	87,950	0	0	0
Repurchase Agreements	44,324	44,324	0	0	0
	$ 458,149	$ 458,149	$ 0	$ 0	$ 0

Funds on Deposit with Fiscal Agent

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2008 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market	$ 56,969	56,969	0	0	0
Investment Agreements	128,633	100,750	23,577	0	4,306
Funds on deposit with fiscal agent	$ 185,601	$ 157,719	$ 23,577	$ 0	$ 4,306

The State's investments in money market mutual funds as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund which was rated AAAm by Standard & Poor's with an average maturity of 49 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; Wells Fargo Prime Investment Money Market which was rated AAAm by Standard & Poor's with an average maturity of 28 days; and JP Morgan US Government Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt proceeds are held in trust until used for their intended purpose. The trust agreement

specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

During fiscal year 2008, approximately $6.9 million of income from investments, reported in the Bond Capital Fund and the Rhode Island Clean Water Act Environmental Trust Fund, was assigned to the General Fund for debt service payments.

Fiduciary Funds

Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRTB).

Cash Deposits and Cash Equivalents

At June 30, 2008, the carrying amount of the ERS cash deposits was $2,640,000 and the bank balance was $2,994,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts and collateralized bank money market accounts. Of the bank balance, the entire amount is covered by federal depository insurance and is fully collateralized. Cash equivalent type investments include overnight repurchase agreements totaling $696,000 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2008.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the ERS. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the ERS, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment expense is allocated to each plan based on the plan's units in the Short-term Investment Fund and the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type at June 30, 2008 (in thousands):

Investment Type	Fair Value
U.S. Government Securities	$ 601,359
U.S. Government Agency Securities	643,207
Collateralized Mortgage Obligations	31,140
Corporate Bonds	522,078
Domestic Equity Securities	1,139,478
International Equity Securities	1,239,592
Foreign Currencies	12,482
Private Equity	661,784
Real Estate	380,787
Money Market Mutual Fund	423,572
Commingled Funds - Domestic Equity	1,973,594
Commingled Funds - International Equity	190,306
Investments at Fair Value	7,819,379
Securities Lending Collateral Pool	1,116,709
Total	$ 8,936,088

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2008, no fixed income manager was outside of the policy guidelines.

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The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2008 (in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 601,359	5.71
U.S. Government Agency Securities	643,207	3.87
Collateralized Mortgage Obligations	31,140	2.04
Corporate Bonds	522,078	5.61
Total Fixed Income	$ 1,797,784	4.96

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 40 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager's guidelines is as follows:

- No single industry is expected to represent more than 20% of the portfolio's market value.
- No single issue is expected to represent more than 5% of the portfolio's market value.

- The portfolio, once fully invested, is expected to include a minimum of 70 individual holdings.
- The portfolio quality is expected to be invested in high yield below investment grade fixed income securities.
- The weighted average credit quality is expected to maintain a minimum rating of "B" using either Moody's or Standard and Poor's credit ratings.

The ERS's exposure to credit risk as of June 30, 2008 is as follows (in thousands):

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 22,956	$ 643,207	$ 35,093
Aa	66		56,688
A	1,662		144,812
Baa	5,749		152,548
Ba	407		36,019
B			63,041
Caa			10,799
D			529
Not rated	300		22,549
Fair Value	$ 31,140	$ 643,207	$ 522,078

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2008 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to

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minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2008, was as follows (in thousands):

Currency	Currency	Equities	Private Equity	Total
Australian Dollar	$ 560	$ 84,595	$	$ 85,155
Canadian Dollar	728	63,088	8,706	72,522
Danish Krone	188	3,404		3,592
Euro Currency	3,524	430,431	91,405	525,360
Hong Kong Dollar	549	42,729		43,278
Hungarian Forint	21	69		90
Indonesian Rupiah	356	2,361		2,717
Japanese Yen	2,290	256,072		258,362
Malaysian Ringitt	231	6,138		6,369
Mexican Peso	16			16
New Zealand Dollar	201	3,987		4,188
Norwegian Krone	185	3,967		4,152
Pound Sterling	996	212,210		213,206
Singapore Dollar	452	17,643		18,095
South African Rand	279	4,794		5,073
South Korean Won	291	17,142		17,433
Swedish Krona	509	14,968	1,358	16,835
Swiss Franc	963	70,262		71,225
Thailand Baht	143	5,732		5,875
Total	$ 12,482	$ 1,239,592	$ 101,469	$ 1,353,543

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $190,306,000.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts, and options. Derivatives and other similar investments are financial contracts whose value depends on the values of one or more underlying assets, reference rates, or financial indexes. The ERS enters into these transactions to enhance performance, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and credit default swaps.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in *Interest Rate Risk*.

The ERS may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2008 the investment pool had a weighted average maturity of 33.36 days and an average final maturity of 77.53 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge

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or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2008, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were $1,141,668,086 (fair value), and the collateral received for those securities on loan was $1,173,504,899 (fair value).

Private Purpose Trust

The private purpose trust had investments of $2,175,000 in the Fidelity Balanced Fund.

Note 3. Receivables

Receivables at June 30, 2008 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 289,720	$ 216,521	$	$	$ (148,084)	$ 358,157
Intermodal Surface Transportation	15,775	9		1,000	(3,658)	13,126
Other governmental	43,371	868			(1,577)	42,662
Internal Service		2,685				2,685
Total - governmental activities	$ 348,866	$ 220,083	$	$ 1,000	$ (153,319)	$ 416,630
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 9,979	$ 12,923				
Business-type activities:						
State Lottery	$	$ 4,745	$	$	$ (239)	$ 4,506
Convention Center		1,311			(394)	917
Employment Security	49,449	10,885			(10,481)	49,853
Total - business-type activities	$ 49,449	$ 16,941	$	$	$ (11,114)	$ 55,276
Component Units	$	$ 98,956	$ 33,335	$ 3,312,392	$ (84,385)	$ 3,360,298

Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2008, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	$ 2,676	$
Intermodal Surface Transportation Fund	5,585	
GARVEE		931
Other		
Bond Capital		11,706
RI Temporary Disability Insurance		1,658
COPS	71	
RI Capital Plan	6,860	
Permanent School	1,153	
Total Other	8,084	13,364
Total Governmental	16,345	14,295
Proprietary Funds		
Enterprise		
RI Lottery		1,674
RI Convention Center Authority		1,500
Employment Security Trust Fund		526
Total Enterprise		3,700
Internal Service		
Assessed Fringe Benefits		561
Central Utilities	313	
Energy Revolving		1,339
Central Mail	90	
State Telecommunications		16
Central Pharmacy	1,338	
Central Laundry	175	
Automotive Maintenance		124
Central Warehouse		38
Correctional Industries	237	
Health Insurance Active	39	
Records Center		8
Health Insurance Retiree	1,751	
Vehicle Replacement Revolving Loan		207
Total Internal Service	3,943	2,293
Totals	$ 20,288	$ 20,288

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Note 5. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 338,987	$ 2,949	$ (29)	$ 341,907
Works of Art	135	104		239
Intangibles	111,537	25,099	(126)	136,510
Construction in progress	597,005	193,367	(13,306)	777,066
Total capital assets not being depreciated	1,047,664	221,519	(13,461)	1,255,722
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	520,733	1,936	(5,420)	517,249
Building Improvements	208,342			208,342
Furniture and equipment	220,661	9,980	(5,715)	224,926
Intangibles	8,428			8,428
Infrastructure	2,052,745	11,260		2,064,005
Total capital assets being depreciated	3,014,609	23,176	(11,135)	3,026,650
Less accumulated depreciation for:				
Land improvements	2,707	185		2,892
Buildings	170,983	18,349	(3,406)	185,926
Building Improvements	126,361			126,361
Furniture and equipment	158,485	18,692	(5,159)	172,018
Intangibles	1,603	1,628		3,231
Infrastructure	997,660	68,052		1,065,712
Total accumulated depreciation	1,457,799	106,906	(8,565)	1,556,140
Total capital assets being depreciated, net	1,556,810	(83,730)	(2,570)	1,470,510
Governmental activities capital assets, net	$ 2,604,474	$ 137,789	$ (16,031)	$ 2,726,232

The current period depreciation was charged to the governmental functions on the Statement of Activities as follows:

General government	$ 8,526
Human services	7,109
Education	2,907
Public safety	12,112
Natural resources	3,801
Transportation	72,451
Total depreciation expense - governmental activities	$ 106,906

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	25,142	48,862	(72,436)	1,568
Total capital assets not being depreciated	70,700	48,862	(72,436)	47,126
Capital assets being depreciated:				
Buildings	161,266	2,037		163,303
Machinery and equipment	13,059	70,406	(70)	83,395
Total capital assets being depreciated	174,325	72,443	(70)	246,698
Less accumulated depreciation	76,263	9,027	(62)	85,228
Total capital assets being depreciated, net	98,062	63,416	(8)	161,470
Business-type activities capital assets, net	$ 168,762	$ 112,278	$ (72,444)	$ 208,596

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 95,016	$ 8,299	$ (954)	$ 102,361
Construction in progress	579,567	221,706	(274,148)	527,125
Total capital assets not being depreciated	674,583	230,005	(275,102)	629,486
Capital assets being depreciated:				
Buildings	1,138,754	205,503	(249)	1,344,008
Land improvements *	154,168	12,419		166,587
Machinery and equipment *	279,212	21,919	(5,961)	295,170
Intangibles		4,100		4,100
Infrastructure	339,906	27,337		367,243
Total capital assets being depreciated	1,912,040	271,278	(6,210)	2,177,108
Less accumulated depreciation for:				
Buildings	437,205	46,242	(760)	482,687
Land improvements *	86,675	8,465		95,140
Machinery and equipment *	170,364	19,624	(5,347)	184,641
Intangibles		615		615
Infrastructure	103,737	6,736		110,473
Total accumulated depreciation	797,981	81,682	(6,107)	873,556
Total capital assets being depreciated, net	1,114,059	189,596	(103)	1,303,552
Total capital assets, net	$ 1,788,642	$ 419,601	$ (275,205)	$ 1,933,038

* Certain beginning balances have been restated, see Note 18, Section C.

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Note 6. Long-Term Obligations

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

A. Bonds Payable

At June 30, 2008, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 104,069	$ 104,672	$ 9,285	$ 13,853	$ 142,153	$ 170,542
2010	93,349	100,064	9,740	13,408	99,132	164,856
2011	88,075	95,691	10,205	12,938	99,555	160,656
2012	101,920	91,243	10,720	12,431	102,399	153,828
2013	111,335	85,838	11,260	11,895	122,316	148,920
2014 - 2018	504,750	352,209	64,255	50,507	592,639	680,816
2019 - 2023	371,255	252,365	81,355	33,183	640,557	529,398
2024 - 2028	111,210	178,337	35,670	16,918	587,847	381,135
2029 - 2033	168,260	152,227	25,820	8,711	597,490	243,937
2034 - 2038		116,156	12,650	1,161	615,245	123,426
2039 - 2043	371,700	92,925			286,645	31,570
2044 - 2048					52,355	7,422
2049 - 2053	197,006	2,637,174			3,705	148
	$ 2,222,929	$ 4,258,901	$ 270,960	$ 175,005	$ 3,942,038	$ 2,796,654

Primary Government

Governmental Activities

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature through 2009 with interest payable with each principal payment.

In July 2007, the State issued $46,570,000 Consolidated Capital Development Loan of 2008, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2009 through 2014. The proceeds were used to advance refund $47,305,000 1998A Refunding Series. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 7 years by $1,719,994 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,703,927.

Included in the current interest bonds is $14,165,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. These bonds were refunded subsequent to June 30, 2008.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to affect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has not taxing power. The TSFC 2007 bonds are capital

appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2008, TSFC utilized $16,620,000 of excess collections to early redeem an equal amount of outstanding bonds

At June 30, 2008 general obligation bonds authorized by the voters and unissued amounted to $275,016,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

Business Type Activities

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2008, outstanding bond and note indebtedness totaled $272,100,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of $101,315,000. The bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the bonds to fixed rate bonds. The bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the bondholders for the years ended June 30, 2008 was $2,088,000. The bonds mature in varying installments through May 15, 2027; $59,210,000 of these bonds remain outstanding at June 30, 2008.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2008 under the Swap Agreement was $2,403,000. Total interest received by the RICCA from UBSAG for the years ended June 30, 2008 under the Swap Agreement was $1,834,000. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2008, the fair value of RICCA's liability for the interest rate swap was approximately $3,771,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent).

The termination date of the standby bond purchase agreement is the later of November 1, 2011 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2008 totaled $104,000. Subsequent to June 30, 2008, $58,410,000 of the $59,210,000 2001 Series A Refunding Revenue Bonds outstanding as of June 30, 2008 was tendered to Dexia pursuant to the standby purchase agreement.

Outstanding indebtedness on the 2001 Series A Refunding Revenue bonds is insured under a financial guaranty insurance policy with Municipal bond Insurance Association, Inc. (MBIA) In June 2008, MBIA's rating was downgraded by Standard & Poor's and Moody's Investors Service to AA and A2 respectively. In addition, UBS, the Authority's Remarketing Agent, has exited the municipal bond market. The combination of these factors and the current condition of the financial markets caused management to investigate alternative financing options with respect to the 2001 Series A Refunding Revenue Bonds. In July 2008, the authorized the issuance of refunding revenue bonds to refund the 2001 Series A Refunding Revenue bonds and terminate the Swap Agreement.

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In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during FY08.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2008, RIAC had $83,000 in borrowings under this agreement.

During the year ended June 30, 2008, the Airport Corporation issued $18,030,000 of revenue bonds with an average interest rate of 4.492% to advance refund $18,060,000 of revenue bonds with an average interest rate of 5.081%. The Airport Corporation advance refunded these bonds to reduce its total debt service payments over the next 10 years by approximately $717,000 and obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately $597,000. The reacquisition price exceeded the carrying amount of the old debt by $539,126. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The proceeds of the refunding were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. As of June 30, 2008, $60,225,000 of outstanding refunding bonds, including prior year refundings, are considered defeased.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of $70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The $80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, $4,000,000 at June 30, 2008 (See Note 18B). The insured mortgages are guaranteed by the State. Subsequent to June 30, 2008 the authorization was reduced to $20,000,000 by the General Assembly.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds. URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and a) a fixed rate on the swap equal to 3.691% and b) in return URI receives the sum of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds. All payments under the swap agreement are netted and paid on a monthly basis each month on the fifteenth (15^{th}), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a negative fair market value ($1,397,697) at June 30, 2008. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from Merrill Lynch Capital Services (MLCS), the swap exposes URI to basis risk. As of June 30, 2008, the Bond Market Municipal Swap Index was 1.55% whereas 67.0% of the 1 month LIBOR plus 0.12% was 1.65%.

As of June 30, 2008, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

In November 2008, URI refunded the Series 2004B bonds and financed the termination of the swap agreement with the proceeds of the Series 2008 A and B bonds (see Note 19 Subsequent Events).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2008 are as follows:

Primary Government	
Agricultural Land Preservation Commission 2 installments on or before July 2009	$ 2,276
Less: current payable	(1,860)
	$ 416
Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,849
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	37,081
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.	9,775
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	3,415
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	702
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	1,250
	54,072
Less: current payable	(43,292)
	$ 10,780

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C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $269,027,000.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets.

The State's obligation under capital leases at June 30, 2008 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

In December 2007, the State issued $59,183,000 of refunding Certificates of Participation to advance refund $60,435,000 of outstanding capital leases. Interest rates on the new capital leases range from 3.30% to 5.00% with maturities through fiscal year 2021. This in-substance defeasance resulted in an economic gain of approximately $2,429,000 and total debt service requirements were reduced by approximately $2,963,000.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

Fiscal Year Ending June 30	COPS
2009	$ 32,048
2010	31,291
2011	26,128
2012	24,835
2013	23,743
2014 - 2018	98,043
2019 - 2023	64,196
2024 - 2028	16,400
Total future minimum lease payments	316,684
Amount representing interest	(80,624)
Present value of future minimum lease payments	$ 236,060

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. Other long-term liabilities include a tax carry-over credit for a large corporation determined to be a long-term liability and the State's estimated liability for the Station Fire litigation (see Note 12 – Contingencies).

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation (EDC) relating to $14,280,000 of financing obtained by EDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of EDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR. To obtain a fixed rate on the obligation, the EDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay EDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. EDC's note payable is secured by an assignment of a payment agreement between the State and EDC reflecting legislative approval of EDC executing this debt and the State's obligation to appropriate to EDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to EDC through FY 2010 to pay the debt service on the loan.

The State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives. At June 30, 2008 there was $18,152,000 outstanding under the loan agreement.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2008, the following changes (expressed in thousands) occurred in long-term debt:

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Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	$ 913,367	$ 178,325	$ (94,613)	$ 997,079	$ 54,545	$ 942,534
Capital appreciation bonds	118		(109)	9	9	
Accreted interest on capital appreciation bonds	3,046	667	(3,403)	310	310	
Premium and deferred amount on refunding	31,800	3,040	(3,719)	31,121		31,121
	948,331	182,032	(101,844)	1,028,519	54,864	973,655
RIEDC Grant Anticipation Bonds	313,820		(28,315)	285,505	27,475	258,030
Premium	20,799		(3,563)	17,236		17,236
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	76,290		(3,730)	72,560	3,845	68,715
Premium	1,502		(125)	1,377		1,377
Revenue bonds - RIRBA	42,710		(18,475)	24,235	18,195	6,040
Net premium/discount and deferred amount on refunding	(251)		(35)	(286)		(286)
Tobacco Settlement Asset-Backed Bonds	860,161		(16,620)	843,541		843,541
Accreted interest on TSFC bonds		11,153		11,153		11,153
Net premium/discount	(27,723)		1,394	(26,329)		(26,329)
Bonds payable	2,235,639	193,185	(171,313)	2,257,511	104,379	2,153,132
Certificates of Participation (COP)	256,865	59,185	(79,990)	236,060	21,330	214,730
Premium	6,167	703	(769)	6,101		6,101
Obligations under capital leases	263,032	59,888	(80,759)	242,161	21,330	220,831
Compensated absences	78,108	62,333	(73,005)	67,436	55,226	12,210
Net OPEB Obligation		16,112		16,112		16,112
Notes Payable		2,276		2,276	1,860	416
Other long-term liabilities	56,867	39,478	(13,206)	83,139	9,786	73,353
	$ 2,633,646	$ 373,272	$ (338,283)	$ 2,668,635	$ 192,581	$ 2,476,054
Business type activities						
Revenue bonds	$ 279,935	$	$ (8,975)	$ 270,960	$ 9,285	$ 261,675
Add: bond premium	4,224		(319)	3,905		3,905
Less: issuance discounts	(734)		101	(633)		(633)
Deferred amounts on refunding	(6,586)		679	(5,907)		(5,907)
Bonds payable	276,839		(8,514)	268,325	9,285	259,040
Other long-term liabilities	1,359		(188)	1,171	188	983
	$ 278,198	$	$ (8,702)	$ 269,496	$ 9,473	$ 260,023

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2008, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 288,083
Certificates of Participation	21,230
R.I. Convention Center Authority	35,660
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	280,780
R.I. Economic Development Corporation	81,205
R.I. Turnpike and Bridge Authority	32,300

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2008 was $97,000,000, $2,420,465,710 and $868,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $427,588,000 of restricted net assets, of which $181,143,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets.

Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities	
Deficit	$ (1,427,537)	
General Revenue		
Appropriations carried forward	1,739	General revenues carried forward for original purpose
Internal Service Funds	7,593	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	$ (1,418,205)	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,376,087,000 of such debt, which causes the above deficit.

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Changes in General Fund Reserved Fund Balances

The State maintains certain reserves within the General Fund in accordance with the Constitution and General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the constitutional provisions or enabling legislation.

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 78,659	$ 68,579	$ (44,369)	$ 102,869
Appropriations carried forward				
General revenue	3,640	1,739	(3,640)	1,739
Departmental restricted revenue	51,777	42,413	(51,777)	42,413
Other	10,090	2,584	(10,090)	2,584
Total	$ 144,166	$ 115,315	$ (109,876)	$ 149,605

The State maintains a State Budget Reserve and Cash Stabilization Account in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the R.I. Capital Plan Fund to be used for capital projects. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,073,617	$ 1,073,057
General Business Taxes:		
Business Corporations	150,469	150,892
Public Utilities Gross Earnings	99,437	99,902
Financial Institutions	1,830	1,839
Insurance Companies	67,997	68,243
Bank Deposits	1,710	1,712
Health Care Provider Assessment	53,357	54,888
Sub-total - General Business Taxes	374,800	377,476
Sales and Use Taxes:		
Sales and Use	844,197	844,544
Motor Vehicle	48,610	48,611
Motor Fuel	991	1,008
Cigarettes	114,675	114,679
Alcoholic	11,141	11,141
Sub-total - Sales and Use Taxes	1,019,614	1,019,983
Other Taxes:		
Inheritance and Gift	35,334	35,473
Racing and Athletics	2,813	2,813
Realty Transfer	10,223	10,223
Sub-total - Other Taxes	48,370	48,509
Total - General Fund	2,516,401	2,519,025
Intermodal Surface Transportation Fund		
Gasoline	135,412	135,412
Other Governmental Funds	166,272	166,272
Total Taxes	$ 2,818,085	$ 2,820,709

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Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2008 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 48,637	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,966	Operating assistance
Tobacco Settlement Trust	124,000	Allocation of last year ending balance
Bond Capital	6,950	Debt service and capital projects
RI Refunding Bond Authority	331	Prior year undesignated balance
Certificate of Participation	25	Support of the arts
Business-Type Activities		
Lottery	94	Support of the arts
Lottery	354,321	Net income
Employment Security	2,643	Operating assistance
Internal Service		
Assessed Fringe Benefits	55	Charges for Information Technology Services
Energy Revolving	1,339	Prior year ending balance of dissolved fund
Correctional Industries	1,250	Excess revenue
ISTEA		
Bond Capital	28,198	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,175	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	63,792	Statutory excess in budget reserve
General	7,770	Transfer of remaining appropriations
Bond Capital	4,928	RICAP residual balance
Tobacco Settlement Trust	23,801	Allocation of prior year ending balance
Permanent School		
Lottery	1,153	Support of education
Total Governmental Activities	724,428	
Business-Type Activities		
Convention Center		
General	31,661	Debt service
Employment Security		
Assessed Fringe Benefits	1,622	Reimbursement for State employee's unemployment compensation
Internal Service Funds		
Health Insurance Retirees		
General	1,428	
Vehicle Replacement Revolving Loan		
Tobacco Settlement Trust	6,350	Allocation of prior year ending balance
Total operating transfers	$ 765,489	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,044,000 for the fiscal year ended June 30, 2008.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2008:

Fiscal Year Ending June 30		
2009	$	11,387
2010		10,367
2011		9,149
2012		7,507
2013		6,702
2014 - 2018		22,487
2019 - 2023		2,006
Total	$	69,605

The minimum payments shown above have not been reduced by any sublease receipts.

Exhibit A-49

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2008 are listed below (expressed in thousands).

Major funds		
General	$	11,439
ISTEA		209,822
GARVEE		115,635
Total major funds		336,896
Other governmental funds		20,434
Total encumbrances outstanding	$	357,330

The primary government is committed at June 30, 2008 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2008 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The

agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2008, $3,560,000 was paid to PPG.

The R.I. Convention Center Authority (RICCA) completed the renovation of the Dunkin' Donuts Center (DDC) in November 2008. The new Guaranteed Maximum Price for the project through March 2009 totaled $65,368,402 and RICCA's remaining commitment is $886,937. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

In 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than $125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than $20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $20,121,000 which is expected to be funded from current available resources and future operations. As of June 30, 2008, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately $7,824,000.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately $25,016,000 at June 30, 2008.

A portion of the R.I. Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately $33,300,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during 2012. In 2005, RIRRC began landfilling in Phase V. RIRRC has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phase IV and V. The total estimate of future landfill closure and postclosure care costs was increased to approximately $140,000,000 at June 30, 2008.

The liability for closure and postclosure care costs at June 30, 2008 of $84,847,000 is recorded in the statements of net assets, as noted below, with $55,200,000 remaining to be recognized at June 30, 2008. The detail of the recorded liability (expressed in thousands) is listed below.

Phase V	$	28,342
Phase IV		14,168
Phases II and III		6,572
Phase I		35,765
	$	84,847

Based on the estimates of RIRRC engineers, approximately 87% and 54% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2012 for Phase V.

RIRRC has received site approval for Phase VI from the State Planning Council. RIRRC has submitted an application for licensure of Phase VI to RIDEM. RIRRC expects to record an approximate additional $80,000,000 of closure and post closure costs based upon current costs over the anticipated life of Phase VI., once it is permitted and begins to accept solid waste.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets on the accompanying statement of net assets is $39,636,409 at June 30, 2008, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2008 relating to remediation that will be required as a result of the Consent Decree is approximately $12,000,000.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of $47,476,464 under various loan programs at June 30, 2008.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2008 remaining commitments on these contracts approximated $3,540,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of $4,646,591 at June 30, 2008

The College Crusade of R.I. has committed $1,069,851 toward scholarships for tuition during the 2008/2009 school year. This represents approximately 314 students for an average award of approximately $3,407 per student. As of June 30, 2008, the estimated value of the potential future scholarship costs through the year 2021 is estimated to be between $1,800,000 and $7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling $3,931,621 at June 30, 2008 which are expected to be funded from the receipt of State bond proceeds and internal funding.

The R.I. Industrial Recreational Building Authority has an outstanding commitment as of June 30, 2008 in the amount of $4,000,000 to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and R.I. Industrial Facilities Corporation.

The R. I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) agreed on September 27, 2007 to terminate the 2004 agreement between the parties which sold and assigned certain assets and rights from RISLA to Nelnet. In the original agreement RISLA assigned to Nelnet all rights associated with the Authority's student loan origination business, including the use of the Authority's name and federal identification number, issued by the U.S. Department of Education, to market and originate federal and alternative student loans for a term of 10 years and sold to Nelnet all fixed assets and the assumption of operating liabilities. Effective September 27, 2007 RISLA hired all the personnel that had previously been employed by Nelnet in the Warwick, RI location. RISLA's June 30, 2008 operating expenses include all salaries and wages, payroll taxes and benefits for the thirty seven new employees for the period September 27, 2007 through June 30, 2008. RISLA also assumed responsibility for all costs associated with the marketing and origination of student loans and all general and administrative costs that prior to the termination date had been paid by Nelnet and reimbursed by RISLA according to the service agreement in place between the two entities.

The September 2007 termination agreement required RISLA to return to Nelnet $4.1 million of $8 million that was paid to RISLA in 2004 for the assigned rights and fixed assets. RISLA received a valuation report from a national investment banking firm which confirmed that the amount paid to Nelnet was within the range of values for the remaining term of the original agreement. RISLA also received a confirmation from a second investment banking firm that the methodology used to calculate the repurchase price of the agreement was appropriate and reasonable. RISLA will amortize the capital asset of $4.1 million over a 5 year period ending in September 2012. The amortization expense for the year ended June 30, 2008 was $615,000.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling $6,277,380, are derived from the Program Fund. In addition, the R.I. Higher Education Assistance Authority (RIHEAA)

receives $250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to $1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to $10,000 to each student over a four-year scholarship period. During 2008, $325,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly $6,600,000 in fiscal year 2008. These transfers consisted of $325,000 for the Academic Promise Scholarship Program, $600,000 for the Adult Education Grant Program and over $5,600,000 in supplemental funding for the State Scholarship/Grant Program.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. A liability has been accrued on the Statement of Net Assets for this estimated settlement.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor hired by the contractor to, among other things, drill and install twenty-one shafts to allow for the placement and erection of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase and management cannot estimate the likelihood of loss to the State, if any.

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the

Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, is proceeding before an administrative hearing officer to present evidence in support of this claim.

Also, a claim has been made by the Chariho Regional School Committee for reimbursement for sums paid by Chariho for salaries of the directors and guidance counselors at the Chariho Career and Technical Center from 1990-present totaling $4,142,893. The claim was received in February 2009 and assigned for an administrative hearing. A full assessment of the likelihood of an unfavorable outcome cannot be made until the matter proceeds further into the administrative hearing process.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The alleged overpayment amount in dispute is approximately $9 million. The City of Providence requested a hearing and disputes the findings of the Department. The FY 2009 Supplemental Budget requires a seven year repayment schedule with the first payment in FY 2009.

Tobacco Settlement Financing Corporation

In 2005 and 2006, several states sued Participating Manufacturers (PM's) in their state courts seeking orders that the states diligently enforced the Master Settlement Agreement (MSA) and related statutes. All of the state courts denied the states' actions and ordered those states to arbitrate the 2003 Non-Participating Manufacturers (NPM's) Adjustment, including whether the state diligently enforced the MSA and related statutes.

Although Rhode Island did not sue the PM's, in 2006, the PM's filed in Rhode Island Superior Court a Motion to Compel the State to Arbitrate the 2003 NPM Adjustment, which the State opposed. In 2007, the Court granted the Motion to Compel Arbitration, which the State moved for reconsideration. The Court denied the State's Motion to Reconsider. The State appealed the Court's orders. In 2008, the Supreme Court of Rhode Island remanded the case for the Superior Court to rule on a Motion for a Stay. The Superior Court denied the stay and the case was returned to the Supreme Court of Rhode Island. During the appeal, the PM's and Rhode Island entered into an agreement, whereby Rhode Island would join nationwide arbitration and the PM's would release funds from the disputed account attributable to the 2005 NPM Adjustment. Rhode Island received $3,866,925 on February 26, 2009 which flowed to the TSFC. In addition, the agreement provided for a partial liability reduction for the 2003 NPM Adjustment. Arbitration will commence in the Fall of 2009.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S.

Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for nonparticipating manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

As a result of defaulting on loan payments, UTGR, Inc., the owner and operator of Twin River, entered into a forbearance agreement with its lenders. The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. The Department of Revenue and the Division of Lotteries are monitoring the situation on a daily basis. The Lottery has been collecting all revenues due the State each day without interruption. Management of the Department of Revenue has contingency plans to ensure continued operation of the Twin River facility.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2007 was issued in May 2008. That report identified approximately $19.0 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies and in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2008 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2008 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $321,812,545 and $41,661,677 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately $3,355,000 of the debt on the related economic development revenue bonds in fiscal year 2009.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of $31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of $69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2012, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

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R.I. Public Transit Authority

The R.I. Public Transit Authority has a $2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2008.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter percent, which was 4.75 % at June 30, 2008. There was an outstanding balance of $390,000 as of June 30, 2008. Total interest expense for the fiscal year ended June 30, 2008 was $15,391.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of $20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in October, 2008, whereby the Corporation may borrow up to a maximum outstanding principal sum of $50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2008, $10,500,000 is outstanding under these revolving loans.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court and is awaiting a judgment on the case. In the interim, the Community College has recorded a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income securities and domestic and international stocks is generally based on published market prices and quotations from national security exchanges and securities pricing services. Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions). Commingled funds consist of institutional domestic and international equity index funds and a short duration fixed income fund. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

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Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.77%	31.00%	32.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.52% and 8.97%		
Annual pension cost	$214,016	$3,720	$2,128
Contributions made - state employees	$131,560	$3,720	$2,128
Contributions made - teachers	$82,456		
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/06	145,792	100%	$ 0
	6/30/07	188,832	100%	0
	6/30/08	214,016	100%	0
State Police Retirement Benefits Trust	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
Judicial Retirement Benefits Trust	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2007, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS (*State Employees*)	$ 2,493,428,522	$ 4,332,888,818	$ 1,839,460,296	57.5%	$ 660,044,273	278.7%
ERS (*Teachers*)	$ 3,737,981,686	$ 6,750,125,236	$ 3,012,143,550	55.4%	$ 959,372,837	314.0%
SPRBT	$ 45,996,910	$ 60,427,947	$ 14,431,037	76.1%	$ 15,836,354	91.1%
JRBT	$ 29,630,637	$ 35,355,326	$ 5,724,689	83.8%	$ 6,451,666	88.7%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2007 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/07	6/30/07	6/30/07 *	6/30/07 *
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	22 years	22 years	22 years	22 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members -3.0% compounded Schedule B members – 2.5%	Schedule A members -3.0% compounded Schedule B members – 2.5%	$1,500 per annum	3.0% (see Note1(b)(4)) to the financial statements

* restated June 30, 2007 actuarial valuation

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

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Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to $14,389,235 during the year ended June 30, 2008.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2008 totaled $5,699,331. At January 1, 2008, the most recent valuation date, the total actuarial accrued liability was $76,525,478 and the actuarial value of assets was $47,327,996. The Authority contributed 100.00% of its annual pension cost for fiscal year 2008 and had a net pension obligation of $1,799,084 at June 30, 2008.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 14. Other Post-Employment Benefits

Plan Descriptions. The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees' Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependants until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependants at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP and they may be amended in the future by action of the General Assembly.

On May 1, 2008 Public Law 2008-09 was enacted. The legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage. For members of the ERS who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2008 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

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Funding Policy. The contribution requirements of retiree members, the State and other participating employers are established and may be amended by the General Assembly.

As mentioned above, in fiscal year 2008 non-Medicare retiree members paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

The retirees' fiscal 2008 contributions for Tier II benefits were as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of $452.28 (the active plan rate).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was $100.00 for the first six months of fiscal year 2008 and $107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on the years-of-service subsidy above.

In fiscal year 2008 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs and they contributed 3.91% of covered payroll. The contributions to the State Police Plan were equal to actual claims and administrative expenses. For the fiscal year ended June 30, 2008 the State and other participating employers paid $28,377,748 into the Plans.

Annual OPEB Cost and Net OPEB Obligation. Annual OPEB cost reflected in the government-wide financial statements is equal to the annual required contribution (ARC). The amount reflected in the governmental fund financial statements is equal to the actual contributions to the plan. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the Plans over a period of 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB obligation. The annual OPEB cost for the year, the amount actually paid on behalf of the Plans the changes in the net OPEB obligation and the percentage of annual OPEB cost contributed to the Plans, are as follows (dollar amounts in thousands):

	State Employees	Teachers	Judges	State Police	Legislators
Date of Actuarial Valuation	06/30/05	06/30/05	06/30/07	06/30/05	06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution and annual OPEB cost	$ 38,203	$ 1,428	$ 1,382	$ 4,827	$ 285
Participating State and/or other employer contributions	$ 24,854	$ 1,428	$ 464	$ 1,572	$ 60
Increase in OPEB obligation	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at beginning of year	$ 0	$ 0	$ 0	$ 0	$ 0
Net OPEB obligation at end of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Actuarial accrued liability (AAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded OPEB plan assets at valuation date	$ 0	$ 0	$ 0	$ 0	$ 0
Unfunded actuarial accrued liability (UAAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded ratio	0%	0%	0%	0%	0%
Covered payroll (in thousands)	$ 575,613	$ NA	$ 9,888	$ 13,821	1,509
UAAL as percentage of covered payroll	100.77%	NA	141.83%	369.27%	259.71%
Percentage of annual OPEB cost paid	65.06%	100.00%	33.57%	32.57%	21.05%

The table below displays the funded status of each plan as of the most recent actuarial valuation date, June 30, 2007, (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows

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whether the actuarial value of assets of the Plans are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Methods and Assumptions.</u> Projections of benefits for financial reporting purposes are based on the Plans and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The State's annual required contribution was determined using the individual entry age actuarial cost method. The State's unfunded actuarial accrued liability as of the June 30, 2005 transition date is being amortized over a period of 30 years using the level (principal and interest combined) percent of payroll (open) contribution amortization method. For judges, the June 30, 2007 valuation was used to determine the Annual Required Contribution for fiscal year 2008.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond for State Employees and legislators, ranging from 17% in year 1 to 4.5% in year 15 and beyond for teachers, ranging from 15% in year 1 to 5% in year 15 and beyond for Police, and 5.25% in all years for judges. The discount rate of 3.566% was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the General Fund.

The impact of Public Law 2008-09 on plan provisions and benefits has been factored into the June 30, 2005 actuarial valuation.

There were changes in actuarial assumptions in the June 30, 2007 valuation. These include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System of Rhode Island, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted 110%.

Further, for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan. The June 30, 2007 actuarial valuation will be used to determine the annual required contribution for fiscal 2010.

The RIRHCBP does not issue a stand-alone financial report.

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2008, the Program operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2006. For fiscal 2008, annual OPEB cost for the university and colleges was $2,975,528 and actual contributions made were $1,897,053. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or “unforeseeable emergency”.

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State’s financial statements.

Note 16. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage.

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The State also has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2008 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds Liability for unpaid claims	$ 19,836	$ 234,456	$ 233,642	$ 20,650

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Condensed Financial Statement Information

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Condensed statement of net assets:					
Other assets	$ 2,108,233	$ 1,057,517	$ 33,417	$ 284,540	$ 89,326
Capital assets - nondepreciable			2,677	116,099	415,607
Capital assets - depreciable (net)		3,611	83,127	377,584	223,261
Due from primary government				634	
Total assets	2,108,233	1,061,128	119,221	778,857	728,194
Long term debt	1,616,370	950,167	25,796	377,802	427,227
Other liabilities	207,477	33,640	5,391	41,541	14,217
Due to primary government	12,000			11,678	
Total liabilities	1,835,847	983,807	31,187	431,021	441,444
Net assets:					
Invested in capital assets, net of related debt	9,766	196	57,596	224,143	228,385
Restricted					
Debt service	207,217	75,583	6,359		
Other				79,366	190
Other nonexpendable					
Unrestricted	55,403	1,542	24,079	44,327	58,175
Total net assets	272,386	77,321	88,034	347,836	286,750
Condensed statement of activities:					
Program expenses					
Personal services	12,811	2,564	1,918	26,460	17,053
Supplies, materials, and services	9,408	7,259	1,780	17,331	14,522
Interest expense	73,620	39,610			
Depreciation, depletion, and amortization	2,757	969	2,399	17,903	7,464
Other program expenses	7,648	10,554	2,352	39,348	13,199
Total program expenses	106,244	60,956	8,449	101,042	52,238
Program revenue					
Charges for services	93,785	54,315	12,040	63,156	67,078
Operating grants and contributions				10,036	28
Capital grants and contributions				36,617	
Net program (expense) revenue	(12,459)	(6,641)	3,591	8,767	14,868
Interest and investment earnings	20,401	7,952	2,335	7,555	2,196
Miscellaneous			(4)	10,476	70
Payments from primary government	(26,020)			21,327	
Change in net assets	(18,078)	1,311	5,922	48,125	17,134
Beginning net assets as restated	290,464	76,010	82,112	299,711	269,616
Ending net assets	272,386	77,321	88,034	347,836	286,750

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	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,915	$ 123,068	$ 27,260	$ 14,622	$ 1,299
Capital assets - nondepreciable		14,835	307	6,557	
Capital assets - depreciable (net)	38	47,484	904	77,078	
Due from primary government				3,547	
Total assets	9,953	185,387	28,471	101,804	1,299
Long term debt		16,639	366	7,221	
Other liabilities	246	98,853	2,018	21,454	826
Due to primary government					
Total liabilities	246	115,492	2,384	28,675	826
Net assets:					
Invested in capital assets, net of related debt	39	46,929	1,211	83,635	
Restricted					
Debt service		2,155			
Other			24,876		
Other nonexpendable					
Unrestricted	9,668	20,811		(10,506)	473
Total net assets	9,707	69,895	26,087	73,129	473
Condensed statement of activities:					
Program expenses					
Personal services	378	14,152	3,220	47,261	62
Supplies, materials, and services	1,473	21,209	6,132	50,050	47
Interest expense					
Depreciation, depletion, and amortization	23	13,776	257	10,633	
Other program expenses		13,419	16,884		
Total program expenses	1,874	62,556	26,493	107,944	109
Program revenue					
Charges for services	2,143	66,993	15,292	32,643	120
Operating grants and contributions			368	20,602	
Capital grants and contributions				4,104	
Net program (expense) revenue	269	4,437	(10,833)	(50,595)	11
Interest and investment earnings	205	1,383	1,150	382	19
Miscellaneous	(1)	(423)		2,838	
Payments from primary government		(5,000)	10,220	32,725	
Change in net assets	473	397	537	(14,650)	30
Beginning net assets as restated	9,234	69,498	25,550	87,779	443
Ending net assets	9,707	69,895	26,087	73,129	473

Exhibit A-60

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 1,010,150	$ 3,200	$ 5,734	$ 1,727	$ 6,773
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	46	353		6,027	25
Due from primary government					
Total assets	1,010,196	3,734	5,734	8,575	6,798
Long term debt	648,882		9,427	1,113	
Other liabilities	9,895	774	433	473	1,778
Due to primary government					
Total liabilities	658,777	774	9,860	1,586	1,778
Net assets:					
Invested in capital assets, net of related debt	46	535		5,975	26
Restricted					
Debt service	329,259				
Other			(4,271)	1,168	1,594
Other nonexpendable					
Unrestricted	22,114	2,425	145	(154)	3,400
Total net assets	351,419	2,960	(4,126)	6,989	5,020
Condensed statement of activities:					
Program expenses					
Personal services	501			3,437	2,591
Supplies, materials, and services	2,531	143	35	1,733	564
Interest expense	26,379				15
Depreciation, depletion, and amortization	390	14	107	938	23
Other program expenses			416	61	2,307
Total program expenses	29,801	157	558	6,169	5,500
Program revenue					
Charges for services	21,364	282	1,226	4,967	4,848
Operating grants and contributions	10,904				
Capital grants and contributions					
Net program (expense) revenue	2,467	125	668	(1,202)	(652)
Interest and investment earnings	12,376	76	135	(58)	166
Miscellaneous			3	217	
Payments from primary government				2,292	1,056
Change in net assets	14,843	201	806	1,249	570
Beginning net assets as restated	336,576	2,759	(4,932)	5,740	4,450
Ending net assets	351,419	2,960	(4,126)	6,989	5,020

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	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 220,877	$ 48,577	$ 23,923	$ 6,519	$ 5,076,677
Capital assets - nondepreciable	63,173	4,310	4,919		629,486
Capital assets - depreciable (net)	354,608	82,937	43,172	3,297	1,303,552
Due from primary government					4,181
Total assets	638,658	135,824	72,014	9,816	7,013,896
Long term debt	212,418	19,171	9,077	1,746	4,323,422
Other liabilities	54,458	19,238	11,043	7,069	530,824
Due to primary government		19,327			43,005
Total liabilities	266,876	57,736	20,120	8,815	4,897,251
Net assets:					
Invested in capital assets, net of related debt	236,957	54,598	40,358	3,103	993,498
Restricted					
Debt service					620,573
Other	26,317	4,387	5,337	116	139,080
Other nonexpendable	76,058	16,152			92,210
Unrestricted	32,450	2,951	6,199	(2,218)	271,284
Total net assets	371,782	78,088	51,894	1,001	2,116,645
Condensed statement of activities:					
Program expenses					
Personal services	260,096	87,742	71,812	54,266	606,324
Supplies, materials, and services	113,025	22,497	24,749	1,548	296,036
Interest expense				15	139,639
Depreciation, depletion, and amortization	20,378	4,713	2,946	276	85,966
Other program expenses	27,019	6,667	2,818		142,692
Total program expenses	420,518	121,619	102,325	56,105	1,270,657
Program revenue					
Charges for services	319,837	72,307	55,354	9,821	897,571
Operating grants and contributions		3,165	1,093		46,196
Capital grants and contributions	56,162	3,833	2,686		103,402
Net program (expense) revenue	(44,519)	(42,314)	(43,192)	(46,284)	(223,488)
Interest and investment earnings	3,839	(202)	416	19	60,345
Miscellaneous	14,941	6		65	28,188
Payments from primary government	75,390	44,347	47,820	44,088	248,245
Change in net assets	49,651	1,837	5,044	(2,112)	113,290
Beginning net assets as restated	322,131	76,251	46,850	3,113	2,003,355
Ending net assets	371,782	78,088	51,894	1,001	2,116,645

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 10,220	Operating assistance
R.I. Economic Development Corporation	10,864	Operating and capital assistance
University of Rhode Island	74,943	Educational assistance
Rhode Island College	44,512	Educational assistance
Community College of Rhode Island	48,182	Educational assistance
Central Falls School District	43,526	Educational assistance
R.I. Public Transit Authority	8,202	Operating assistance
R.I. Housing & Mortgage Finance Corporation	(26,020)	Operating assistance
ISTEA		
R.I. Public Transit Authority	32,882	Operating assistance
Bond Capital		
RI Economic Development Corporation	14,547	Construction, improvement or purchase of assets
University of Rhode Island	41,309	Construction, improvement or purchase of assets
Rhode Island College	5,915	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	6,237	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	9,107	Construction, improvement or purchase of assets
Total Governmental Activities	$ 324,426	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,345	$ 3,943	$ 20,288	$ (16,588)	$ 3,700
Loans to other funds	78,829	2,100	80,929	(80,929)	
Total assets	$ 95,174	$ 6,043	$ 101,217	$ (97,517)	$ 3,700
Liabilities					
Due to other funds	$ 14,295	$ 2,293	$ 16,588	$ (16,588)	$
Loans from other funds	71,129	9,800	80,929	(80,929)	
Total liabilities	$ 85,424	$ 12,093	$ 97,517	$ (97,517)	$
Program revenue					
General government	$ 30	$ 291,713	$ 291,743	$ (291,743)	
Human services		8,348	8,348	(8,348)	
Public safety		10,272	10,272	(10,272)	
Expenses					
General government	30	290,813	290,843	(290,843)	
Human services		8,689	8,689	(8,689)	
Public safety		10,831	10,831	(10,831)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 724,428	$ 7,778	$ 732,206	$ (407,278)	$ 324,928
Operating transfers out	(403,012)	(4,266)	(407,278)	407,278	
Net transfers	$ 321,416	$ 3,512	$ 324,928	$	$ 324,928

	Total Business-type Activities		Total	Eliminations	Internal Balances
Liabilities					
Due to other funds	$ 3,700	$	$ 3,700	$	$ 3,700
	$ 3,700	$	$ 3,700	$	$ 3,700
Transfers					
Operating transfers in	$ 33,283	$	$ 33,283	$ (33,283)	$
Operating transfers out	(358,211)		(358,211)	33,283	(324,928)
Net transfers	$ (324,928)	$	$ (324,928)	$	$ (324,928)

B. Related Party Transactions

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2008 were as follows:

Guaranteed loans outstanding at June 30, 2008	$509,527,000
Loans guaranteed during the year	247,588,000
Guarantee claims paid during the year	21,668,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2008 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

The Narragansett Bay Commission has approximately $269,000,000 of loans payable to the RI Clean Water Finance Agency.

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2007			
Net assets as previously reported	$ 982,917	$ 2,017,401	
Fund balance as previously reported			$ 921,468
Correction of errors		(14,042)	
Reclassifications	42	(4)	42
June 30, 2007 net assets/fund balance as restated	$ 982,959	$ 2,003,355	$ 921,510

The beginning net assets of Governmental Activities within the government-wide financial statements were increased by $42,000. This increase is the result of the Rhode Island Economic Policy Council, a blended component unit as of June 30, 2007, being merged with the Rhode Island Economic Development Corporation, a discretely presented component unit. This merger also resulted in a reclassification of total net assets of the governmental funds for the same amount at June 30, 2007.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $14,000,000 to correct errors in prior periods. The majority of this decrease was attributable to a $13.8 million decrease in net assets for the Rhode Island Resource Recovery Corporation. During 2007, the Corporation ceased development activities of the industrial park and began actively marketing the land for sale. Based upon the sales consummated during 2007, the intent of the Corporation and other information available prior to the issuance of its 2007 financial statements, the land should have been reclassified from land held for development to land held for sale and reduced from its cost basis to net realizable value. As a result, the Corporation's financial statements overstated both total assets and net assets as of June 30, 2007 by the amount necessary to reduce the land to net realizable value. That amount totaled $13,758,679.

The State's fiscal 2008 financial statements include the following new funds:

- Rhode Island Capital Plan Fund - Capital Projects Fund
- Coastal Resources Management Council Dredge Fund – Special Revenue Fund
- Vehicle Replacement Revolving Loan Fund – Internal Service Fund

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The Energy Revolving Internal Service Fund was dissolved and remaining net assets were transferred to the General Fund.

In accordance with GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* a net OPEB obligation has been recorded within the government-wide financial statements and proprietary funds reflecting an actuarially determined annual required contribution for postemployment benefits provided to employees (see Note 14).

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 98 percent of estimated general revenues. The remaining 2 percent is contributed to the Budget Reserve Account until such account equals 3 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

Budgetary Compliance

The General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures. Actual general revenues were $7.1 million less than estimated revenues and actual general revenue expenditures were $35.8 million more than budgeted amounts. Expenditures in three departments exceeded appropriations from general revenues by a significant amount: the Department of Human Services by $22.8 million; the Department of Mental Health Retardation and Hospitals by $7.8 million; and the Department of Corrections by $8.6 million.

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2008:

- Assessed Fringe Benefits Fund ($5,659,000)
- State Telecommunications ($1,347,000)
- Central Laundry ($137,000)
- Records Center ($82,000)

The deficits will be eliminated through charges for services in fiscal year 2009.

Note 19. Subsequent Events

Primary Government

On November 4, 2008 the voters authorized the State to issue $87,215,000 of transportation bonds and $2,500,000 of open space and recreational development bonds.

On December 2, 2008 the State of Rhode Island issued $107,820,000 in General Obligation Bonds with interest rates ranging from 3.00% to 6.60% with maturity dates of August 2009 through August 2024. This issuance included an $86,875,000 Consolidated Capital Development Loan of 2008, Series B, an $8,500,000 Capital Development Loan of 2008, Series C, and a $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D.

Subsequent to June 30, 2008, investments held within the pension trust funds have declined significantly in value consistent with overall declines in the domestic and international financial markets. At March 31, 2009, these declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the investments held within the pension trust funds, which includes diversification of holdings pursuant to an asset allocation model. Additionally, the impact on the funded status of the plans and required

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contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing employed in the actuarial value of assets.

As of March 31, 2009 the Employees' Retirement System has successfully exited the securities lending program. As a result of this action, all securities on loan were called back, and collateral obligations were returned in whole.

The State's cash equivalent type investments at June 30, 2008 included approximately $83,765,000 invested with The Reserve – U.S. Government Fund which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. The State had approximately $62 million invested in The Reserve - U.S. Government Fund on September 22, 2008, the date redemptions were suspended. The Reserve liquidated the U.S. Government Fund making a partial distribution and then final distribution on January 16, 2009. The Office of the General Treasurer received full redemption of its shares in the Reserve - US Government Fund, plus accrued interest, at a rate above current market levels, without loss in value.

Funds on deposit with fiscal agent at June 30, 2008 as well as certain investments held within the discretely presented component units included guaranteed investment contracts (GIC's) with AIG Matched Funding a subsidiary of American International Group (AIG). Bond proceeds were invested in the GIC's pending disbursement for project costs. The AIG GIC's contained provisions that were triggered by a downgrade in the ratings assigned to the corporate issuer of the GIC's which occurred in September 2008. The credit rating downgrade allowed the State and the Rhode Island Clean Water Finance Agency (a discretely presented component unit) to request return of the invested funds which subsequently occurred.

The State Investment Commission has modified, due to the increased need for security, its short-term investment policy regarding Certificates of Deposits and Commercial Paper. Certificates of Deposits, regardless of duration, shall be fully collateralized, at a percent not to be below 102%. Further, investments in Commercial Paper will cease.

The State sold $350 million of General Obligation Tax Anticipation Notes in October 2008. The notes bear interest at 3.5% and are due June 30, 2009.

In March 2009, the State obtained an interest free $75 million line of credit from the Federal Unemployment Insurance Trust Fund. The line of credit will be used to fund unemployment insurance benefits.

Subsequent to June 30, 2008, in response to instability in the financial markets, the U.S. Treasury instituted a Temporary Guarantee Program for Money Market Funds. The program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. This program expires on April 30, 2009 unless extended by the U.S. Treasury. The State and its component units had significant amounts invested in money market funds at June 30, 2008. Money market funds must elect to participate in the Temporary

Guarantee Program for Money Market Funds. All the money market funds holding State funds at June 30, 2008 have elected to participate in the guarantee program.

In December 2008, the Board of the Employees' Retirement System approved an increase to the fiscal 2010 employer contribution rates for State employees from 20.69% to 25.03% of covered payroll. The fiscal 2010 contribution rates had previously been established and approved by the Board based on an actuarial valuation performed as of June 30, 2007. An increase in the fiscal 2010 employer contribution rate was recommended by the actuary in response to an expected decrease in covered payroll for fiscal 2010. This is due to a significant increase in the number of state employee retirements prompted largely by changes in retiree medical coverage effective October 1, 2008. The expected decrease in fiscal 2010 covered payroll requires that the amortization of the unfunded actuarial accrued liability be applied to a smaller payroll base thereby causing an increase in the employer contribution rate.

In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide 1.3 million megawatt hours per year of renewable energy, which is approximately 15 percent of all electricity used in the State. The first phase of the project is scheduled to begin in late 2010 and to be completed in June 2012. It is expected that the development will cost in excess of $1.5 billion to construct, which will all be funded through private investment sources.

On April 2, 2009 the Rhode Island Economic Development Corporation, on behalf of the State issued $169,395,000 of Grant Anticipation Revenue Vehicle Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects, and $12,410,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax.

In July 2008, the Rhode Island Convention Center Authority (RICCA) entered into a lease with the State Department of Administration and commenced operations of the Veterans Memorial Auditorium and Cultural Center (VMA). Operation of the VMA is shared by two facilities-management groups: Professional Facilities Management Inc. of Providence (PFM) and Spectacor Management Group (SMG). PFM will manage the marketing, bookings and box office; SMG will manage the physical plant, mechanical operations and security.

In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

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Component Units

Effective July 1, 2008, the General Assembly reduced the amount of debt authorization available to the Rhode Island Industrial Recreational Building Authority from $80,000,000 to $20,000,000.

On August 14, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series B-1, Series B-2, Series B-3 and Series B-4) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series B-5). The Series B-1, Series B-2 and Series B-3 Bonds are to be used to refinance the 1996 Series 1, Series 2 and Series 3 Bonds. The Series B-4 and Series B-5 are for the purpose of financing student loans.

On November 25, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series C-1 and C-2) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series C-3). The Series C-1 and Series C-2 Bonds are to be used to refinance the 1995 Series 1 Bonds.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued the 2008 Series A Wastewater System Revenue Refunding Bonds in the principal amount of $66,360,000 maturing September 1, 2034. The Refunding Bonds were issued to refund the 2004 Series A Revenue Bonds. The 2008 Series A are Multi-Modal and have been issued in weekly rate mode with the interest rate determined weekly and interest paid monthly. The owner of the bonds in a weekly mode can require NBC (acting through its remarketing agent) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds. NBC has an irrevocable direct pay letter of credit issued by RBS Citizens, National Association. In the event that the remarketing agent is unable to remarket tendered bonds, the letter of credit provides that the bank be obligated to pay to the Trustee, the amount necessary to pay the principal and Purchase Price of and interest on the Bonds of up to 60 days at the maximum Rate of 10% on the Bonds. The letter of credit expires on July 16, 2020.

Subsequent to June 30, 2008 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

On November 20, 2008, the University of Rhode Island issued two series of bonds: $34.1 million Series 2008 A and $3.8 million Series 2008 B bonds (taxable). Proceeds of Series 2008 A bonds were used to refund the University of Rhode Island Series 2004 B bonds while Series 2008 B bonds proceeds were used to finance swap termination payments in connection with the termination of an interest rate swap dated December 22, 2004.

On August 26, 2008, R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued $64,720,000 of Homeownership Opportunity Bonds, Series 60.

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On October 1, 2008 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,060,000.

RIHMFC has renewed its line of credit with Bank of America N.A. which expired in October 2008. Terms of the new agreement are as follows: a) Commitment Amount: $30,000,000, b) Maturity Date: 10/30/2009, c) Interest Rate: Variable rate tied to LIBOR.

As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit for fiscal year 2009 to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority's operations.

A forensic audit of the R.I. Resource Recovery Corporation is ongoing and has highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. Management has not yet determined the impact of the forensic audit, or other investigations of the corporation, other than the carrying value of certain assets held for development that were written down in fiscal year 2008.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,082,857	$ 1,069,100	$ 1,073,617	$ 4,517
General Business Taxes:				
Business Corporations	167,207	156,500	150,469	(6,031)
Public Utilities Gross Earnings	109,300	97,300	99,437	2,137
Financial Institutions	2,003	1,200	1,830	630
Insurance Companies	68,834	63,500	67,997	4,497
Bank Deposits	1,600	1,700	1,710	10
Health Care Provider Assessment	48,900	50,900	53,357	2,457
Sales and Use Taxes:				
Sales and Use	908,724	853,400	844,197	(9,203)
Motor Vehicle	50,235	45,200	48,610	3,410
Motor Fuel	1,100	1,290	991	(299)
Cigarettes	112,500	118,100	114,675	(3,425)
Alcohol	11,100	10,900	11,141	241
Other Taxes:				
Inheritance and Gift	30,100	38,000	35,334	(2,666)
Racing and Athletics	2,600	2,800	2,813	13
Realty Transfer Tax	13,800	10,900	10,223	(677)
Total Taxes	2,610,860	2,520,790	2,516,401	(4,389)
Departmental Revenue	362,870	357,500	356,546	(954)
Total Taxes and Departmental Revenue	2,973,730	2,878,290	2,872,947	(5,343)
Other Sources				
Gas Tax Transfer	4,685	4,535	4,514	(21)
Other Miscellaneous	140,279	180,970	181,810	840
Lottery	339,700	356,800	354,321	(2,479)
Unclaimed Property	14,600	15,500	15,387	(113)
Total Other Sources	499,264	557,805	556,032	(1,773)
Total General Revenues	3,472,994	3,436,095	3,428,979	(7,116)
Federal Revenues	1,723,323	1,780,991	1,740,283	(40,708)
Restricted Revenues	161,974	154,732	126,090	(28,642)
Other Revenues	57,174	55,956	58,639	2,683
Total Revenues	5,415,465	5,427,774	5,353,991	(73,783)
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,550	1,592	1,631	(39)
Federal Fund Total	238	229	234	(5)
** Restricted Receipts Total		119	73	46
Total-Central Management	1,788	1,940	1,938	2

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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General Fund
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	Original Budget	Final Budget	Actual	Variance
Legal Services				
Legal Support/DOT	122	236	142	94
General Revenue Total	1,837	2,255	2,493	(238)
Total-Legal Services	1,959	2,491	2,635	(144)
Accounts & Control				
General Revenue Total	3,253	3,499	3,465	34
Budgeting				
General Revenue Total	2,091	1,997	1,902	95
Purchasing				
General Revenue Total	2,399	2,184	2,178	6
Auditing				
General Revenue Total	1,792	1,690	1,621	69
Other			100	(100)
Total-Auditing	1,792	1,690	1,721	(31)
Human Resources				
Other Fund Total	793	528	1,384	(856)
General Revenue Total	10,067	10,179	9,678	501
Federal Fund Total	2,066	1,974	783	1,191
Restricted Receipts Total	578	484	499	(15)
Total-Human Resources	13,504	13,164	12,345	819
Personnel Appeal Board				
General Revenue Total	97	111	105	6
Facilities Management				
General Revenue Total	36,056	36,576	35,046	1,530
Federal Fund Total	7,214	7,774	1,766	6,008
Restricted Receipts Total	7,488	1,090	1,057	33
Other Fund Total	555	562	5,435	(4,873)
Total-Facilities Management	51,313	46,003	43,304	2,699
Capital Projects & Property Management				
General Revenue Total	3,749	3,334	3,291	43
Information Technology				
General Revenue Total	17,650	18,848	18,623	225
Federal Fund Total	7,390	5,602	5,520	82
Restricted Receipts Total	1,423	1,744	908	836
Other Fund Total	1,403	2,258	1,526	732
Total-Information Technology	27,866	28,452	26,577	1,875

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Schedule of Revenues, Expenditures and Changes in Fund Balance
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	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,101	986	1,025	(39)
Federal Fund Total	1,084	1,064	1,022	42
Restricted Receipts Total	2	2	1	1
Total-Library and Information Services	2,187	2,051	2,047	4
Statewide Planning				
General Revenue Total	3,793	3,782	3,730	52
Federal Fund Total	9,330	10,454	8,302	2,152
Federal Highway-PL Systems Planning	1,689	2,048	1,875	173
Air Quality Modeling	21	21	8	13
Total-Statewide Planning	14,833	16,304	13,914	2,390
Security Services				
General Revenue Total	19,933	19,689	19,900	(211)
Energy Resources				
General Revenue Total	2,237	2,606	2,350	256
Federal Funds Total	19,688	22,027	21,268	759
Restricted Receipts Total	200	509	70	439
Total-Energy Resources	22,125	25,143	23,689	1,454
General				
Miscellaneous Grants and Payments	661	661	652	9
Torts-Court Awards	400	408	326	82
EDC Airport Impact Aid		1,001	1,001	
State Employees/Teachers Retiree Health	1,442		1,428	(1,428)
Governor's Contingency Fund			128	(128)
Economic Development Corporation Grant	8,699	7,655	7,655	
Slater Centers of Excellence	3,000	2,919	2,919	
Economic Policy Council	300	292	292	
Dunkin Donuts Center Renovations	12,500	8,400	8,400	
Transfer to RICAP Fund		19,423	19,423	
Motor Vehicle Excise Tax Payment	135,500	135,317	135,278	39
Property Valuation	1,100	1,100	1,079	21
General Revenue Sharing Program	65,112	55,112	55,112	
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,384	10,384	10,384	
Resource Sharing and State Library Aid	8,773	8,773	8,746	27
Library Construction Aid	2,813	2,813	2,673	140
EPScore-EDC	1,500	1,460	1,460	
Police/Fire Incentive Pay	675	675	674	1
Federal Fund Total			4	(4)
Restricted Receipts Total	1,296	1,396	3,781	(2,385)
Total-General	281,922	285,555	289,180	(3,625)
Debt Service Payments				
RIPTA Debt Service	681	675	675	
Transportation Debt Service	35,442	33,569	33,413	156
RIRBA-DLT Temporary Disability Insurance	46	46	46	
COPS-DLT Building-TDI	359	284	277	7

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General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
COPS-DLT Building-Reed Act	26	7	7	
Investment Receipts-Bond Funds			63	(63)
Debt Service Payments	126,160	131,156	131,003	153
Federal Fund Total	1,178	947	931	16
Restricted Receipts Total	1,542	3,195	3,585	(390)
Total-Debt Service Payments	165,434	169,877	169,999	(122)
Retirement Alternative				
Pay Plan Reserve General Revenue	(9,105)			
Other Fund Total	(2,715)			
Federal Fund Total	(2,607)			
Restricted Receipts Total	(419)			
Total-Retirement Alternative	(14,846)			
Total-Department of Administration	601,399	623,486	618,189	5,297
Department of Business Regulation				
Central Management				
General Revenue Total	1,283	1,278	1,204	74
Banking Regulation				
General Revenue Total	3,083	2,958	2,857	101
Restricted Receipts Total	145	145	65	80
Total-Banking Regulation	3,228	3,103	2,922	181
Commercial Licensing and Racing & Athletics				
General Revenue Total	1,363	1,093	1,132	(39)
Restricted Receipts Total	607	553	436	117
Total-Commercial Licensing and Racing & Athletics	1,970	1,647	1,568	79
Board of Design Professionals				
General Revenue Total	406	392	347	45
Insurance Regulation				
Federal Funds	52	202	114	88
General Revenue Total	5,185	5,024	4,640	384
Restricted Receipts Total	856	969	864	105
Total-Insurance Regulation	6,093	6,194	5,618	576
Board of Accountancy				
General Revenue Total	155	151	153	(2)
Total-Department of Business Regulation	13,136	12,765	11,812	953
Department of Labor and Training				
Central Management				
General Revenue Total	195	183	140	43
Restricted Receipts	484	453	504	(51)
Total-Central Management	679	635	644	(9)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		75	63	12
Reed Act-Rapid Job Entry	799	795	589	206
Reed Act-Workforce Development	5,200	4,188	2,526	1,662
General Revenue Total	3	6		6
Federal Fund Total	13,368	20,279	14,281	5,998
Restricted Receipts Total	14,952	11,664	7,799	3,865
Total-Workforce Development Services	34,322	37,008	25,259	11,749
Workforce Regulation and Safety				
General Revenue Total	2,737	2,480	2,551	(71)
Income Support				
General Revenue Total	3,175	3,322	3,376	(54)
Federal Fund Total	14,757	15,238	14,602	636
Restricted Receipts Total	1,761	1,872	1,834	38
Total-Income Support	19,693	20,433	19,812	621
Injured Workers Services				
Restricted Receipts Total	11,087	11,086	9,961	1,125
Labor Relations Board				
General Revenue Total	473	428	310	118
Total-Department of Labor and Training	68,991	72,069	58,537	13,532
Legislature				
General Revenue Total	36,972	34,116	32,378	1,738
Restricted Receipts Total	1,524	1,452	1,452	
Total-Legislature	38,496	35,568	33,829	1,739
Total-General Assembly	38,496	35,568	33,829	1,739
Office of the Lieutenant Governor				
Lieutenant Governor	925	840	850	(10)
Department of State				
Administration				
General Revenue Total	1,685	1,658	1,757	(99)
Corporations				
General Revenue Total	1,799	1,854	1,914	(60)
State Archives				
General Revenue Total	89		109	(109)
Federal Fund Total	40	38	28	10
Restricted Receipts Total	443	559	420	139
Total-State Archives	573	597	557	40

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Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
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	Original Budget	Final Budget	Actual	Variance
Elections				
General Revenue Total	583	611	688	(77)
Federal Fund Total	547	534	883	(349)
Total-Elections	1,130	1,146	1,571	(425)
State Library				
General Revenue Total	690	676	713	(37)
Office of Civics Public Information				
General Revenue Total	190	244	308	(64)
Total-Department of State	6,066	6,174	6,820	(646)
Treasury Department				
Treasury				
General Revenue Total	2,590	2,464	2,387	77
Federal Fund Total	291	280	237	43
Restricted Receipts Total	10			
Total-Treasury	2,891	2,744	2,624	120
State Retirement System				
Administrative Expenses-State Retirement System	6,132	6,330	5,688	642
Retirement-Treasury Investment Operations	877	917	833	84
Total-State Retirement System	7,009	7,246	6,520	726
Unclaimed Property				
Restricted Receipts Total	23,095	24,228	28,253	(4,025)
RI Refunding Bond Authority				
General Revenue Total	40	37	36	1
Crime Victim Compensation Program				
General Revenue Total	279	273	246	27
Federal Fund Total	1,625	870	563	307
Restricted Receipts Total	1,658	1,361	1,213	148
Total-Crime Victim Compensation Program	3,561	2,504	2,023	481
Total-Treasury Department	36,597	36,759	39,455	(2,696)
Commission for Human Rights				
General Revenue Total	984	952	952	
Federal Fund Total	405	371	389	(18)
Total-Commission for Human Rights	1,389	1,323	1,341	(18)
Board of Elections				
General Revenue Total	1,437	1,290	1,315	(25)
Federal Fund Total	587	631	611	20
Total-Board of Elections	2,024	1,921	1,926	(5)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Ethics Commission				
General Revenue Total	1,410	1,330	1,343	(13)
Office of Governor				
General Revenue Total	4,922	4,774	4,958	(184)
Public Utilities Commission				
General Revenue Total	661	648	475	173
Federal Fund Total	100	97	71	26
Restricted Receipts Total	6,335	6,194	4,888	1,306
Total-Public Utilities Commission	7,096	6,938	5,433	1,505
Rhode Island Commission on Women				
General Revenue Total	108	106	106	
Department of Revenue				
Director of Revenue				
General Revenue Total	752	432	452	(20)
Office of Revenue Analysis				
General Revenue Total	750	364	31	333
Property Valuation				
General Revenue Total	850	789	775	14
Taxation				
General Revenue Total	17,821	16,037	16,172	(135)
Federal Fund Total	1,235	1,160	1,190	(30)
Restricted Receipts Total	830	877	779	98
Motor Fuel Tax Invasion		129	72	57
Temporary Disability Insurance	910	791	876	(85)
Total Taxation	20,797	18,994	19,088	(94)
Registry of Motor Vehicles				
General Revenue Total	18,404	17,544	17,657	(113)
Federal Fund Total	100	969	281	688
Restricted Receipts Total	15	15	11	4
Total Registry of Motor Vehicles	18,518	18,528	17,949	579
Total-Department of Revenue	41,667	39,107	38,296	811
Office of Health and Human Services				
General Revenue Total	307	387	363	24
Federal Fund Total	5,826	7,159	3,169	3,990
Restricted Revenues Total	446	314	316	(2)
Total-Office of Health and Human Services	6,579	7,860	3,848	4,012

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	5,903	6,938	7,201	(263)
Federal Fund Total	3,360	2,852	2,867	(15)
Total-Central Management	9,263	9,790	10,068	(278)
Children's Behavioral Health Services				
General Revenue Total	18,806	16,664	15,803	861
Federal Fund Total	13,269	13,165	14,040	(875)
Total-Children's Behavioral Health Services	32,074	29,830	29,843	(13)
Juvenile Correctional Services				
General Revenue Total	29,680	29,520	30,172	(652)
Federal Fund Total	611	617	349	268
Restricted Receipts Total	6	10	23	(13)
Total-Juvenile Correctional Services	30,297	30,147	30,543	(396)
Child Welfare				
General Revenue	88,661	93,104	91,930	1,174
18 to 21 year olds	6,000	5,550	6,186	(636)
Federal Fund	58,427	58,687	48,520	10,167
18 to 21 year olds	4,545	4,383	6,441	(2,058)
Restricted Receipts Total	1,748	2,241	2,709	(468)
Total-Child Welfare	159,381	163,965	155,786	8,179
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Department of Children, Youth, and Families	231,215	233,932	226,441	7,491
Department of Elderly Affairs				
Intermodal Surface Transportation Fund	4,685	4,535	4,477	58
General Revenue Total	16,522	16,219	15,963	256
Safety and Care of the Elderly	1	1	1	
RIPAE	2,082	1,170	1,005	165
Federal Fund Total	13,057	12,946	11,980	966
Restricted Receipts Total	690	1,330	957	373
Total-Department of Elderly Affairs	37,036	36,200	34,383	1,817
Department of Health				
Central Management				
General Revenue Total	4,901	4,190	4,172	18
Federal Fund Total	4,856	8,366	5,574	2,792
Restricted Receipts Total	3,717	4,489	3,072	1,417
Total-Central Management	13,475	17,046	12,818	4,228
State Medical Examiner				
General Revenue Total	2,157	2,142	2,000	142
Federal Fund Total	142	132	155	(23)
Total-State Medical Examiner	2,299	2,273	2,155	118

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Health Service Regulation				
General Revenue Total	6,523	6,464	5,779	685
Federal Fund Total	4,914	6,784	4,847	1,937
Restricted Receipts Total	437	397	327	70
Total-Health Services Regulation	11,873	13,645	10,953	2,692
Family Health				
General Revenue Total	2,589	2,470	2,454	16
Federal Fund Total	29,851	33,972	47,125	(13,153)
Restricted Receipts Total	18,186	17,372	10,109	7,263
Total-Family Health	50,626	53,814	59,688	(5,874)
Environmental Health				
General Revenue Total	4,000	3,782	3,808	(26)
Federal Fund Total	6,125	5,953	5,180	773
Restricted Receipts Total	3,063	2,908	2,184	724
Other Fund Total		100	15	85
Total-Environmental Health	13,187	12,743	11,187	1,556
Health Laboratories				
General Revenue Total	8,171	6,822	6,567	255
Federal Fund Total	2,064	2,379	1,973	406
Total-Health Laboratories	10,234	9,201	8,540	661
Disease Prevention and Control				
General Revenue Total	6,148	5,301	5,205	96
Federal Fund Total	17,354	19,465	15,974	3,491
Walkable Communities Initiative	29	29	31	(2)
Total-Disease Prevention and Control	23,530	24,795	21,211	3,584
Total-Department of Health	125,224	133,518	126,552	6,966
Department of Human Services				
Central Management				
General Revenue	9,114	9,547	9,434	113
Statewide operating savings		(19,647)		(19,647)
Federal Fund	4,252	4,446	3,739	707
Statewide operating savings		(19,916)		(19,916)
Restricted Receipts Total	1,746	1,995	2,003	(8)
Total-Central Management	15,112	(23,575)	15,176	(38,751)
Child Support Enforcement				
General Revenue Total	3,831	3,236	3,101	135
Federal Fund Total	7,570	7,439	7,195	244
Restricted Receipts Total	50			
Total-Child Support Enforcement	11,450	10,675	10,296	379
Individual and Family Support				
General Revenue Total	24,755	22,809	22,623	186
Federal Fund Total	52,884	56,446	50,007	6,439

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Restricted Receipts Total	134	134	134	
Other funds total			600	(600)
Total-Individual and Family Support	77,772	79,389	73,364	6,025
Veterans' Affairs				
General Revenue Total	17,109	18,180	17,387	793
Federal Fund Total	6,385	9,436	6,596	2,840
Restricted Receipts Total	1,517	2,097	558	1,539
Total-Veterans' Affairs	25,011	29,713	24,542	5,171
Health Care Quality, Financing and Puchasing				
General Revenue Total	23,023	21,011	20,482	529
Federal Fund Total	43,747	41,881	38,446	3,435
Restricted Receipts Total	187	206	32	174
Total-Health Care Quality, Financing and Purchasing	66,957	63,099	58,959	4,140
Medical Benefits				
General Revenue Total				
Managed Care	259,158	258,634	247,455	11,179
Hospital	127,762	133,320	133,212	108
Other	55,381	53,200	80,310	(27,110)
Pharmacy	63,240	61,446	60,544	902
Long Term Care	171,867	171,700	158,177	13,523
Federal Fund Total				
Managed Care	293,563	292,566	293,488	(922)
Hospital	115,823	131,780	133,203	(1,423)
Long Term Care	189,938	189,700	174,663	15,037
Other	60,551	64,353	94,738	(30,385)
Pharmacy	24,000	23,454	22,434	1,020
Special Education	20,733	20,733	16,152	4,581
Restricted Receipts Total	5,590	4,262	4,300	(38)
Total-Medical Benefits	1,387,604	1,405,148	1,418,678	(13,530)
Supplemental Security Income Program				
General Revenue Total	28,456	28,039	28,021	18
Family Independence Program				
TANF/Families Independence Program	15,958	17,705	19,119	(1,414)
Child Care	7,442	10,438	12,689	(2,251)
Federal Fund Total	84,438	84,561	80,864	3,697
Total-Family Independence Program	107,839	112,703	112,672	31
State Funded Programs				
General Public Assistance	4,090	3,393	3,223	170
Federal Fund Total	85,553	93,368	102,603	(9,235)
Total-State Funded Programs	89,644	96,760	105,826	(9,066)
Total-Department of Human Services	1,809,844	1,801,952	1,847,534	(45,582)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Mental Health, Retardation, and Hospital				
Central Management				
Federal Fund Total	67	118		118
General Revenue Total	741	1,817	1,854	(37)
Total-Central Management	808	1,935	1,854	81
Hospital & Community System Support				
General Revenue Total	4,238	3,545	3,385	160
Federal Fund Total	373	413	300	113
Total-Hospital & Community System Support	4,611	3,959	3,686	273
Services for the Developmentally Disabled				
General Revenue Total	120,498	118,660	120,868	(2,208)
Federal Fund Total	136,747	134,506	137,498	(2,992)
Total-Services for the Developmentally Disabled	257,244	253,166	258,366	(5,200)
Integrated Mental Health Services				
General Revenue Total	43,959	42,010	42,716	(706)
Federal Fund Total	38,245	36,228	37,406	(1,178)
Total-Integrated Mental Health Services	82,204	78,238	80,122	(1,884)
Hospital & Community Rehabilitation Svcs				
General Revenue Total	57,020	51,728	56,712	(4,984)
Federal Fund Total	56,699	50,147	53,825	(3,678)
Restricted Receipts	2,950	2,504	2,486	18
Total-Hospital & Community Rehabilitation Svcs	116,669	104,379	113,023	(8,644)
Substance Abuse				
RICAP-Asset Protection				
General Revenue Total	17,005	16,438	16,417	21
Federal Fund Total	11,840	13,491	12,699	792
Restricted Receipts Total	90	90	102	(12)
Total-Substance Abuse	28,934	30,019	29,218	801
Total-Department of Mental Health, Retardation, and Hospital	490,470	471,695	486,269	(14,574)
Office of Child Advocate				
General Revenue Total	521	485	445	40
Federal Fund Total	40	38	40	(2)
Total-Office of Child Advocate	561	522	485	37
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	370	327	289	38
Federal Fund Total	18		(1)	1
Total-Rhode Island Commission of the Deaf and Hard of Hearin	388	327	289	38
RI Developmental Disabilities Council				
Federal Fund Total	461	406	395	11

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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	Original Budget	Final Budget	Actual	Variance
Governor's Commission on Disabilities				
General Revenue Total	536	351	350	1
Federal Fund Total	182	194	77	117
Restricted Receipts Total	51	14	13	1
Total-Governor's Commission on Disabilities	768	559	441	118
Office of Mental Health Advocate				
General Revenue Total	424	406	419	(13)
Department of Elementary and Secondary Education				
Education Aid				
General Fund Total	679,417	679,396	679,308	88
Federal Fund Total	1,119	75	7	68
Restricted Receipts Total	1,460	1,459	1,326	133
Total-Education Aid	681,996	680,931	680,640	291
Housing Aid				
General Revenue Total	52,862	49,653	49,652	1
Teachers' Retirement				
General Revenue Total	78,072	80,225	83,029	(2,804)
RI School for the Deaf				
Other Funds		10		10
Restricted Receipts Total		1		1
General Revenue Total	6,808	6,571	6,551	20
Federal Fund Total	368	271	133	138
Total-RI School for the Deaf	7,176	6,854	6,684	170
Central Falls School District				
General Revenue Total	43,795	43,416	43,416	
Davies Career and Technical School				
General Revenue Total	14,572	14,048	14,243	(195)
Federal Fund Total	1,237	1,425	1,104	321
Total-Davies Career and Technical School	15,809	15,473	15,347	126
Metropolitan Career and Technical School				
General Revenue Total	11,488	11,488	11,488	
Administration of the Comprehensive Education Strategy				
General Revenue Total	21,317	20,573	19,985	588
Statewide Uniform Chart of Accounts	1,100	1,100	1,154	(54)
Federal Fund Total	175,672	187,402	174,465	12,937
Restricted Receipts Total	1,190	1,053	855	198
HRIC Adult Education Grants	4,500	4,617	4,326	291
Total-Administration of the Comprehensive Education Strategy	203,778	214,745	200,786	13,959
Total-Department of Elementary & Secondary Education	1,094,975	1,102,784	1,091,042	11,742

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
General Revenue Total	8,136	7,908	7,908	
Federal Fund Total	3,526	5,301	4,925	376
Restricted Receipts-BOG	200	453	97	356
General Revenue Total-URI	77,036	74,897	74,897	
General Revenue Total-RIC	45,751	44,347	44,347	
General Revenue Total-CCRI	49,254	47,820	47,820	
Total-Board of Governors for Higher Education	200,488	196,377	195,004	1,373
Rhode Island State Council on the Arts				
Operating Support	1,536	733	743	(10)
Grants	1,241	1,966	1,369	597
Restricted Receipts Total		200		200
Federal Fund Total	706	672	612	60
Art for Public Facilities Fund	3,000	1,000	210	790
Total-Rhode Island Council on the Arts	6,484	4,571	2,934	1,637
Rhode Island Atomic Energy Commission				
URI Sponsored Research	191	240	238	2
General Revenue Total	820	799	834	(35)
Federal Fund Total	421	537	353	184
Total-Rhode Island Atomic Energy Commission	1,431	1,576	1,425	151
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunity	10,000	9,244	9,244	
Authority Operations and Other Grants	1,020	976	976	
Total-R I Higher Education Assistance Authority	11,020	10,220	10,220	
Historical Preservation and Heritage Commission				
General Revenue Total	1,578	1,487	1,495	(8)
Federal Fund Total	529	548	509	39
Restricted Receipts Total	496	492	191	301
Total-Historical Preservation and Heritage Commission	2,603	2,527	2,195	332
R I Public Telecommunications Authority				
General Revenue Total	1,364	1,316	1,316	
Department of Attorney General				
Criminal				
General Revenue Total	12,988	13,055	13,107	(52)
Federal Fund Total	1,323	1,275	1,202	73
Restricted Receipts Total	339	332	320	12
Total-Criminal	14,650	14,661	14,629	32

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
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For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Civil				
General Revenue Total	4,897	4,133	4,043	90
Restricted Receipts Total	634	608	548	60
Total-Civil	5,532	4,741	4,591	150
Bureau of Criminal Identification				
General Revenue Total	1,018	965	940	25
Federal Fund Total	57	118	97	21
Total-Bureau of Criminal Identification	1,074	1,083	1,037	46
General				
General Revenue Total	2,432	2,474	2,459	15
Total-Department of Attorney General	23,688	22,960	22,716	244
Department of Corrections				
Central Management				
General Revenue Total	10,466	9,088	8,405	683
Federal Fund Total	359	140	134	6
Total-Central Management	10,826	9,229	8,539	690
Parole Board				
General Revenue Total	1,259	1,214	1,222	(8)
Federal Fund Total	33	71	52	19
Total-Parole Board	1,292	1,285	1,274	11
Institutional Corrections				
General Revenue Total	160,572	159,947	170,207	(10,260)
Federal Fund Total	2,035	2,568	2,049	519
Total-Institutional Corrections	162,606	162,515	172,256	(9,741)
Community Corrections				
General Revenue Total	15,658	14,302	13,304	998
Federal Fund Total	380	804	454	350
Total-Community Corrections	16,038	15,106	13,758	1,348
General Revenue Total-Corrections	187,955	184,551	193,138	(8,587)
Federal Fund Total-Corrections	2,808	3,584	2,689	895
Total-Department of Corrections	190,762	188,135	195,827	(7,692)
Judicial Department				
Supreme Court				
General Revenue Total	26,369	25,792	25,211	581
Judicial Tenure and Discipline	120	116	108	8
Defense of Indigents	3,066	2,983	3,369	(386)
Federal Fund Total	122	365	250	115
Restricted Receipts Total	1,131	1,455	1,190	265
Total-Supreme Court	30,807	30,712	30,127	585

State of Rhode Island and Providence Plantations
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Budget and Actual
General Fund
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(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Superior Court				
Federal Fund Total	535	217	155	62
General Revenue Total	20,700	19,595	19,635	(40)
Total-Superior Court	21,235	19,812	19,790	22
Family Court				
General Revenue Total	17,794	17,657	18,017	(360)
Federal Fund Total	1,407	2,097	1,468	629
Total-Family Court	19,201	19,755	19,485	270
District Court				
General Revenue Total	10,638	9,836	9,626	210
Traffic Tribunal				
General Revenue Total	7,387	6,820	6,835	(15)
Worker's Compensation Court				
Restricted Receipts Total	7,387	7,206	7,206	
Total-Judicial Department	96,656	94,141	93,068	1,073
Militia of the State				
National Guard				
General Revenue Total	1,761	1,755	1,586	169
Federal Fund Total	9,289	9,016	7,468	1,548
Restricted Receipts Total	145	160	31	129
Total-National Guard	11,195	10,931	9,086	1,845
Emergency Management				
General Revenue Total	803	743	734	9
Federal Fund Total	11,306	23,629	12,047	11,582
Restricted Receipts Total	263	142	127	15
Total-Emergency Management	12,371	24,513	12,908	11,605
Total-Militia of the State	23,566	35,445	21,994	13,451
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,733	4,879	4,945	(66)
Federal Fund Total		100	15	85
Restricted Receipts Total	1,297	875	875	
Total- E-911 Uniform Emergency Telephone System	6,030	5,854	5,834	20
State Fire Marshall				
General Revenue Total	2,671	2,355	2,204	151
Federal Fund Total	228	1,038	477	561
Total-State Fire Marshall	2,899	3,393	2,682	711
Fire Safety Code Board of Appeal and Review				
General Revenue Total	303	290	288	2

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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	Original Budget	Final Budget	Actual	Variance
Rhode Island Justice Commission				
General Revenue Total	161	232	232	
Federal Fund Total	4,152	4,510	4,145	365
Restricted Receipts Total	30	133	11	122
Total-Rhode Island Justice Commission	4,342	4,875	4,387	488
Municipal Police Training Academy				
General Revenue Total	429	428	434	(6)
Federal Fund Total	50	66	23	43
Total-Municipal Police Training Academy	479	494	456	38
Rhode Island State Police				
Airport Corporation	144	138	140	(2)
Traffic Enforcement-Municipal Training	379	342	253	89
Lottery Commission Assistance	142	137	141	(4)
Road Construction Reimbursement	2,367	2,356	1,957	399
General Revenue Total	52,058	50,689	51,467	(778)
Federal Fund Total	1,092	2,368	1,298	1,070
Restricted Receipts Total	312	461	218	243
Total-Rhode Island State Police	56,494	56,491	55,474	1,017
Office of Public Defender				
General Revenue Total	9,325	9,016	9,031	(15)
Federal Fund Total	422	359	272	87
Total-Office of Public Defender	9,747	9,375	9,303	72
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			(22)	22
General Revenue Total	6,043	5,768	5,789	(21)
Federal Fund Total	556	422	73	349
Restricted Receipts Total	2,505	2,508	2,169	339
Total-Office of Director	9,104	8,698	8,009	689
Natural Resources				
Blackstone Bikepath Design	788	788	236	552
DOT Recreational Projects	118	70	54	16
General Revenue Total	18,318	17,901	19,001	(1,100)
Federal Fund Total	17,159	17,910	8,684	9,226
Restricted Receipts Total	3,830	3,530	3,069	461
Total-Natural Resources	40,213	40,200	31,044	9,156

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
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	Original Budget	Final Budget	Actual	Variance
Environmental Protection				
General Revenue Total	12,052	10,544	11,243	(699)
Federal Fund Total	10,438	12,525	9,267	3,258
Restricted Receipts Total	10,611	10,033	8,246	1,787
Total-Environmental Protection	33,101	33,103	28,755	4,348
Total-Department of Environmental Management	82,418	82,001	67,809	14,192
Coastal Resources Management Council				
General Revenue Total	1,880	1,941	1,985	(44)
Federal Fund Total	1,607	1,770	1,779	(9)
Restricted Receipts Total	1,022	395	120	275
Total-Coastal Resources Management Council	4,509	4,106	3,884	222
Water Resources Board				
General Revenue Total	1,893	1,629	1,226	403
Restricted Receipts Total	400	400	327	73
Total-Water Resources Board	2,293	2,029	1,553	476
Total Departmental Expenditures	5,349,750	5,359,493	5,339,363	20,130
Transfer of Appropriations at June 30, 2007 to RI Capital Fund			7,770	(7,770)
Transfer of Excess Budget Reserve to RI Capital Fund			44,369	(44,369)
Total Expenditures	5,349,750	5,359,493	5,391,502	(32,009)
Change in Fund Balance	$ 5,415,465	$ 68,281	(37,511)	$ (105,792)
Fund balance - beginning			144,166	
Fund balance - ending			$ 106,655	
General Revenue Total	$ 3,407,278	$ 3,367,814	$ 3,405,251	$ (37,437)
Federal Fund Total	1,723,323	1,780,991	1,741,158	39,833
Restricted Receipts Total	161,974	154,732	135,546	19,186
Other Fund Total	57,174	55,956	57,408	(1,452)
	$ 5,349,749	$ 5,359,493	$ 5,339,363	$ 20,130

General Fund - General Revenue Summary

General Revenue - Variance - Final Budget compared to Actual	$ (7,116)
General Revenue Expenditures - Variance - Final Budget compared to actual	$ (37,437)
Change in General Revenue Reappropriations Fiscal 2007 - Fiscal 2008	1,902
Other Adjustments	(299)
	$ (35,834)
Unreserved General Fund (General Revenue) Deficit - June 30, 2008	$ (42,950)

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,550	$ 136,050	$ 135,412	$ (638)
Departmental restricted revenue	662	1,445	(207)	(1,652)
Federal grants	274,707	239,425	196,327	(43,098)
Other revenues	3,019	11,192	5,386	(5,806)
Total revenues	418,938	388,112	336,918	(51,194)
Other financing sources:				
Operating transfers in			28,198	28,198
Payments from component units			52	52
Total revenues and other financing sources	418,938	388,112	365,168	(22,944)
Expenditures:				
Central Management				
Gasoline Tax	3,712	1,558	1,673	(115)
Federal Funds	17,167	17,788	7,298	10,490
Total - Central Management	20,879	19,346	8,971	10,375
Management and Budget				
Gasoline Tax	3,010	2,295	760	1,535
Total - Management and Budget	3,010	2,295	760	1,535
Infrastructure - Engineering				
Gasoline Tax	46,094	46,695	46,317	378
RICAP - RIPTA Land and Buildings				
Train Station				
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,346	1,226	8,120
Federal Funds	257,540	221,637	181,123	40,514
Restricted Receipts	662	1,445	(161)	1,606
Subtotal - Infrastructure - Engineering	307,296	280,467	228,505	51,962
State Match - FHWA			28,198	(28,198)
Total - Infrastructure - Engineering	307,296	280,467	256,703	23,764
Infrastructure - Maintenance				
Gasoline Tax	39,479	38,822	37,761	1,061
Outdoor Advertising	19	503		503
Radio System Upgrade		335		335
Nonland Surplus	288	336	270	66
Total - Infrastructure - Maintenance	39,786	39,996	38,031	1,965
Total Expenditures	370,971	342,104	304,465	37,639
Other financing uses:				
Transfers to other funds				
Gas tax			44,239	
Other			852	
Total expenditures and other financing uses			349,556	
Net change in fund balance			15,612	
Fund balance - beginning			32,819	
Fund balance - ending			$ 48,431	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	679,538	679,538	0%	626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	10,243	10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	14,024	14,024	0%	9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	54,620	54,620	0%	15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, and any unexpended balances designated by the General Assembly.

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provision due to the enactment of

Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judges and legislators plans as well as the benefits received upon attainment of Medicare eligibility. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

EXHIBIT B – State Economic Information

Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced an average annual population increase of 0.2 percent between 1994 and 2008. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.2 percent in 2008. The 2000 United States census count for Rhode Island was 1,048,319 or 4.5 percent more than the 1,003,464 counted in 1990. In contrast, the total United States population increased by 13.1 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has increased by 2,469 to 1,050,788 as of December 2008.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1994 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2008, Rhode Island per capita personal income was $41,008 versus U.S. per capita personal income of $39,751. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2007 period, Rhode Island's average poverty rate was 11.0 percent versus the U.S. average poverty rate of 12.5 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island nonfarm employment grew at a rate of 0.5 percent in 2006, 1.0 percent in 2007 and decreased 3.4 percent in 2008. The average annual growth rate for Rhode Island nonfarm employment for the 1994 – 2008 period was 0.8 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 30.9 percent of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the Current Population Report of March 2007 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1992-93 academic year. For 2006-07 Rhode Island spent 42.0 percent more per pupil than the national average.

Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the 1990 – 2000 census period, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

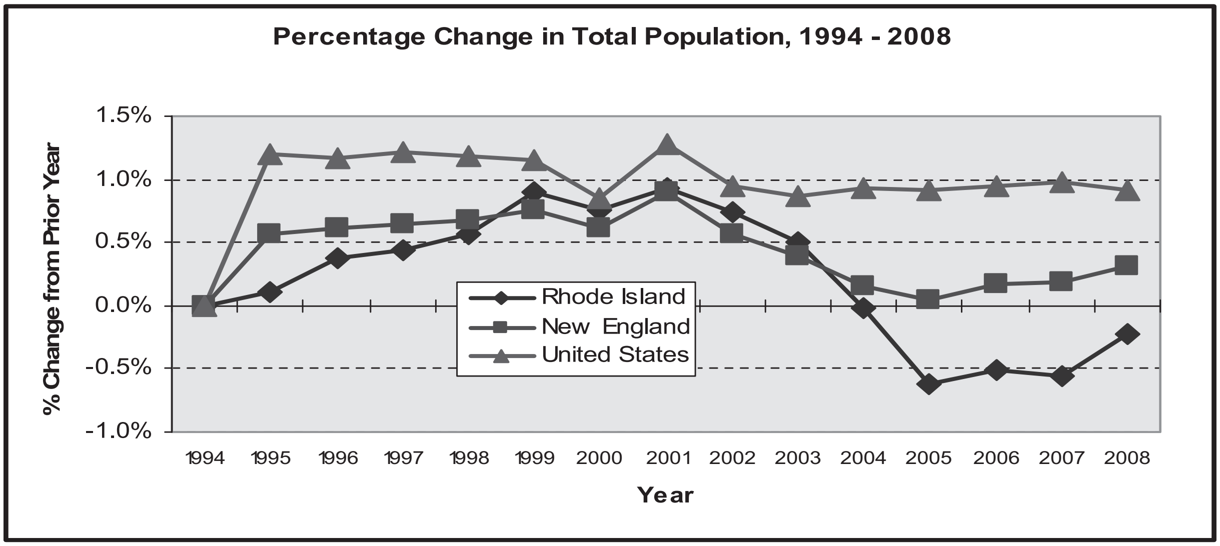
Between 1998 and 2008 Rhode Island's population increased by 1.9 percent, compared to a 4.2 percent increase for the New England region, and a 10.2 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1994 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.5 percent for that period compared to New England's growth rate of 2.5 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.5 percent for New England as a whole. The 2008 population estimates indicate that Rhode Island's population growth rate, at –0.2 percent over 2007, is again lower than that of New England's growth rate of 0.3 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1998 to 2008 period, the United States' average annual population growth rate was 1.0 percent.

Population, 1994 - 2008
(in thousands)

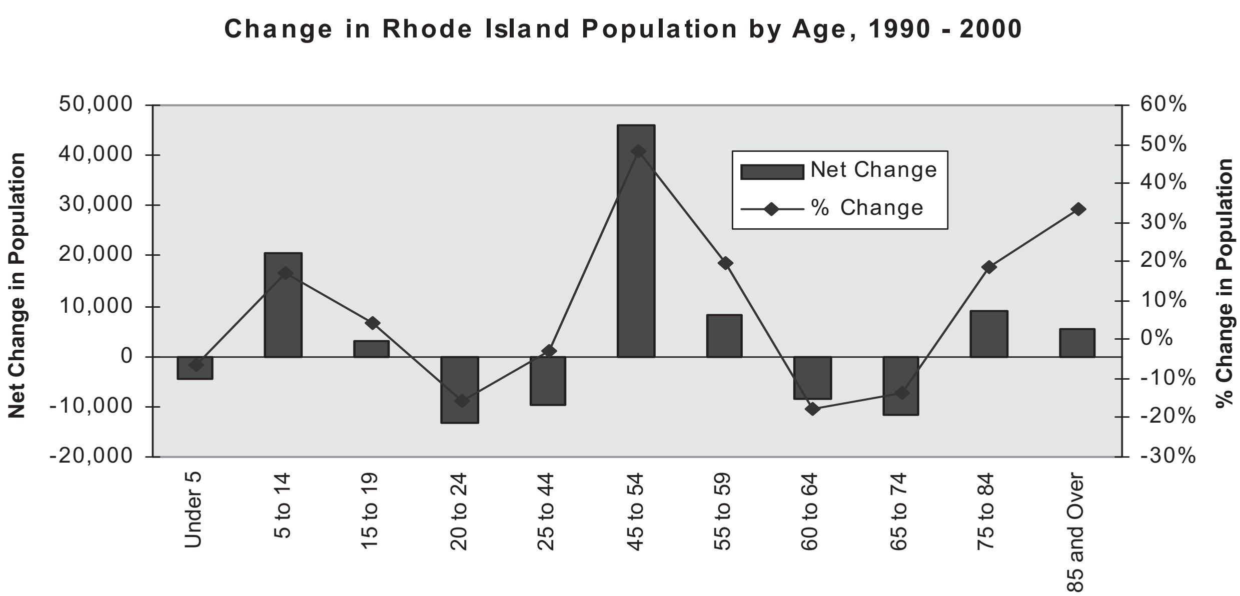
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1994	1,016	-	13,396	-	263,126	-
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,047	0.9%	285,040	1.3%
2002	1,066	0.7%	14,127	0.6%	287,727	0.9%
2003	1,071	0.5%	14,181	0.4%	290,211	0.9%
2004	1,071	0.0%	14,202	0.1%	292,892	0.9%
2005	1,064	-0.6%	14,208	0.0%	295,561	0.9%
2006	1,059	-0.5%	14,233	0.2%	298,363	0.9%
2007	1,053	-0.6%	14,259	0.2%	301,290	1.0%
2008	1,051	-0.2%	14,304	0.3%	304,060	0.9%

U.S. Census Bureau
U.S. Department of Commerce

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



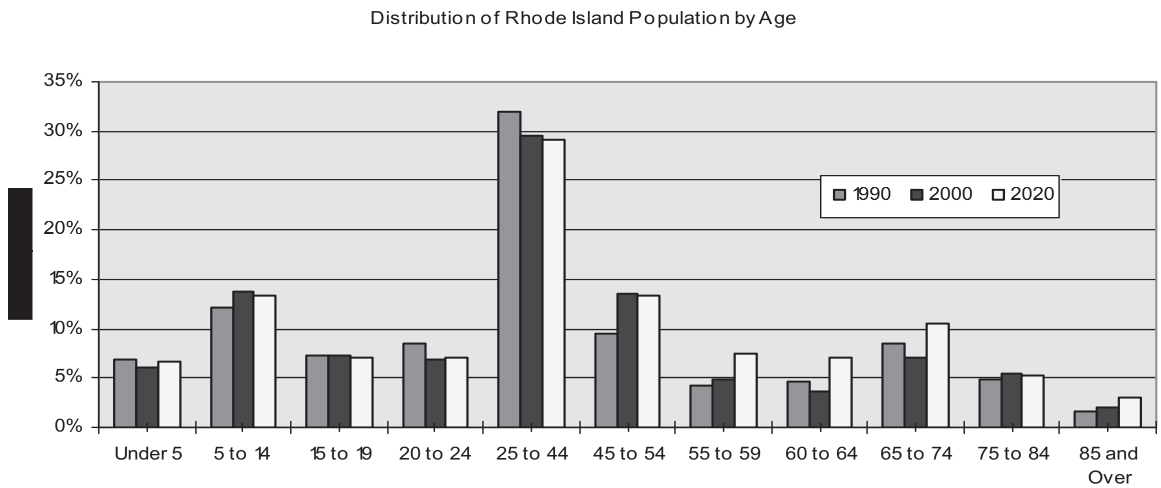
The following chart shows the net change in Rhode Island's population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "5 to 14" age group is a reflection of the "baby boom echo" generation.



Rhode Island Economic Development Corporation. Research Division.

The U.S. Census Bureau projects that as the "baby boom" generation continues to age, the state should see a sizeable increase in its middle aged to older population (i.e., 45 to 64). In addition, the state should experience a decline in its young adult population (i.e., 20 to 44) and stability in its youth population (i.e., under 5 to 19).

The chart below shows the projected graying of the Rhode Island population in 2015. In 2015, Rhode Island's population is projected to be distributed more heavily in the "45 – 54" age group. At the same time, the percentage of people in the "15 – 44" age group declines. In addition, the percentage of the population 85 and over is expected to rise. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2015, the median age for Rhode Islanders is projected to rise to 38.2.



U.S. Census Bureau

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States from 2001 to 2008. Over this period, Rhode Island per capita nominal personal income averaged $936 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of $442. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1994 – 2008 by an average of $5,651. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at $7,707 in 2008. Since 1994, the gap in nominal per capita personal income between Rhode Island and New England as a whole has more than doubled, increasing by 114.7 percent.

From 1994 to 1998, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded that of the United States. From 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. However, from 2001 – 2003, this pattern reversed itself again with Rhode Island real personal income per capita growth exceeding that of the United States. For the 2004 to 2006 period, United States real per capita income growth once again exceeded that of Rhode Island. The growth rate in real per capita personal income in the United States and Rhode Island converged in 2008. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. Over the fifteen year period from 1994 to 2008, Rhode Island per capita real income growth has exceeded that of New England as a whole on four occasions, 1995 and 2001 – 2003.

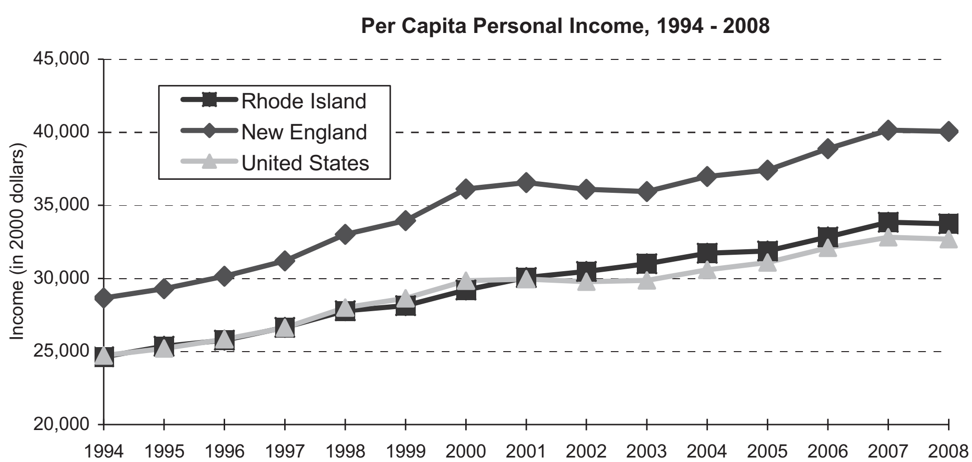
Per Capita Personal Income, 1994 - 2008

	Nominal Income (in current dollars)				Real Income (in 2000 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**2000 Deflator**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1994	22,097	25,687	22,172	**89.65%**	24,647	28,651	24,731	-	-	-
1995	23,225	26,832	23,076	**91.58%**	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	**93.55%**	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	**95.12%**	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	**95.98%**	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	**97.58%**	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,215	36,120	29,847	**100.00%**	29,215	36,120	29,847	3.8%	6.4%	4.2%
2001	30,696	37,332	30,582	**102.09%**	30,066	36,566	29,955	2.9%	1.2%	0.4%
2002	31,555	37,378	30,838	**103.54%**	30,476	36,099	29,783	1.4%	-1.3%	-0.6%
2003	32,737	37,966	31,530	**105.60%**	31,002	35,954	29,859	1.7%	-0.4%	0.3%
2004	34,375	40,081	33,157	**108.39%**	31,714	36,978	30,590	2.3%	2.8%	2.4%
2005	35,575	41,736	34,690	**111.58%**	31,883	37,404	31,090	0.5%	1.2%	1.6%
2006	37,669	44,574	36,794	**114.68%**	32,848	38,870	32,085	3.0%	3.9%	3.2%
2007	39,829	47,221	38,615	**117.66%**	33,851	40,134	32,819	3.1%	3.3%	2.3%
2008	41,008	48,715	39,751	**121.59%**	33,727	40,066	32,693	-0.4%	-0.2%	-0.4%

Bureau of Economic Analysis
U.S. Department of Commerce

Note: The 2000 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures.

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1994. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2008 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1994 – 2008 period.



Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1993, average annual pay in Rhode Island was 94.4 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, $36,415 for Rhode Island versus $37,765 for the United States as a whole. In 2004, 2005, 2006 and 2007 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

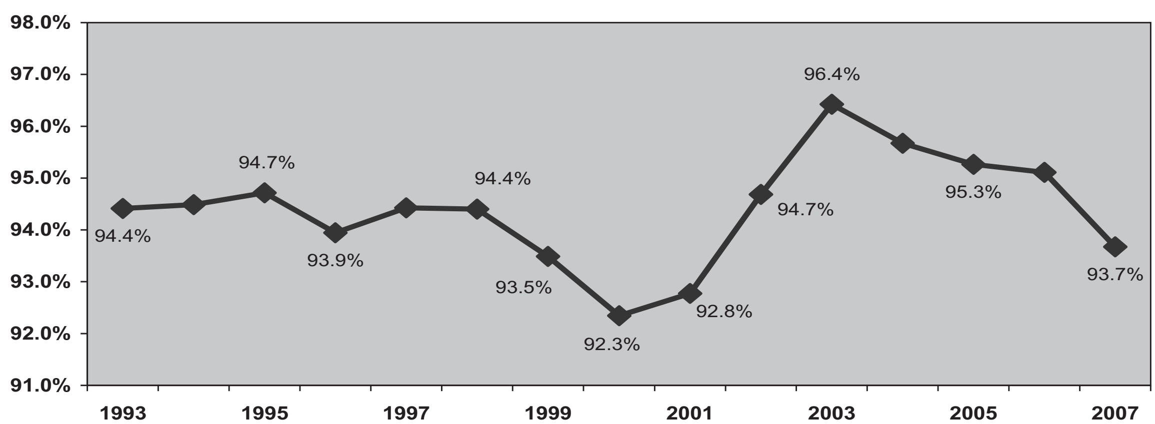
Average Annual Pay, 1993 - 2007
(in current dollars)

	Annual Pay			Percentage Change	
Year	**R.I.**	**U.S.**	**Ratio R.I. / U.S.**	**R.I.**	**U.S.**
1993	24,889	26,361	94.4%	-	-
1994	25,454	26,939	94.5%	2.3%	2.2%
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%

Bureau of Labor Statistics
U.S. Department of Labor

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1993 – 2007 period.

Ratio of Rhode Island Average Annual Wages / U.S. Average Annual Wages
1993 - 2007



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1994 and 2008. The data for each year is the Consumer Price Index for all urban consumers (CPI-U) within the designated area and the percentage change in the CPI-U from the previous year. From 1994 to 2008, the consumer price inflation in the Northeast consistently exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1995, 1996, 1998, 1999 and 2007. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2008 the rate was 0.2 percent above the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1994 - 2008

	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
1994	155.1	148.2	104.7%	-	-
1995	159.1	152.4	104.4%	2.6%	2.8%
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%

Bureau of Labor Statistics
U.S. Department of Labor

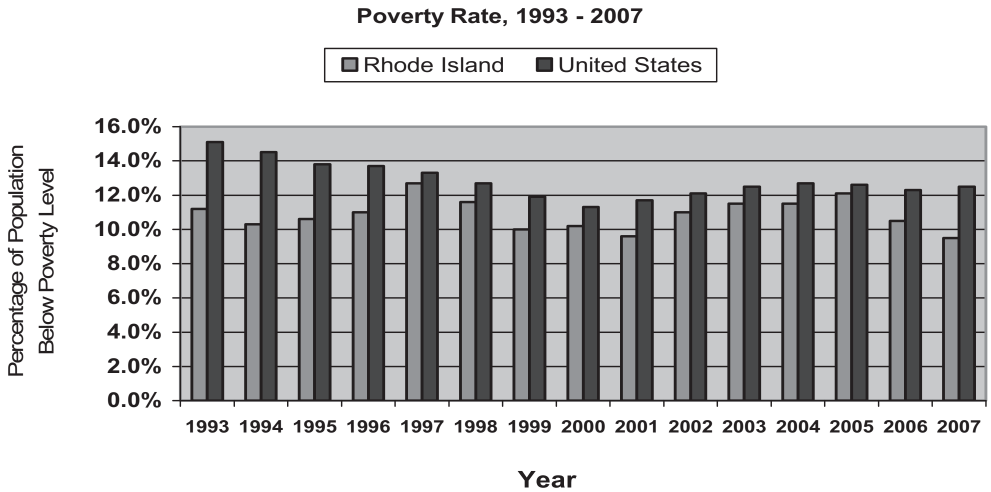
Poverty. From 1993 – 2007 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1993 and 2007, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 12.7 percent in 1997. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 15.1 percent in 1993. Interestingly, in the 2002, 2003 and 2005 periods, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1993 through 2007.

Poverty Rate, 1993 - 2007

			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
1993	11.2	15.1	74.2%	-	-
1994	10.3	14.5	71.0%	-8.0%	-4.0%
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1993 – 2007. It also illustrates the downward trend in the United States poverty rate over the course of the 1990s.



Employment

The table below shows Rhode Island Nonfarm Employment for the 1994 to 2008 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1994 - 2008

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1994	13,300	-	82,600	-	72,400	-	76,200	-	75,000	-	53,100	-	61,700	-	**434,200**	-
1995	13,600	2.3%	80,300	-2.8%	75,600	4.4%	77,600	1.8%	77,200	2.9%	54,600	2.8%	61,300	-0.6%	**440,100**	**1.4%**
1996	14,200	4.4%	77,400	-3.6%	73,600	-2.6%	78,300	0.9%	79,200	2.6%	57,700	5.7%	61,300	0.0%	**441,600**	**0.3%**
1997	14,800	4.2%	76,200	-1.6%	72,900	-1.0%	82,500	5.4%	80,700	1.9%	59,600	3.3%	63,200	3.1%	**450,000**	**1.9%**
1998	16,200	9.5%	74,900	-1.7%	74,700	2.5%	86,800	5.2%	81,600	1.1%	61,000	2.3%	62,900	-0.5%	**458,000**	**1.8%**
1999	18,000	11.1%	72,200	-3.6%	75,700	1.3%	90,000	3.7%	82,300	0.9%	64,000	4.9%	63,400	0.8%	**465,500**	**1.6%**
2000	18,400	2.2%	71,200	-1.4%	79,600	5.2%	92,900	3.2%	83,200	1.1%	67,100	4.8%	64,400	1.6%	**476,700**	**2.4%**
2001	19,200	4.3%	67,800	-4.8%	79,300	-0.4%	94,000	1.2%	84,900	2.0%	68,000	1.3%	65,200	1.2%	**478,400**	**0.4%**
2002	19,600	2.1%	62,300	-8.1%	80,500	1.5%	93,000	-1.1%	88,000	3.7%	70,000	2.9%	66,100	1.4%	**479,400**	**0.2%**
2003	21,000	7.1%	58,700	-5.8%	80,800	0.4%	94,700	1.8%	91,000	3.4%	72,000	2.9%	66,200	0.2%	**484,300**	**1.0%**
2004	21,000	0.0%	56,900	-3.1%	80,000	-1.0%	98,700	4.2%	92,900	2.1%	73,100	1.5%	65,800	-0.6%	**488,400**	**0.8%**
2005	22,100	5.2%	54,900	-3.5%	80,100	0.1%	100,200	1.5%	95,300	2.6%	73,500	0.5%	64,900	-1.4%	**491,000**	**0.5%**
2006	23,300	5.4%	52,700	-4.0%	79,800	-0.4%	102,700	2.5%	97,000	1.8%	73,200	-0.4%	64,800	-0.2%	**493,400**	**0.5%**
2007	24,400	4.7%	51,000	-3.2%	80,000	0.3%	105,600	2.8%	98,600	1.6%	74,300	1.5%	64,400	-0.6%	**498,400**	**1.0%**
2008	20,600	-15.6%	48,000	-5.9%	77,300	-3.4%	98,800	-6.4%	99,900	1.3%	73,700	-0.8%	63,500	-1.4%	**481,700**	**-3.4%**

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1994 and 2008, total nonfarm employment in Rhode Island increased by 10.9 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing, which declined by 41.9 percent. Employment growth slowed in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9

percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the "jobless" recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent then began increasing at decreasing rates of 0.8 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively, before moving higher in 2007. The first decline in nonfarm employment over this period came in 2008 with a drop of 3.4 percent.

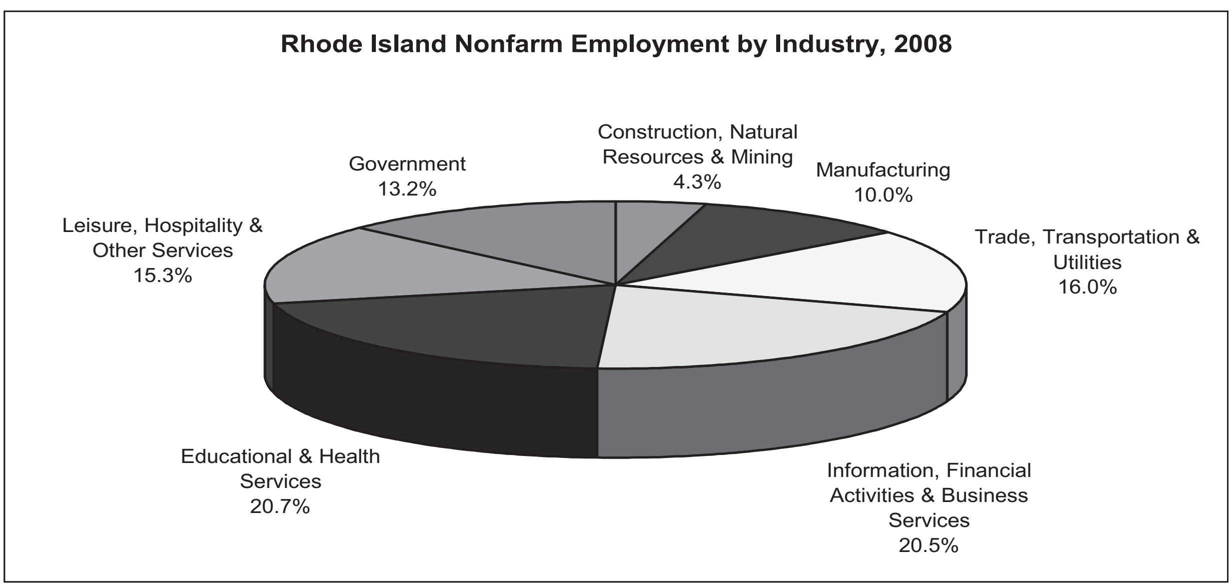
Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1998 to 2008. Total nonfarm employment increased by 5.2 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 35.9 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 15.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 27.2 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1998 to 2008 period, transforming from a manufacturing based economy to service based economy.

Rhode Island Nonfarm Employment by Industry, 1998 & 2008

Employment Sector	1998	% of Total	2008	% of Total	% Change 1998-2008
Construction, Natural Resources & Mining	16,200	3.5%	20,600	4.3%	27.2%
Manufacturing	74,900	16.4%	48,000	10.0%	-35.9%
Trade, Transportation & Utilities	74,700	16.3%	77,300	16.0%	3.5%
Information, Financial Activities & Business Services	86,800	19.0%	98,800	20.5%	13.8%
Educational & Health Services	81,600	17.8%	99,900	20.7%	22.4%
Leisure, Hospitality & Other Services	61,000	13.3%	73,700	15.3%	20.8%
Government	62,900	13.7%	63,500	13.2%	1.0%
Total Employment	458,000	100.0%	481,700	100.0%	5.2%

R.I. Department of Labor and Training - Labor Market Information

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Educational and Health Services sector, with 20.7 percent of the nonfarm work force in 2008, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.5 percent), Trade, Transportation and Utilities (16.0 percent), and Leisure, Hospitality and Other Services employment (15.3 percent).



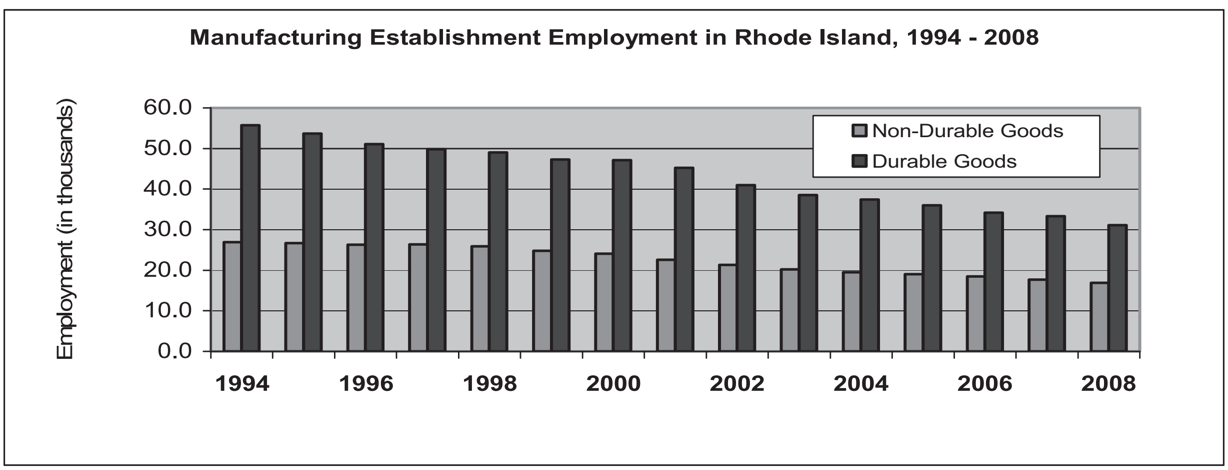
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1994 and 2008, falling by 41.9 percent over this period. The rate of decline in manufacturing employment began to slow with the onset of the "Y2K expansion" that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 3.1 percent in 2004, 3.5 percent in 2005, 4.0 percent in 2006 and 3.2 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 5.9 percent in 2008.

Manufacturing Establishment Employment in Rhode Island, 1994 - 2008
(In Thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Non-Durable Goods	26.9	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	19.0	18.5	17.7	16.9
Percentage Change	-	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.6%	-4.3%	-4.5%
Durable Goods	55.7	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4	36.0	34.2	33.3	31.1
Percentage Change	-	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%	-3.7%	-5.0%	-2.6%	-6.6%
Total Manufacturing Employment	82.6	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	56.9	54.9	52.7	51.0	48.0
Percentage Change	-	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%	-3.5%	-4.0%	-3.2%	-5.9%

R.I. Department of Labor and Training - Labor Market Information

Employment in the manufacture of non-durable goods declined in every year since 1994 with the exception of 1997 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island for 2008. Together, the top 100 employ an estimated 156,000 persons, which is one-third of total nonfarm wage and salary employment in the State, excluding municipal employment.

Rhode Island's Largest Employers
December 2008

Employed	Employer	Industry
15,978	State of Rhode Island - *FY 2008 FTEs excluding URI, RIC, and CCRI*	Government
11,772	Lifespan	Health Care and Social Assistance
9,700	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
6,193	Care New England	Health Care and Social Assistance
5,954	CVS Caremark Corporation	Retail Trade
5,500	Citizens Financial Group, Inc.	Finance and Insurance
4,877	Brown University	Educational Services
4,385	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
4,000	Bank of America	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,545	University of Rhode Island	Educational Services
2,300	Fidelity Investments	Finance and Insurance
2,143	General Dynamics Corp.	Manufacturing
2,084	WAL-Mart	Retail Trade
2,079	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
2,056	MetLife Insurance Co.	Finance and Insurance
2,050	The Jan Companies	Other
1,920	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,780	The Home Depot, Inc.	Retail Trade
1,672	Raytheon	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,282	Amica Life Insurance Company	Finance and Insurance
1,270	Johnson & Wales University	Educational Services
1,260	Cox Communications, Inc.	Information
1,228	Rite Aid Pharmacy	Retail Trade
1,205	Verizon Communications	Information
1,200	Amgen, Inc.	Manufacturing
1,198	Landmark Health Systems	Health Care and Social Assistance
1,167	Securitas AB	Administrative and Waste Services
1,144	American Power Conversion Corporation	Manufacturing
1,143	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,089	McDonald's	Other
1,080	AAA Southern New England	Administrative and Waste Services
1,074	GTECH Corporation	Information
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	Hasbro, Inc.	Manufacturing
1,000	Sovereign Bank	Finance and Insurance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
990	Chelo's Restaurants Corporate Offices	Other
950	Veterans' Administration Medical Center	Health Care and Social Assistance
936	Rhode Island College	Educational Services
930	Providence College	Educational Services
925	Newport Harbor Corporation	Other
912	Rhode Island School of Design	Educational Services
900	Twin River (BLB Investors)	Other

R.I. Economic Development Corporation, Research Division.

Unemployment. From 1994 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. This pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1994 and 2008.

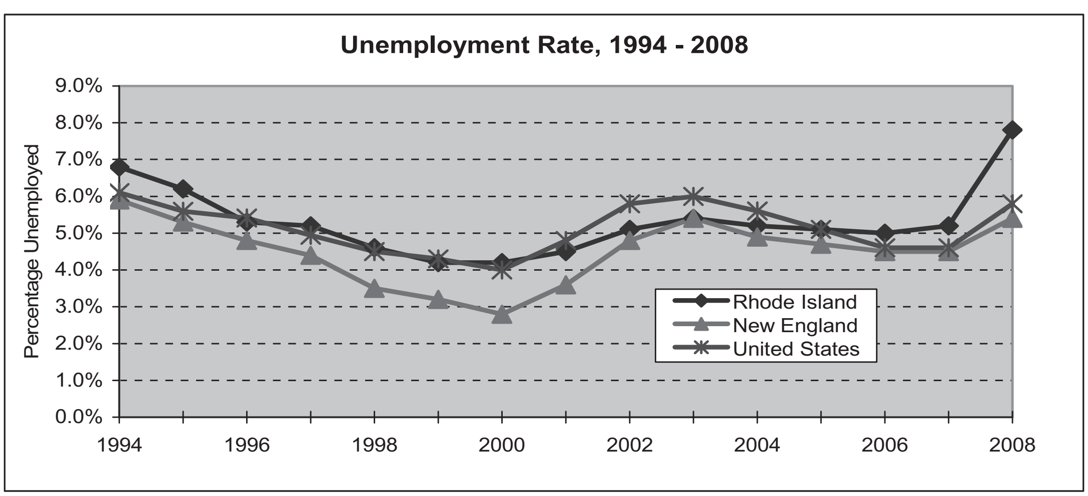
Annual Average Civilian Labor Force and Unemployment, 1994 - 2008
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**as a % of U.S.**
1994	516	7,041	131,056	35	415	7,976	6.8%	5.9%	6.1%	111.5%
1995	509	7,053	132,304	31	375	7,407	6.2%	5.3%	5.6%	110.9%
1996	517	7,118	133,943	28	340	7,231	5.3%	4.8%	5.4%	98.0%
1997	532	7,228	136,297	28	315	6,729	5.2%	4.4%	4.9%	105.2%
1998	534	7,257	137,673	24	253	6,204	4.6%	3.5%	4.5%	102.2%
1999	541	7,327	139,368	23	234	5,879	4.2%	3.2%	4.3%	97.7%
2000	543	7,348	142,583	23	204	5,685	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,830	4.5%	3.6%	4.8%	93.8%
2002	554	7,496	144,863	28	363	8,376	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,771	5.4%	5.4%	6.0%	90.0%
2004(d)	555	7,476	147,401	29	366	8,140	5.2%	4.9%	5.6%	92.9%
2005(d)	562	7,515	149,320	28	353	7,579	5.1%	4.7%	5.1%	100.0%
2006(d)	571	7,598	151,428	29	343	6,993	5.0%	4.5%	4.6%	108.7%
2007(d)	572	7,633	153,124	30	340	7,077	5.2%	4.5%	4.6%	113.0%
2008(d)	568	7,669	154,287	44	415	8,961	7.8%	5.4%	5.8%	134.5%

Bureau of Labor Statistics
U.S. Department of Labor
(d) Reflects revised population controls and model reestimation.

In April 2009, the State's unemployment rate was 11.1%, 125% of the U.S. unemployment rate of 8.9%.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1994 - 2008 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

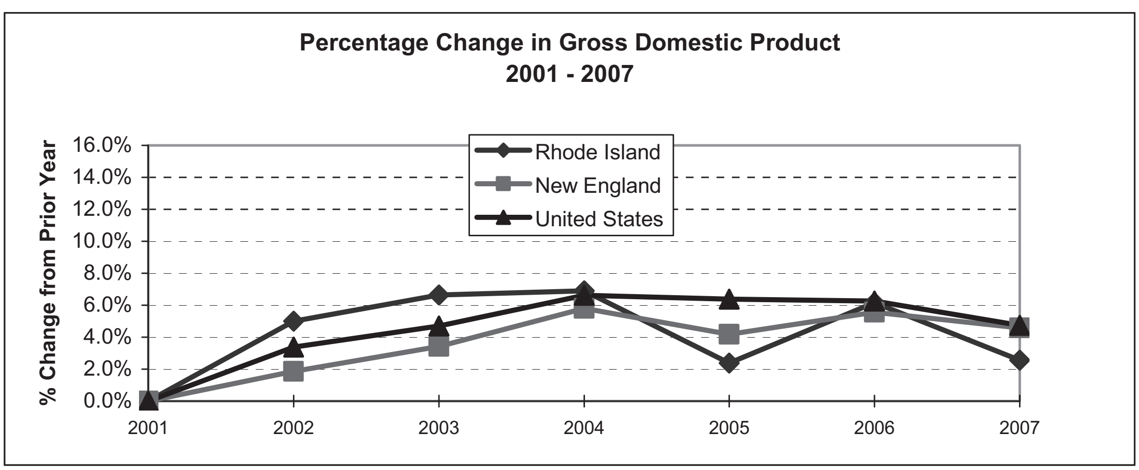
From 2002 – 2004, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2005 - 2007 Rhode Island GDP growth fell behind that of the United States. During the 2001 – 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, both United States GDP growth and New England GDP growth overtook that of Rhode Island for the first time in four years. The table below gives the Gross Domestic Product and the annual growth rates for Rhode Island, New England, and the United States over the 2001 – 2007 period.

Gross Domestic Product, 2001 - 2007
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2001	35,149	-	580,920	-	10,058,168	-
2002	36,909	5.0%	591,733	1.9%	10,398,402	3.4%
2003	39,357	6.6%	612,006	3.4%	10,886,172	4.7%
2004	42,073	6.9%	647,473	5.8%	11,607,041	6.6%
2005	43,078	2.4%	674,562	4.2%	12,346,871	6.4%
2006	45,733	6.2%	712,051	5.6%	13,119,938	6.3%
2007	46,900	2.6%	744,672	4.6%	13,743,021	4.7%

U.S. Department of Commerce. Bureau of Economic Analysis

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2001 - 2007 period. It demonstrates that from 2001 to 2004, Rhode Island's GDP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GDP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in all sectors from 2001 to 2007.

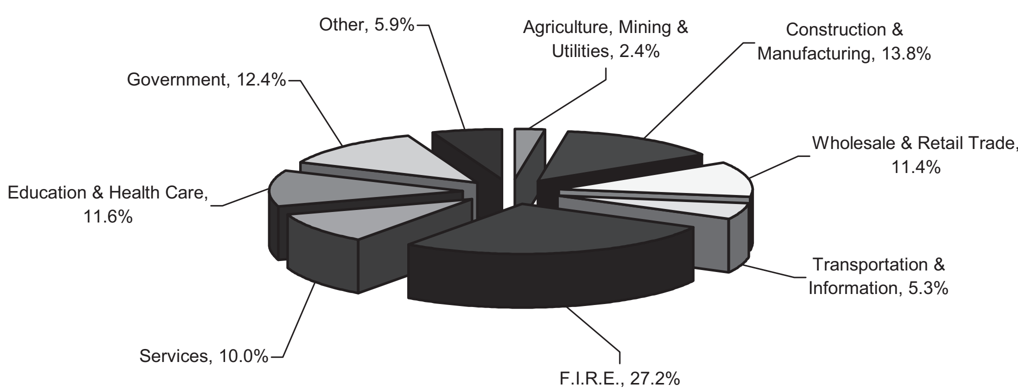
Gross Domestic Product by Industry in Rhode Island, 2001 - 2007
(millions of current dollars)

Industrial Sector	2001	2002	2003	2004	2005	2006	2007
Agriculture, forestry, fishing and hunting	85	83	88	94	86	93	97
Mining	16	19	20	29	28	28	33
Utilities	731	671	739	794	823	921	973
Construction	1,699	1,730	1,925	2,001	2,220	2,259	1,969
Manufacturing	3,928	4,126	3,806	4,320	3,876	4,305	4,479
Wholesale Trade	1,746	1,862	1,988	2,104	2,219	2,295	2,443
Retail Trade	2,254	2,472	2,613	2,692	2,740	2,729	2,915
Transportation and warehousing, excluding postal service	529	557	615	624	617	669	673
Information	1,301	1,355	1,483	1,675	1,787	1,802	1,809
Finance and insurance	4,773	4,804	5,075	5,434	5,219	5,758	5,697
Real estate, rental and leasing	4,741	5,000	5,553	6,043	6,375	6,726	7,073
Professional and technical services	1,831	1,859	1,948	2,119	2,226	2,548	2,469
Management of companies and enterprises	523	517	813	795	919	1,025	1,074
Administrative and waste services	833	831	885	974	1,052	1,100	1,151
Educational services	716	779	825	896	953	1,007	1,071
Health care and social assistance	3,061	3,397	3,618	3,829	3,993	4,192	4,373
Government	4,318	4,615	4,992	5,183	5,372	5,615	5,822
Other	2,064	2,232	2,371	2,467	2,573	2,661	2,779
Total GDP	**35,149**	**36,909**	**39,357**	**42,073**	**43,078**	**45,733**	**46,900**

U.S. Department of Commerce. Bureau of Economic Analysis

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2007 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2007



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contributed 27.2 percent of GDP in 2007. In 2007, F.I.R.E. accounted for $12.8 billion of total gross domestic product of $46.9 billion. For the period 2001 – 2007 this sector expanded by a respectable 34.2 percent.

Construction and Manufacturing. In 2007, Construction and Manufacturing was the second largest sector in Rhode Island at $6.4 billion, or 13.7 percent of the total Gross Domestic Product. This sector increased by 14.6

percent from the 2007 level although it decreased in percent contribution to GDP. In 2001, Construction and Manufacturing comprised a slightly larger piece of GDP at 16.0 percent of the total.

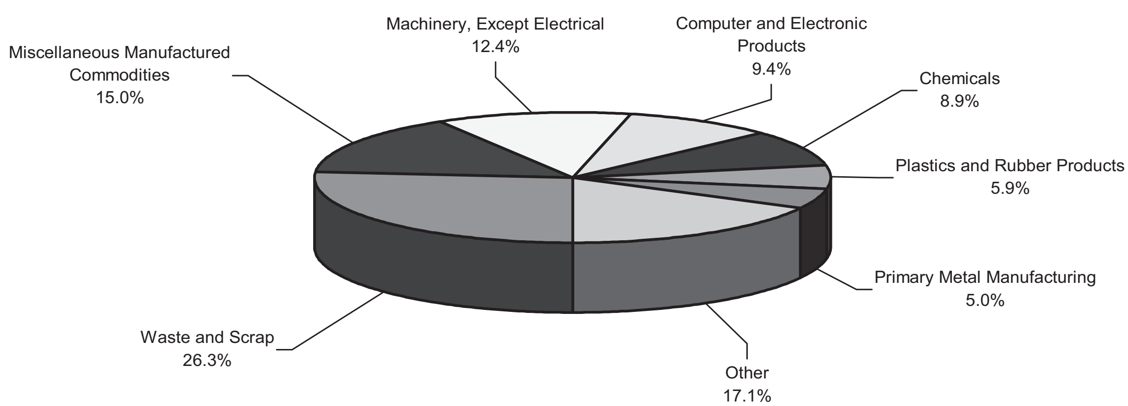
Government. At 12.4 percent of GDP in 2007, the Government sector has grown slowly and steadily since 2001. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes slightly less as a percentage of GDP in 2007 than it did in 2001. In 2001, the Government sector accounted for 12.3 percent of GDP. The growth rate in 2002 was 6.9 percent, in 2003 it was 8.2 percent, in 2004 it was 3.8 percent, in 2005 it was 3.6 percent, in 2006 it was 4.5 percent and in 2007 it was 3.7 percent. In 2007, the Government sector contributed $5.8 billion to total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2001, Services have remained an integral sector accounting for 27.5 percent of Rhode Island's GDP in 2007. From 2001 to 2007, Services have grown by 43.1 percent, indicating the continuing shift from Rhode Island's traditional role as a manufacturing based economy to that of a service based economy.

International Trade and the Rhode Island Economy

Rhode Island products are exported throughout the United States and the world. The total value of all international shipments from Rhode Island in 2005 was $1.27 billion. This represented 3.1 percent of Rhode Island Gross Domestic Product of $42.1 billion. In 2008, Rhode Island's exports increased to $1.98 billion, an increase of 55.8 percent over 2005 levels.

Composition of Rhode Island Exports by Industry Group 2008



The most important exports, as shown in the pie chart above, were waste and scrap (26.3 percent), miscellaneous manufactured commodities (15.0 percent), machinery, except electrical (12.4 percent) and computer and electronic products (9.4 percent).

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2005-2008 period.

Rhode Island Exports by Industry, 2005 - 2008
(in thousands of dollars)

	2005	2006	2007	2008
Total All Industries	1,268,455	1,531,603	1,648,710	1,976,689
Waste and Scrap	158,594	278,607	396,185	520,535
Miscellaneous Manufactured Commodities	208,989	222,223	201,929	296,299
Machinery, Except Electrical	134,567	173,097	179,062	245,289
Computer and Electronic Products	171,909	178,502	214,302	186,558
Chemicals	130,280	137,369	164,687	175,538
Plastics and Rubber Products	83,967	87,860	94,251	115,873
Primary Metal Manufacturing	84,087	129,864	87,626	98,760
Transportation Equipment	44,251	49,357	63,660	78,816
Electrical Equipment, Appliances and Component	56,286	68,517	72,611	76,427
Fabricated Metal Products, NESOI	45,061	55,571	48,610	48,158
Fish - Fresh, Chilled or Frozen & Other Marine Products	24,717	35,882	23,859	30,367
Textiles and Fabrics	35,917	29,286	26,724	25,592
Paper	16,457	17,948	15,866	16,064
Printing, Publishing and Similar Products	13,372	11,996	8,048	10,417
Nonmetallic Mineral Products	7,174	8,906	9,296	8,477
Food and Kindred Products	16,449	8,949	5,007	7,184
Apparel and Accessories	3,163	3,683	4,683	6,942
Furniture and Fixtures	5,611	4,773	5,900	6,845
Textile Mill Products	7,818	4,681	5,084	6,061
Special Classification Provisions, Nesoi	8,348	10,594	9,066	4,442
Leather and Allied Products	2,309	2,842	4,018	3,522
Used or Second-Hand Merchandise	827	3,894	1,335	2,783
Petroleum and Coal Products	1,332	644	914	1,378
Minerals and Ores	1,529	2,856	1,486	1,285
Wood Products	1,209	504	633	840
Agricultural Products	3,223	358	1,422	687
Livestock and Livestock Products	166	660	1,301	546
Goods Returned to Canada (Exports Only); U.S. Goods	164	836	381	503
Beverages and Tobacco Products	40	78	105	255
Prepackaged Software	233	556	91	184
Forestry Products, Nesoi	402	710	568	62
Oil and Gas	4	0	0	0

(WISER) - World Institute for Strategic Economic Research
U.S. Census Bureau, Foreign Trade Division

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 1999 the number of housing permits authorized in Rhode Island increased by 22.5 percent. In 2008, the number of housing permits authorized decreased by 39.0 percent in Rhode Island, compared to a decrease of 34.1 percent for New England and a decrease of 36.7 percent for the United States.

Housing Permits Authorized, 1994 - 2008
(seasonally adjusted)

	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1994	2,504	-	40,807	-	1,367,000	-
1995	2,290	-8.5%	37,392	-8.4%	1,337,000	-2.2%
1996	2,360	3.1%	40,016	7.0%	1,420,000	6.2%
1997	2,721	15.3%	42,274	5.6%	1,442,000	1.5%
1998	2,651	-2.6%	47,906	13.3%	1,619,000	12.3%
1999	3,248	22.5%	47,381	-1.1%	1,662,000	2.7%
2000	2,651	-18.4%	43,751	-7.7%	1,600,000	-3.7%
2001	2,400	-9.5%	42,921	-1.9%	1,639,000	2.4%
2002	2,614	8.9%	47,309	10.2%	1,750,000	6.8%
2003	2,467	-5.6%	48,446	2.4%	1,889,000	7.9%
2004	2,504	1.5%	56,116	15.8%	2,058,000	8.9%
2005	2,911	16.3%	56,746	1.1%	2,162,000	5.1%
2006	2,267	-22.1%	48,198	-15.1%	1,846,000	-14.6%
2007	1,898	-16.3%	36,478	-24.3%	1,391,000	-24.6%
2008	1,158	-39.0%	24,035	-34.1%	881,000	-36.7%

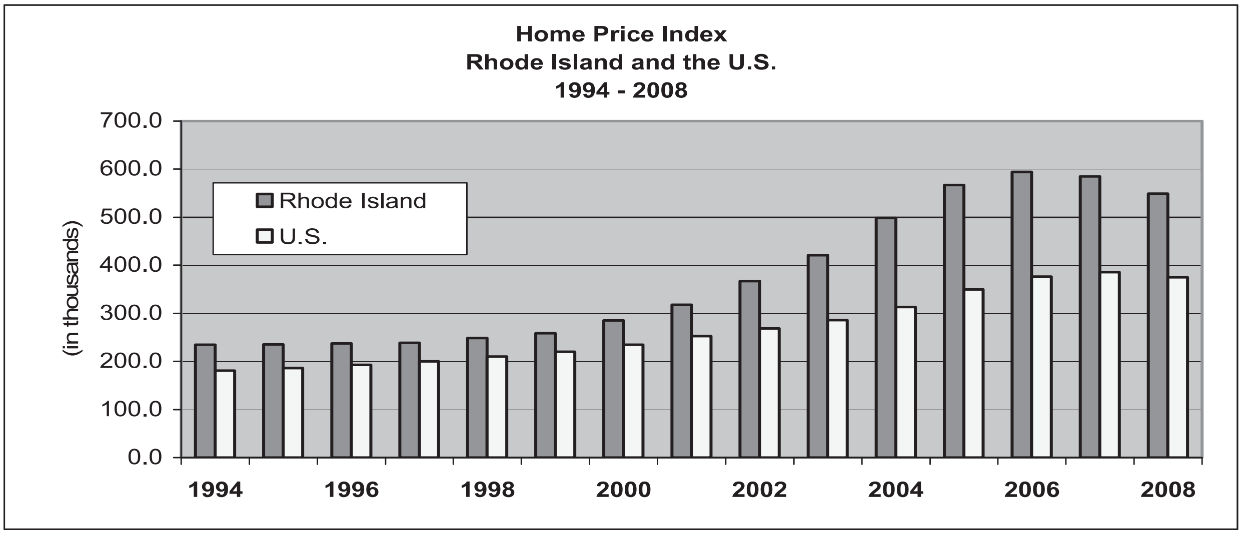
Federal Reserve Bank of Boston
U.S. Census Bureau

From 1994 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.4 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below.

Existing Home Sales, 1994 - 2008
(seasonally adjusted at annual rates, in thousands)

	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1994	10.8	-	208.2	-	3,889.3	-
1995	11.6	7.4%	198.5	-4.7%	3,846.0	-1.1%
1996	12.8	10.3%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	279.0	6.7%	5,952.8	11.8%
2003	16.8	-2.3%	265.8	-4.7%	6,175.9	3.7%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.5	-18.7%	215.9	-	4,896.5	-13.7%

Federal Reserve Bank of Boston
National Association of Realtors



Federal Reserve Bank of Boston; Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appear in the above chart. While the Rhode Island home price index was 129.9 percent of the U.S. average in 1994, by 1999 it had fallen to 117.3 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 162.3 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2008 stands at 146.4 percent of the U.S. level.

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the "peace dividend" from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island remained flat at $418 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2005. Since 1990, Rhode Island's share of New England contract awards has decreased from 3.9 percent to 2.0 percent of such awards in 2005.

Department of Defense Contract Awards, 1990 - 2005
(in millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island travel and tourism industry report, the 2006 Tourism Satellite Account produced by Global Insight and published on September 27, 2007, travel and tourism sales in Rhode Island broke the six billion dollar mark, at $6.21 billion. This generated 58,900 jobs (10% of the state total) and $1.4 billion in employee compensation (5.5% of the state total).

Visitation to Rhode Island grew 2.1% in 2006 to 17.46 million travelers. Leisure visitation grew at a rate of 4.2% while business travel experienced a 6% decline during 2006. Business spending made up just under 26% of total expenditures in 2006, compared to just under 20% of total visitation. Business expenditures were up 1.1% in 2006, mainly due to a low concentration in shopping (the lowest performing statewide category) and a strong concentration in food (the best performing statewide category).

Each R.I. visitor/traveler generates about $464 in expenditures, $53 of which goes to R.I. businesses that do not directly “touch” that visitor. Every 166 visitors create a new R.I. job. Each visitor creates about $108 in tax receipts, $58 of which goes to state & local authorities. It takes only 239 visitors to pay for one Rhode Island public school student for one year. Each R.I. visitor generates $174 in wages paid to R.I. workers employed across an array of industries. Each visitor adds about $284 to the state’s Gross State Product.

Travel and tourism industry sales increased by 0.7% during 2006. Entertainment and food sectors had the largest percentage increases in 2006 at 2.3% each. Accommodation sales increased by 2.1% while a modest 0.6% increase in transportation sales was reported. In 2006, retail sales dropped by 5.1%. Travel and tourism industry wages grew by 1.8% during 2006, while job growth remained flat. While tourism is responsible for 4.2% of R.I. GSP, it contributed 10.8% of state government revenue in 2006.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1993. The ratio of Rhode Island spending to the national average has varied from 124.2 percent in 1992-93 to a high of 142.2 percent in 2005-06. For the 2006-07 academic year Rhode Island spent 42.0 percent more on public elementary and secondary education than the United States average: $14,674 per student compared to a national average of $10,337 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1992-93 academic year. It should be noted that data for the 2006-07 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1992-93 - 2006-07
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,788	142.2%
2006-07	14,674	10,337	142.0%

U.S. Department of Education, National Center for Education Statistics

For the 2005-06 academic year, Rhode Island per pupil expenditures was the fourth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2005-06
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	19,861	26	Oregon	9,762
2	New York	17,182	27	Indiana	9,727
3	New Jersey	16,650	28	Louisiana	9,650
4	**Rhode Island**	**14,674**	29	Georgia	9,615
5	Vermont	14,219	30	Kentucky	9,303
6	Wyoming	14,219	31	Missouri	9,266
7	Connecticut	14,143	32	Washington	9,233
8	Alaska	13,508	33	South Carolina	9,226
9	Massachusetts	13,338	34	North Dakota	9,203
10	Maryland	12,820	35	Arkansas	9,152
11	Maine	12,628	36	Colorado	9,110
12	Delaware	12,612	37	Florida	9,055
13	Hawaii	12,084	38	California	9,029
14	Pennsylvania	11,995	39	New Mexico	8,876
15	New Hampshire	11,347	40	Iowa	8,789
16	Michigan	10,932	41	Alabama	8,743
17	Virginia	10,913	42	South Dakota	8,506
18	Illinois	10,816	43	Texas	8,484
19	Wisconsin	10,813	44	North Carolina	8,373
20	Ohio	10,792	45	Nevada	8,372
21	Nebraska	10,711	46	Arizona	8,038
22	Kansas	10,280	47	Mississippi	7,988
23	Montana	10,244	48	Oklahoma	7,968
24	Minnesota	10,185	49	Tennessee	7,843
25	West Virginia	10,080	50	Idaho	7,074
			51	Utah	6,116

U.S. Department of Education, National Center for Education Statistics

According to the Rhode Island Office of Higher Education, in fall 2007, the total enrollment in Rhode Island institutions of higher education was 87,953 students, up 9.4% from the 80,377 students from 2004. Enrollment in the public sector totaled 41,503 (47%) and 46,540 in the private sector (53%).

In 2007, Rhode Island institutions of higher education conferred 16,847 degrees and certificates. Rhode Island public institutions conferred 5,532 awards while the private sector conferred 11,315.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST INDENTURE

Following are descriptions of certain terms used in the Trust Indenture, the Series 2009 A Supplemental Indenture and this Official Statement and brief summaries of certain provisions of the Trust Indenture and Series 2009 A Supplemental Indenture. The descriptions and summaries do not purport to be complete or definitive and are subject in all respects to the provisions of, and each is qualified in its entirety by reference to, the respective documents to which they relate, copies of which are available, upon request, from the Issuer. All headings and references to "Sections," "Articles" and other subdivisions in or following the summaries of certain provisions of the Trust Indenture are provided solely for convenience of reference and shall not affect the meaning, construction, or effect of the Trust Indenture.

Certain Defined Terms (Section 1.01)

"*Accreted Value*" means any amount defined as such in a Supplemental Indenture for purposes of determining the Redemption Price of, certain rights of the Owners of, or certain other matters with respect to, a Capital Appreciation Bond.

"*Accretion Date*" means any date defined as such in a Supplemental Indenture for purposes of determining the Accreted Value or Maturity Value of a Capital Appreciation Bond.

"*Act*" means collectively the Issuer Act and the Program Act.

"*Authorized Denomination*" means the denomination or denominations defined as such in a Supplemental Indenture for purposes of determining the denominations of a Series of Bonds.

"*Authorized Issuer Representative*" means the Chairman, Vice Chairman, Executive Director, or Deputy Director, Secretary, or Assistant Secretary of the Issuer or the person at the time designated to act on behalf of the Issuer by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Issuer by its Chairman, Vice Chairman, Executive Director, Deputy Director, Secretary, or Assistant Secretary. Such certificate may designate an alternate or alternates.

"*Bond Counsel*" means (a) as of the date of issuance of the first Series of Bonds, Partridge Snow & Hahn LLP, and (b) as of any other date, Partridge Snow & Hahn LLP or other attorneys selected by the Issuer who have nationally recognized expertise in the issuance of municipal securities, the interest on which is excluded from gross income for federal income tax purposes.

"*Bond Payment Date*" means each date on which Bond Payments are due and includes, but is not limited to, the maturity date of any Bond; each Interest Payment Date on each Current Interest Bond; and the mandatory sinking fund redemption dates of term Bonds that are subject to mandatory sinking fund redemption in accordance with a mandatory sinking fund redemption schedule set forth in a Supplemental Indenture.

"*Bond Payment Fund*" means the special fund created by the Master Indenture.

"*Bond Payments*" means (a) with respect to a Current Interest Bond, the interest due on such Bond on each Interest Payment Date and the principal and interest due on such Bond at maturity; (b) with respect to a Capital Appreciation Bond, the Maturity Value due on such Bond at maturity; and (c) with respect to term Bonds that are subject to mandatory sinking fund redemption in accordance with a schedule set forth in a Supplemental Indenture, the principal and interest or the Accreted Value payable on such Bonds on the date on which they are subject to mandatory sinking fund redemption in accordance with such schedule. "*Bond Payments*" does not include the Redemption Price of any Bond.

For purposes of this definition:

(i) Bond Payments due on any Interest Payment Date that are payable from accrued interest or capitalized interest held in the Bond Payment Fund pursuant to the Master Indenture will be excluded in determining the amount of Bond Payments due in the State Fiscal Year in which such Interest Payment Date occurs for purposes of determining the amount of Pledged Revenues pursuant to the Master Indenture.

(ii) If any Bonds bear interest at an adjustable or variable interest rate such that the Bond Payments due in a State Fiscal Year or on a Bond Payment Date cannot be determined with certainty on the date on which Pledged Revenues are to be paid to the Trustee pursuant to the Master Indenture, the amount of interest included in the Bond Payments due on such Bonds in such State Fiscal Year or on such Bond Payment Date shall be based on the interest rate estimated by the Issuer, or as stated in any Supplemental Indenture relating thereto.

(iii) If the Issuer purchases or arranges for a Credit Facility or an Interest Rate Exchange Agreement with respect to any Bonds pursuant to the Master Indenture, (A) moneys paid or payable to the provider of the Credit Facility to reimburse the provider for moneys paid by the provider that are used to make Bond Payments (as defined in the first two sentences of this definition) and (B) moneys paid or payable to the provider of the Interest Rate Exchange Agreement for moneys paid by the provider that are used to make Bond Payments (as defined in the first two sentences of this definition) may, but in each case if and to the extent provided in a Supplemental Indenture or in a separate agreement between the Issuer and the Credit Facility or Interest Rate Exchange Agreement provider entered into pursuant to the Master Indenture, be treated as Bond Payments on the Bonds to which the Credit Facility or Interest Rate Exchange Agreement relates.

"*Bonds*" means the Historic Structures Tax Credit Financing Program revenue bonds, notes or other obligations authorized pursuant to the Master Indenture.

"*Business Day*" means any day other than a Saturday, a Sunday or a day on which banks in New York, New York, Providence, Rhode Island or any city identified in a Supplemental Indenture are authorized or required by law or executive order to remain closed.

"*Capital Appreciation Bond*" means a Bond on which no payments are due until maturity or redemption prior to maturity.

"*Code*" means the Internal Revenue Code of 1986, as amended, and regulations thereunder.

"*Credit Facility*" means any facility or agreement provided by the United States of America or any federal agency, if such facility or agreement is backed by the full faith and credit of the United States of America, or any letter of credit, insurance, stand by credit or liquidity agreement or other forms of credit ensuring timely payment of any Bonds, including the Bond Payments on or the Redemption Price or purchase price of such Bonds, that is entered into in accordance with the Master Indenture, including any Reserve Fund Credit Facility. References to "Credit Facility" with respect to any Series of Bonds shall be ineffective when such Bonds are not supported by a Credit Facility.

"*Current Interest Bond*" means a Bond on which interest is payable on Interest Payment Dates prior to maturity or redemption prior to maturity.

"*Current Payments*" means all payments required to be made from Pledged Revenues for the payment of all Bond Payments and Program Costs, which become due during the current State Fiscal Year.

"*Debt Service Reserve Fund*" means the special fund created by the Master Indenture.

"*Debt Service Reserve Fund Requirement*" means as of any date of calculation, (a) with respect to a Series of Bonds other than a Series of Bonds which at their date of issuance are or are deemed under the Master Indenture to be for any period variable interest rate Bonds, put Bonds or bank Bonds, an amount equal to at least one-half of the greatest amount of Bond Payments with respect to such Series of Bonds for the then current or any future State Fiscal Year, *provided, however, that* as a result of the issuance of any Series of Bonds the interest on which is excluded from gross income for Federal income tax purposes the amount required to be on deposit to satisfy the Debt Service Reserve Fund Requirement shall not exceed the sum of the amount on deposit in the Debt Service Reserve Fund Requirement immediately prior to the issuance of such Series plus 10% of the proceeds from the sale of such Series, and (b) with respect to a Series of Bonds which at their date of issuance are or are deemed under the Master Indenture to be for any period variable interest rate Bonds, put Bonds or bank Bonds, the amount set forth in or determined pursuant to the Supplemental Indenture authorizing such Bonds as the Debt Service Reserve Fund Requirement for such Series of Bonds. For purposes of this definition, "proceeds" shall have the meaning given such term for purposes of Section 148(d) of the Code. Notwithstanding the foregoing, a Supplemental Indenture may provide that the Debt Service Reserve Fund Requirement for a particular Series of Bonds shall be $0.

"*Defeasance Escrow Account*" means any trust account into which money and/or Defeasance Securities are deposited for the purpose of defeasing any Bonds in accordance with the Master Indenture.

"*Defeasance Securities*" means money and the following to the extent permitted by law:

(a) non-callable (at the option of the obligor) direct obligations of the United States of America, non-callable (at the option of the obligor) and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable (at the option of the obligor) direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Issuer obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (at the option of the obligor) (or non-callable by the obligor before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts invested in such obligations;

(b) non-callable (at the option of the obligor) obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof);

(c) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided, that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated custody or trust account in the trust department separate from the general assets of such custodian;

(d) bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, and (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (a), (b) or (c) which fund may be applied only to the payment when due of such bonds or other obligations; and

(e) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, any Federal Home Loan Bank, the Export-Import Bank of the United States, the Federal Financing Bank, the Government National Mortgage Association, the Farmers' Home Administration, the Federal Home Loan Mortgage Company, the Federal Housing Administration, the Private Export Funding Corporation, the Federal Farm Credit Bank, the Resolution Trust Company, Sallie Mae, Inc., or the Federal Farm Credit System;

"Department of Administration" means the Department of Administration of the State, established pursuant to Chapter 42-11 of the Rhode Island General Laws (1956), as amended, its successors and assigns.

"*Department of Revenue*" means the Department of Revenue of the State, established pursuant to Chapter 42-142 of the Rhode Island General Laws (1956), as amended, its successors and assigns.

"Director of Administration" means the Director of Administration of the State, his or her successors, assigns and designees.

"*Director of Revenue*" means the Director of Revenue of the State, his or her successors, assigns and designees.

"DTC" means The Depository Trust Company and its successors.

"*Earnings Account*" means the earnings account within the Project Fund created by the Master Indenture.

"*Event of Default*" means an event described in the Master Indenture as such.

"*Fitch*" means Fitch Ratings and its successors.

"Historic Tax Credits" means tax credits earned and presented to the State pursuant to R.I. General Laws §§ 44-33.2-1 et seq.

"*Interest Payment Date*" means any date defined as such in a Supplemental Indenture for purposes of paying the interest on a Series of Current Interest Bonds.

"*Interest Rate Exchange Agreement*" means any interest rate exchange agreement authorized by law and entered into with respect to the Bonds or any portion of the Trust Estate that is entered into in accordance with the Master Indenture.

"Issuer" means the Rhode Island Economic Development Corporation, and its successors.

"Issuer Act" means Chapter 64 of Title 42 of the Rhode Island General Laws (1956, 2006 Reenactment), as amended form time to time.

"*Letter of Representations*" means the Letter of Representations between the Issuer and The Depository Trust Company, New York, New York, or any successor depository with respect to the book entry registration system for the Bonds, or any other similar writing or writings.

"*Master Indenture*" means the Master Trust Indenture dated as of June 1, 2009, by and between the Issuer and the Trustee, and any amendment hereto.

"*Maturity Value*" means any amount defined as such in a Supplemental Indenture for purposes of determining the amount payable to the Owner of a Capital Appreciation Bond at the maturity of such Capital Appreciation Bond.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*New Money Bonds*" means Bonds issued for the purpose of financing the Project Costs.

"*Operations Center*" means the operations center of the Trustee located at c/o The Bank of New York Global Corporate Trust, 2001 Bryan Street, 9th Floor, Dallas, Texas 75201 or at such other location as the Trustee may designate from time to time by written notice to the Issuer and the State.

"*Original Principal Amount*" means any amount defined as such in a Supplemental Indenture for purposes of determining certain rights of the Owner of, or certain other matters with respect to, a Capital Appreciation Bond.

"*Original Purchaser*" means the Person defined as such in a Supplemental Indenture for purposes of purchasing a Series of Bonds from the Issuer.

"*Outstanding*" means all Bonds that have been executed and delivered, except:

(a) any Bond on which all Bond Payments due or to become due have been paid at maturity;

(b) any Bond on which the Redemption Price due or to become due has been paid in accordance with the redemption provisions applicable to such Bond;

(c) Bonds in lieu of which other Bonds have been executed and delivered pursuant to the provisions of the Master Indenture or any Supplemental Indenture relating to the transfer and exchange of Bonds or the replacement of mutilated, lost, stolen or destroyed Bonds;

(d) Bonds that have been canceled by the Trustee or that have been surrendered to the Trustee for cancellation;

(e) Bonds on which all Bond Payments or the Redemption Price is due and for which the Trustee holds moneys sufficient to pay the Bond Payments or Redemption Price for the benefit of the Owner thereof pursuant to the Master Indenture; and

(f) Bonds that have been defeased pursuant to the Master Indenture.

"*Owner*" of a Bond means the registered owner of such Bond as shown in the registration records of the Trustee.

"Paying Agent" means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as paying agent under the Master Indenture, and any successor thereto appointed under the Master Indenture.

"*Payment Agreement*" means the Payment Agreement relating to the Pledged Revenues entered into as of June 1, 2008, by and among the Issuer, the Governor of the State, the Treasurer of the State, the State's Department of Administration, the State Controller, and the State Budget Officer.

"*Permitted Investments*" means with respect to the investment of any fund created under the Master Indenture, the following to the extent permitted by law:

(a) Defeasance Securities;

(b) [Reserved];

(c) demand deposits including interest bearing money market accounts, trust funds, trust accounts, overnight bank deposits, interest bearing deposits, and time deposits in or certificates of deposit including those placed by a third party pursuant to an agreement between the Trustee and the Issuer, or bankers' acceptances issued by, any bank or trust company, savings and loan association or savings bank, payable on demand or on a specified date no more than three months after the date of issuance thereof, if such deposits or instruments are continuously rated any two of at least A-1 by S&P, P-1 by Moody's and Fl by Fitch;

(d) certificates, notes, warrants, bonds, obligations or other evidences of indebtedness of a state or a political subdivision thereof continuously having one of the two highest long-term unsecured debt ratings (without regard to rating subcategories) by any two of S&P, Moody's and Fitch;

(e) commercial or finance company paper (including both non interest bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than three months after the date of issuance thereof) that is rated continuously any two of A-1 by S&P, P-1 by Moody's and Fl by Fitch;

(f) repurchase obligations with respect to any security described in clause (a) or (b) above entered into with a primary dealer, depository institution or trust company (acting as principal) continuously rated at least A-1 by S&P, P-1 by Moody's and F1 by Fitch (if then rated by Fitch) (if payable on demand or on a specified date no more than three months after the date of issuance thereof), or continuously rated at least A3 by Moody's and in one of the three highest long term rating categories by S&P and Fitch (if then rated by Fitch), or collateralized by securities described in clause (a) or (b) above with any registered broker/dealer or with any domestic commercial bank whose long term debt obligations are rated "investment grade" by each Rating Agency; provided, that (1) a specific written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of thirty days or less, or the Trustee or the custodian will value the collateral securities no less frequently than monthly and the Trustee will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least 102%;

(g) securities bearing interest or sold at a discount (payable on demand or on a specified date no more than three months after the date of issuance thereof) that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated at least P-1 by Moody's, A-1 by S&P and Fl by Fitch (if then rated by Fitch) at the time of such investment or contractual commitment providing for such investment; provided, that securities issued by any such corporation will not be Permitted Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Permitted Investments then held;

(h) units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated at least Aa1 by Moody's and at least AAm or AAm-G by S&P and at least AA by Fitch (if then rated by Fitch), including if so rated any such fund which the Trustee or an affiliate of the Trustee serves as an investment advisor, administrator, shareholder, servicing agent and/or custodian or sub custodian, notwithstanding that (x) the Trustee or an affiliate of the Trustee charges and collects fees and expenses (not exceeding current income) from such funds for services rendered, (y) the Trustee charges and collects fees and expenses for services rendered pursuant to the Master Indenture and any

Supplemental Indenture, and (z) services performed for such funds and pursuant to the Master Indenture and any Supplemental Indenture may converge at any time (the Issuer specifically authorizes the Trustee or an affiliate of the Trustee to charge and collect all fees and expenses from such funds for services rendered to such funds, in addition to any fees and expenses the Trustee may charge and collect for services rendered pursuant to the Master Indenture and any Supplemental Indenture);

(i) investment agreements or guaranteed investment contracts rated, or with any financial institution or corporation whose senior long term debt obligations are rated, or guaranteed by a financial institution whose senior long term debt obligations are rated, at the time such agreement or contract is entered into, at least A3/P1 by Moody's and in one of the three highest long term rating categories by S&P and Fitch (if then rated by Fitch) if the Issuer or Trustee has an option to terminate such agreement in the event that such rating is downgraded below the rating on the Bonds, or if not so rated, then collateralized by securities described in clause (a) or (b) above pursuant to an agreement with any registered broker/dealer or with any domestic commercial bank whose long term debt obligations are rated, at the time such agreement is entered into, "investment grade" by each Rating Agency; provided, that (1) a specific written agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a member of the Federal Deposit Insurance Corporation that has combined surplus and undivided profits of not less than $25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) the agreement has a term of thirty days or less, or the Trustee or its agent will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five Business Days of such valuation, and (4) the fair market value of the collateral securities in relation to the amount of the obligation, including principal and interest, is equal to at least 102%; and

(j) other obligations or securities that are non callable and that are acceptable to each Rating Agency;

provided, that no Permitted Investment may (a) except for Defeasance Securities, evidence the right to receive only interest with respect to the obligations underlying such instrument or (b) be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

"*Person*" means any natural person, firm, corporation, partnership, limited liability company, state, political subdivision of any state, other public body or other organization or association.

"*Pledged Revenues*" means the revenues, if any, made available and appropriated by the General Assembly of the State to secure the Bonds.

"*Principal Amount*" means (a) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond; (b) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value of such Bond as of the date on which the Bond is being determined; and (c) with respect to all the Outstanding Bonds together, the sum of the amounts determined pursuant to clauses (a) and (b).

"Program Act" means Section 4 of Article 4, Substitute A, as amended, of Chapter 100 of the Rhode Island Public Laws of 2008.

"*Program Costs*" means the costs and expenses set forth in items (b) through (f) included in the definition of Project Costs.

"*Project Costs*" means all costs and expenses paid or incurred or to be paid or incurred (including the reimbursement of the State for any of such costs and expenses originally paid or incurred by the State) in connection with:

(a) Funding Historic Tax Credits earned and presented to the State by taxpayers;

(b) financing costs, including, but not limited to, costs and expenses that the Issuer deems necessary or advantageous in connection with the sale of the Bonds and the administration of the Bonds, the Trust Estate, the Master Indenture and any Supplemental Indenture, including, but not limited to, costs and expenses relating to the engagement of consultants, financial advisors, underwriters, bond insurers, letter of credit banks, rating agencies, attorneys, trustees, paying agents, registrars, other agents and other Persons in connection with the issuance of the Bonds, the Trust Estate, the Master Indenture or any Supplemental Indenture;

(c) payment of interest on the Bonds;

(d) costs and expenses relating to any Credit Facility entered into in accordance with the Master Indenture, including the reimbursement of the provider of any Credit Facility as provided in the Master Indenture;

(e) costs and expenses relating to any Interest Rate Exchange Agreement entered into in accordance with the Master Indenture; and

(f) if applicable, amounts required to be deposited into the Rebate Fund pursuant to the Master Indenture and the Tax Certificates.

"*Project Fund*" means the special fund created by the Master Indenture.

"*Rating Agency*" means each nationally recognized securities rating service that has, at the request of the Issuer, a rating then in effect for the unenhanced Bonds.

"*Rating Confirmation*" means, with respect to the Bonds, written evidence from a Rating Agency that no underlying Bond rating then in effect from such Rating Agency will be withdrawn, reduced or suspended solely as a result of an action to be taken under the Master Indenture.

"*Rebate Fund*" means the special fund created by the Master Indenture.

"*Record Date*" means (a) with respect to any Interest Payment Date that is the first day of a month, the fifteenth day of the month (whether or not a Business Day) preceding the month in which the Interest Payment Date occurs; (b) with respect to any Interest Payment Date that is the fifteenth day of a month, the first day of such month (whether or not a Business Day); and (c) with respect to any other Interest Payment Date, the date designated as the Record Date for such Interest Payment Date in a Supplemental Indenture.

"*Redemption Price*" means the amount due on a Bond on the date on which it is redeemed prior to maturity pursuant to the redemption provisions applicable to such Bond. Such term does not include the principal and interest or Accreted Value due on term Bonds on the dates such Bonds are to be redeemed in accordance with a mandatory sinking fund redemption schedule set forth in a Supplemental Indenture.

"*Refunding Bonds*" means Bonds issued for the purpose of refunding, and proceeds of which are used to refund, New Money Bonds or other Refunding Bonds.

"*Reserve Fund Credit Facility*" means (i) any facility or agreement provided by the United States of America or any federal agency if such facility or agreement is backed by the full faith and credit of the United States of America, (ii) any irrevocable, unconditional letter of credit issued by a bank or savings and loan association whose long term uncollateralized debt obligations are continuously rated in one of the two highest rating categories by each nationally recognized rating agency then rating any Series of Bonds at the request of the Issuer, or if no Series of Bonds is then rated, by any nationally recognized rating agency, and (iii) any insurance policy providing substantially equivalent liquidity as an irrevocable, unconditional letter of credit, and which is issued by a municipal bond or other insurance company, obligations insured by which are continuously rated in one of the two highest Rating Categories by each nationally recognized rating agency then rating any Series of Bonds at the request of the Issuer, or if no Series of Bonds is then rated, by any nationally recognized rating agency and which is used, to the extent permitted under applicable law, including the Act, to fund all or a portion of the Debt Service Reserve Fund Requirement.

"*Series*" means the Bonds designated as a separate series in a Supplemental Indenture and any Bonds authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Master Indenture or any Supplemental Indenture.

"Series 2009 A Bonds" means the $150,000,000 Revenue Bonds – Historic Structure Tax Credit Financing Program Series 2009 A (Federally Taxable) issued by the Issuer dated June [ ], 2009.

"*S&P*" means Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc., and its successors.

"*Special Record Date*" means a special date fixed to determine the names and addresses of Owners of Bonds for purposes of paying defaulted interest on Current Interest Bonds in accordance with the Master Indenture.

"*State*" means the State of Rhode Island and Providence Plantations.

"*State Fiscal Year*" means the fiscal year of the State consisting of a 12 month period ending on the last day of June in each year, as the same may be lawfully modified from time to time.

"*State Representative*" means (a) the Governor, (b) the Director of Administration, (c) the Director of Revenue, (d) the Tax Administrator of the State, (e) the Budget Officer for the State, or (f) any other officer or employee of the State authorized by law or by a writing signed by the Governor to act as a State Representative under the Master Indenture or any Supplemental Indenture.

"*Supplemental Indenture*" means any indenture supplementing or amending the Master Indenture that is adopted pursuant to the Master Indenture.

"*Tax Certificate*" means, with respect to each Series of Bonds on which the Issuer intends the interest to be excluded from gross income for federal income tax purposes, (a) the arbitrage and use of proceeds certificate or other instrument that sets forth the Issuer's expectations regarding the investment and use of proceeds of such Bonds and other matters relating to Bond Counsel's opinion regarding the federal income tax treatment of interest on such Bonds, including any instructions delivered by Bond Counsel in connection with such certificate, instrument or opinion; and (b) any amendment or modification of any such certificate, instrument or instructions that is accompanied by an opinion of Bond Counsel stating that the amendment or modification will not adversely affect the exclusion of interest on such Bonds from gross income for federal income tax purposes.

"*Trust Estate*" means the property granted to the Trustee pursuant to the Master Indenture.

"*Trustee*" means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as trustee under the Master Indenture, and any successor thereto appointed under the Master Indenture.

"*Trustee Representative*" means any officer in the corporate trust department of the Trustee responsible for administration of the Indenture and any other person authorized by a writing signed by an officer in the corporate trust department of the Trustee to act as a Trustee Representative under the Master Indenture or any Supplemental Indenture.

Grant of Trust Estate (Section 2.01)

The Issuer, in consideration of the premises, the purchase of the Bonds by the Owners and other good and valuable consideration, the receipt and sufficiency of which are acknowledged in the Master Indenture, in order to secure the payment of the Bond Payments on all Bonds at any time Outstanding under the Master Indenture, to secure the performance and observance of all the covenants and conditions set forth in the Bonds, the Master Indenture and any Supplemental Indenture, and to declare the terms and conditions upon and subject to which the Bonds are issued and secured, has executed and delivered the Master Indenture and has granted, assigned, pledged, bargained, sold, alienated, remised, released, conveyed, set over and confirmed, and by the Master Indenture does grant, assign, pledge, bargain, sell, alienate, remise, release, convey, set over and confirm unto the Trustee and to its successors and assigns forever, all and singular the following described property, franchises and income, including any title or interest therein acquired after these presents (referred to herein as the "Trust Estate"):

(a) all Pledged Revenues that are paid to the Issuer or the Trustee and available in accordance with the Act for payment of the Bond Payments and Program Costs, together with the right of the Issuer to receive such funds;

(b) all money from time to time held by the Trustee under the Master Indenture or any Supplemental Indenture in the Bond Payment Fund, the Debt Service Reserve Fund, the Project Fund or any other fund or account other than (i) the Rebate Fund, (ii) any Defeasance Escrow Account, and (iii) any fund or account created by a Supplemental Indenture that is expressly excluded from the Trust Estate; and

(c) any and all other property, revenues or funds from time to time hereafter by delivery or by writing of any kind specially granted, assigned or pledged as and for additional security under the Master Indenture, by the Issuer, the State or anyone else, in favor of the Trustee, which is authorized under the Master Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Master Indenture.

Effect of Pledge (Section 2.02)

(a) the proceeds from the issuance of Bonds that are pledged pursuant to the Master Indenture shall be used only for the purpose or purposes for which such revenues are pledged;

(b) the Issuer Act provides that such pledge of Pledged Revenues shall be valid and binding from the time such funds are transferred to the Trustee or the Issuer, and any pledge of the proceeds of any Bonds pursuant to the Master Indenture shall be valid and binding from the date of issuance of such Bonds;

(c) the Issuer Act provides that all such pledges shall create a valid security interest, and such revenues shall immediately be subject to the lien of the pledge and security interest without any physical delivery or further act, and the lien of the pledge and security interest shall be valid and binding against all parties having claims of any kind in tort, contract, or otherwise against the pledging party irrespective of whether such claiming party has notice of such lien; and

(d) the Issuer Act provides that the instrument by which the pledge and security interest is created need not be recorded or filed in order to perfect such pledge and security interest.

Bonds Secured on a Parity Unless Otherwise Provided (Section 2.04)

The Trust Estate shall be held by the Trustee for the equal and proportionate benefit of the Owners of all Outstanding Bonds, and any of them, without preference, priority or distinction as to lien or otherwise, except as expressly set forth in the Master Indenture or any Supplemental Indenture.

Limited Obligations (Section 2.05)

Notwithstanding any other provision of the Master Indenture:

(a) The Bond Payments shall be payable solely from Pledged Revenues, subject to annual appropriation by the State, received by the Issuer or the Trustee and moneys held in the Project Fund, the Bond Payment Fund, Debt Service Reserve Fund and any other accounts pledged therefor. The Owners and holders of the Bonds may not look to any other revenues of the Issuer or the State for the payment of the Bonds.

(b) All financial obligations of the Issuer under the Master Indenture, every Supplemental Indenture and the Bonds (i) are special, limited obligations of the Issuer payable solely from the Trust Estate (subject to annual appropriation by the State of Pledged Revenues) and shall not constitute nor give rise to a pecuniary liability or a charge against the general credit of the Issuer, or the State, and (ii) shall not be deemed or construed as creating a debt, liability or obligation of the State, or any political subdivision of the State (other than the Issuer), nor a pledge of the faith and credit of the State or any political subdivision or municipality of the State within the meaning of the State Constitution or the laws of the State concerning or limiting the creation of indebtedness by the State or any political subdivision of the State.

(c) The provisions of this heading are expressly incorporated into each Supplemental Indenture. The Bonds shall contain statements substantially to the effect of subsections (a) and (b) of this heading.

Indenture Constitutes a Contract; Obligation of Indenture and Bonds (Section 2.06)

In consideration of the purchase and acceptance of any and all of the Bonds authorized from time to time to be issued under the Master Indenture, as amended or supplemented, by those who shall hold the same from time to time: the Master Indenture shall be deemed to be and shall constitute a contract among the Issuer, the Trustee, the Owners from time to time of the Bonds and, with respect to certain provisions of the Master Indenture, the State, the pledge of certain funds, accounts, revenues and other moneys, rights and interests made in the Master Indenture and the covenants and agreements set forth in the Master Indenture to be performed by and on behalf of the Issuer, including the covenants of the State in the Master Indenture, shall be for the equal and ratable benefit, protection and security of the Owners of any and all of the Bonds, all of which regardless of the time or times of their issue or maturity shall be of equal rank without preference, priority or distinction of any of such Bonds over any other thereof, except as expressly provided in or permitted by the Master Indenture; and the Bonds shall be special, limited obligations of the Issuer payable solely from the Trust Estate as provided in the Master Indenture. Pursuant to Section 42-64-17 of the Issuer Act, the rights and remedies provided by Section 42-64-25 of the Issuer Act are abrogated.

Authorization, Purpose, Name (Section 3.01)

The Issuer authorizes the issuance of Historic Structures Tax Credit Financing Program Revenue Bonds pursuant to the Act (the "Bonds") for the purpose of financing the Project Costs or Refunding Bonds that were issued to finance Project Costs. The Bonds may be issued in one or more separate Series pursuant to one or more Supplemental Indentures and shall be named "Rhode Island Economic Development Corporation Revenue Bonds—Historic Structures Tax

Credit Financing Program." The Bonds of each Series may also include the name of, or other information identifying, the Series of which they are a part, together with such further or different designations as may be deemed appropriate, as provided by the Supplemental Indenture. The aggregate principal amount of Bonds which may be issued under the Master Indenture (excluding Refunding Bonds) shall not exceed $356,200,000, or as may be otherwise limited by law, provided that the aggregate principal amount of Bonds of each Series shall not exceed the amount specified in the Supplemental Indenture authorizing each such Series of Bonds. Bonds may only be issued in accordance with the Master Indenture and the Act.

Additional Bonds (Section 3.02)

No Series of Bonds may be issued unless each of the following conditions applicable thereto have been satisfied:

(a) Before any Series of Bonds constituting New Money Bonds are issued or incurred, it shall be determined that:

(i) All accumulations required to be made into the Bond Payment Fund and the Debt Service Reserve Fund, or other similar account for Outstanding Bonds, are current or will be funded current out of the proceeds of the New Money Bonds.

(ii) A certificate of an Authorized Issuer Representative and of a State Representative has been delivered to the effect that (x) to the best of his or her knowledge, no Event of Default exists in connection with any of the covenants or requirements of Master Indenture and (y) the issuance of all Bonds issued through and including the date thereof and application of the proceeds thereof in accordance with the terms of the Master Indenture, taking into account the actual application of proceeds through the date thereof, will not violate any limitation set forth in the Act.

(b) A written certification or opinion by an Authorized Issuer Representative that the requirements of this heading have been satisfied shall be conclusively presumed to be accurate in determining the right to authorize, issue, sell and deliver the Series of Bonds proposed to be issued.

(c) Until all Bond Payments and Program Costs are paid in full and while any Bonds are Outstanding, no bonds, notes, debentures or other obligations shall be issued or incurred having a lien on the Trust Estate prior and superior to the lien thereon of the Bonds.

(d) Before any Series of Bonds constituting Refunding Bonds are issued, all of the following additional conditions shall be satisfied:

(i) A certificate of an Authorized Issuer Representative shall state that following the issuance of the Refunding Bonds (including Bond Payments with respect to the Refunding Bonds, but excluding Bond Payments with respect to the refunded Bonds), the aggregate amount of Bond Payments due in any State Fiscal Year, through and including the latest maturity of any Bonds then Outstanding, shall be no greater than immediately prior to the issuance of such Refunding Bonds.

(ii) If any of the Bonds to be refunded are to be redeemed prior to their scheduled maturity date, an Authorized Issuer Representative has directed the Trustee to deliver redemption notices and to redeem the Bonds to be refunded in accordance with the provisions of the Master Indenture and any applicable provisions of any Supplemental Indenture.

(e) If the additional Series of Bonds are not part of the first Series of Bonds, an Authorized Issuer Representative certifies that as of the date of issuance of the additional Bonds, either:

(i) there is no Event of Default under the Master Indenture; or

(ii) if there is an Event of Default under the Master Indenture, the Event of Default will be cured upon the issuance of the additional Bonds and the application of the proceeds of the additional Bonds in accordance with the Supplemental Indenture authorizing the issuance of the additional Bonds.

(f) An Authorized Issuer Representative and the Trustee enter into a Supplemental Indenture authorizing the issuance of the additional Series of Bonds, which Supplemental Indenture specifies the following:

(i) The Series designation, the name, the aggregate principal amount, the Authorized Denominations, the dated date, the maturity date or dates and the form of the additional Bonds, as bonds or notes, and, if the additional Bonds are Capital Appreciation Bonds, the aggregate Original Principal Amount of each Series and of each Authorized Denomination of such Series.

(ii) If the additional Bonds are Current Interest Bonds, the interest rate or rates if any, or the method for determining the interest rate or rates on the additional Bonds, which rates may be fixed, adjustable or variable or any combination thereof, and, if any such rate is adjustable or variable, the standard, index, method or formula to be used to determine the interest rate and the maximum interest rate applicable to the additional Bonds; whether any such Bonds shall be variable interest rate Bonds, put Bonds or bank Bonds and with respect thereto, if applicable, provisions relating to the establishment of a separate account or subaccount for such Series in the Debt Service Reserve Fund or a separate debt service reserve fund; and the Interest Payment Date or Dates for the payment of such interest.

(iii) If the additional Bonds are Capital Appreciation Bonds, the Maturity Value, Accreted Value and Accretion Dates, or the manner of determining the same, for the additional Bonds.

(iv) The redemption provisions, if any, for the additional Bonds.

(v) The form of the additional Bonds.

(vi) The manner in which the proceeds of the additional Bonds are to be applied, including the amounts if any required to be deposited in the Debt Service Reserve Fund.

(vii) Any variations from the terms set forth in the Master Indenture with respect to the additional Bonds, including to the extent applicable any provisions relating to any Credit Facility, Interest Rate Exchange Agreement or Reserve Fund Credit Facility and the obligations payable thereunder.

(viii) Any other provisions deemed by an Authorized Issuer Representative to be advisable or desirable to be included in such Supplemental Indenture that do not violate and are not in conflict with the Master Indenture or any previous Supplemental Indenture.

(g) Bond Counsel has delivered a written opinion to the effect (which may be subject to customary assumptions and limitations) that (i) the additional Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding special, limited obligations of the Issuer, payable from the sources provided in the Master Indenture and the applicable Supplemental Indenture; (ii) the Master Indenture creates a valid pledge of and lien on the Trust Estate, subject to the terms of the Master Indenture; and (iii) if the interest on the additional Bonds is intended by the Issuer to be excluded from gross income for federal income tax purposes, interest on the additional Bonds is excluded from gross income for federal income tax purposes.

Delivery of Bonds and Application of Proceeds (Section 3.04)

Upon the execution and delivery to the Trustee of an originally signed counterpart of the Master Indenture prior to the issuance of the first Series of Bonds and the execution and delivery to the Trustee of an originally signed counterpart of a Supplemental Indenture relating to such Series of Bonds, the Trustee shall deliver the Bonds of the Series authorized by such Supplemental Indenture to the Original Purchaser in exchange for the purchase price thereof pursuant to the written order of the Issuer and the purchase price, which shall be stated in such written order, shall be applied as provided in the Supplemental Indenture relating to such Series of Bonds.

Optional Redemption Payments (Section 4.09)

Unless otherwise provided by the Supplemental Indenture:

(a) On or prior to the Business Day immediately preceding the date fixed for redemption of any Bonds at the option of the Issuer, the Issuer shall pay or cause to be paid to either (i) to the Trustee for deposit into the Bond Payment Fund created for such purpose, moneys which, together with other moneys then on deposit in the Bond Payment Fund that are not required to pay Bond Payments due in such State Fiscal Year on Bonds that are not being redeemed, are sufficient to pay the Redemption Price of the Bonds to be redeemed on the date fixed for redemption or (ii) to an escrow agent for deposit into an escrow fund (including a Defeasance Escrow Account) created for such purpose, moneys which are sufficient, together with other moneys then available, are sufficient to pay the Redemption Price of the Bonds to be redeemed on the date fixed for redemption. The Issuer may make such payment from any legally available moneys. The Trustee shall use the moneys paid to it for such purpose and such other available moneys in the Bond Payment Fund to pay the Redemption Price due on the Bonds to be redeemed on the date fixed for redemption. Upon the giving of notice and the deposit of such funds as may be available for redemption pursuant to the Master Indenture or an escrow deposit agreement, interest and Accreted Value on the Bonds or portions thereof thus called for redemption shall no longer accrue or accrete after the date fixed for redemption.

(b) The Trustee shall pay to the Owners of Bonds so redeemed, the amounts due on their respective Bonds, at the Operations Center of the Trustee upon presentation and surrender of the Bonds.

Bond Payment Fund (Section 5.01)

(a) ***Creation of Bond Payment Fund***. A special fund is created with the Trustee to be designated the Rhode Island Economic Development Corporation Revenue Bonds Historic Structures Tax Credit Financing Program Bond Payment Fund (the "Bond Payment Fund"), which shall be used to pay the Bond Payments on and Redemption Price of the Bonds. The Trustee shall create and maintain separate accounts identified by the appropriate Series designation within the Bond Payment Fund to account for the receipt of moneys to pay, and the payment of, the Bond Payments on and Redemption Price of each Series of Bonds, but such separate accounts shall not affect the rights of the Owners of the Bonds with respect to moneys in the Bond Payment Fund.

(b) ***Deposits into Bond Payment Fund***. There shall be deposited into the Bond Payment Fund (i) all accrued interest received at the time of the issuance of any Bonds; (ii) any capitalized interest from the proceeds of a Series of Bonds unless deposited in the Project Fund pursuant to a Supplemental Indenture; (iii) amounts paid to the Trustee pursuant to the Master Indenture from Pledged Revenues to the extent needed to pay the Current Payments; (iv) any moneys paid by the Issuer with respect to the Redemption Price of Bonds pursuant to the Master Indenture, (v) any moneys transferred to the Bond Payment Fund from the Debt Service Reserve Fund, or the Project Fund pursuant to, respectively, the Master Indenture; (vi) moneys deposited into the Bond Payment Fund pursuant to the Master Indenture following an Event of Default; (vii) moneys deposited into the Bond Payment Fund pursuant to the Master Indenture; and (viii) all other moneys received by the Trustee accompanied by directions that such moneys are to be deposited into the Bond Payment Fund.

(c) ***Use of Moneys in Bond Payment Fund***. Moneys in the Bond Payment Fund shall be used, as further provided in the Master Indenture, solely for the payment of the Bond Payments on and Redemption Price of the Bonds and, solely to the extent such payments have been determined to be on a parity with Bond Payments in accordance with the Master Indenture, to make payments to the providers of Credit Facilities and Interest Rate Exchange Agreements; provided that (i) moneys representing accrued interest received at the time of the issuance of any Series of Bonds shall be used to pay the first interest payment due on such Bonds; (ii) moneys paid by the Issuer with respect to the Redemption Price of Bonds pursuant to the Master Indenture shall be used to pay the Redemption Price of the Bonds to be redeemed; and (iii) moneys held in the Bond Payment Fund following an Event of Default shall be used as provided in the Master Indenture.

Project Fund (Section 5.02)

(a) ***Creation of Project Fund***. A special fund is created with the Trustee to be designated the Rhode Island Economic Development Corporation Revenue Bonds Historic Structures Tax Credit Financing Program Project Fund (the "Project Fund"). The Trustee shall create and maintain separate accounts identified by the appropriate Series designation within the Project Fund to account for the receipt and disbursement of proceeds of each Series of Bonds and shall create and maintain a separate account identified as the Earnings Account (the "Earnings Account').

(b) ***Deposits into Project Fund***. There shall be deposited into the appropriate account of the Project Fund, proceeds of each Series of Bonds as provided in the applicable Supplemental Indenture.

(c) ***Use of Moneys in Project Fund.*** Upon the written direction of an Authorized Issuer Representative and a State Representative, any amounts on deposit in the Project Fund shall be transferred to or upon the order of the Issuer for the payment of, or reimbursement for, costs of issuance relating to any Bonds. So long as no Event of Default consisting of a payment default then exists, moneys held in the Project Fund (including the Earnings Account) shall be disbursed to the State (or the payee indicated by the State to pay Project Costs, or reimburse such costs, upon receipt of a requisition signed by a State Representative and an Authorized Issuer Representative in substantially the form attached to the Master Indenture as Appendix A. Moneys held in the Project Fund following such an Event of Default consisting of a payment default shall be transferred to the Bond Payment Fund in accordance with the Master Indenture. In the event of a transfer pursuant to the preceding sentence followed by the availability of sufficient amounts from Pledged Revenues or other sources in excess of any amount necessary to make any Bond Payments then due, such excess amount up to the amount transferred from the Project Fund to the Bond Payment Fund shall be transferred to the Project Fund upon the direction of the Director of Administration. Upon written direction from the Director of Revenue indicating no additional Project Costs are expected to be incurred, the Trustee shall close out the Project Fund and transfer all moneys held in the Project Fund to the Bond Payment Fund.

Debt Service Reserve Fund (Section 5.03)

(a) ***Creation of Debt Service Reserve Fund***. A special fund is created with the Trustee to be designated the Rhode Island Economic Development Corporation Revenue Bonds Historic Structures Tax Credit Financing Program Debt Service Reserve Fund (the "Debt Service Reserve Fund"), which if necessary shall be transferred to the Bond Payments Fund to pay the Bond Payments on and Redemption Price of a Series of Bonds secured by the Debt Service Reserve Fund. The Trustee shall create and maintain separate accounts identified by the appropriate Series designation within the Debt Service Reserve Fund to account for the receipt of moneys from different Series of Bonds, but such separate accounts shall not affect the rights of the Owners of a Series of Bonds secured by the Debt Service Reserve Fund with respect to moneys in the Debt Service Reserve Fund. To the extent provided in the related Supplemental Indenture, the Trustee shall establish a separate account and related subaccounts in the Debt Service Reserve Fund or a separate debt service reserve fund or establish that there shall be no debt service reserve fund securing such Series of Bonds pursuant to a Supplemental Indenture in connection with the authorization and issuance of any one or more Series of Bonds; provided, however, that any such accounts and subaccounts or other debt service reserve fund shall not secure Bonds other than the Bonds and any related payments to the providers of Credit Facilities for which it is established and any such Bonds shall not be secured by the other accounts or subaccounts in the Debt Service Reserve Fund or, as applicable, by the Debt Service Reserve Fund. No payments in connection with an Interest Rate Exchange Agreement may be secured by or payable from any such account or subaccount in the Debt Service Reserve Fund.

(b) ***Deposits into Debt Service Reserve Fund***. The Issuer covenants that (i) upon the issuance of any Bonds under the Master Indenture, subject to the provisions of the Master Indenture, to deposit in the Debt Service Reserve Fund the amount, if any, required to make the amount on deposit equal to the Debt Service Reserve Fund Requirement and (ii) from time to time, subject to the provisions of the Master Indenture, to deposit in the Debt Service Reserve Fund the amount, if any, transferred for such purpose pursuant to the Master Indenture.

(c) ***Withdrawals from Debt Service Reserve Fund***. If on the Business Day preceding any Bond Payment Date, the amounts on deposit in the Bond Payment Fund are not sufficient to make all such payments due on such date with respect to Bonds secured thereby, the Trustee shall immediately transfer the amount necessary from any account or accounts securing such Bonds to the Bond Payment Fund to the extent amounts on deposit in the Debt Service Reserve Fund are available. If, after applying all amounts on deposit in the related accounts and subaccounts of the Debt Service Reserve Fund, there are insufficient amounts to pay the Bond Payments due on such date, the Trustee shall immediately notify the Issuer of such fact and of the amount so applied and the amount of the deficiency. If after making all Bond Payments due on a Bond Payment Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Fund Requirement (such excess being determined (i) after giving effect to any Reserve Fund Credit Facility deposited in such Fund and (ii) assuming the Debt Service Reserve Fund Requirement is adjusted to give effect to any interest payments made and to the payment (or deemed payment in accordance with the Master Indenture) of any Bonds), such excess shall be withdrawn from the Debt Service Reserve Fund at the Issuer's written direction and deposited in the Bond Payment Fund, or may, in the discretion of the Issuer, be withdrawn from the Debt Service Reserve Fund and deposited into the Rebate Fund or the Project Fund (if such excess originally constituted Bond proceeds) or the Earnings Account (if such excess constitutes investment earnings or Pledged Revenues).

(d) ***Reserve Fund Credit Facility***. In lieu of the required transfers or deposits of money to the Debt Service Reserve Fund, or as a replacement or substitution for any moneys or Permitted Investments then on deposit in the Debt Service Reserve Fund, the Issuer may at any time cause to be deposited into the Debt Service Reserve Fund a Reserve Fund Credit Facility for the benefit of the holders of the specified Bonds and payments to the providers of Credit Facilities. If a disbursement is made pursuant to a Reserve Fund Credit Facility provided pursuant to the Master Indenture, the Issuer shall be obligated, but only from the sources of payment specified in the Master Indenture, either (i) to promptly reinstate the maximum limits of such Reserve Fund Credit Facility or (ii) to deposit into the Debt Service Reserve Fund at the times provided in the Master Indenture, funds in the amount of the disbursement made under such Reserve Fund Credit Facility, or (iii) to promptly deposit into the Debt Service Reserve Fund a different Reserve Fund Credit Facility having a maximum limit equal to the amount of the disbursement made under the existing Reserve Fund Credit Facility, or (iv) to utilize any combination of the alternatives set forth in clauses (i), (ii) or (iii) above as shall provide that the amount in the Debt Service Reserve Fund equals the Debt Service Reserve Fund Requirement. Subject to the maintenance of the Debt Service Reserve Fund Requirement, moneys and Permitted Investments on deposit in the Debt Service Reserve Fund may, if required by the terms of any Reserve Fund Credit Facility, be utilized by the Issuer to repay any drawings on such Reserve Fund Credit Facility, but only if such repayment will result in a reinstatement of the amount available to be drawn under such Reserve Fund Credit Facility in an amount at least equal to the amount of such repayment.

(e) ***Refundings***. In the event of the refunding of any Bonds, the Issuer may withdraw from the Debt Service Reserve Fund all or any portion of the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with the Trustee to be held for the payment of the principal or Redemption Price, if applicable, of and interest on the Bonds being refunded or apply such amounts to pay the costs of issuance of the Refunding Bonds, or, if not so applied, such amounts shall be applied in the same manner as provided for excess amounts in the Debt Service Reserve Fund in accordance with this heading; *provided, however, that* such withdrawal shall not be made unless (i) upon such refunding, the Bonds being refunded shall be deemed to have been paid within the meaning and with the effect provided in the Master indenture, (ii) the amount remaining in the Debt Service Reserve Fund, after giving effect to any Reserve Fund Credit Facility deposited in such fund, shall not be less than the Debt Service Reserve Fund Requirement, and (iii) at the time of such withdrawal, there shall exist no deficiency in any fund or account pledged to the payment of Bonds established under the Indenture.

Rebate Fund (Section 5.04)

(a) ***Creation of Rebate Fund***. Pursuant to the Master Indenture, a special fund is created with the Trustee to be designated Rhode Island Economic Development Corporation Revenue Bonds Historic Structures Tax Credit Financing Program Rebate Fund (the "Rebate Fund"). The Trustee shall create and maintain separate accounts identified by the appropriate Series designation within the Rebate Fund to account for rebate payments due on each Series of Bonds. The Rebate Fund shall be applicable only to those Series of Bonds on which the Issuer intends the interest to be excluded from gross income for federal income tax purpose, and to the extent so provided in a Supplemental Indenture.

(b) ***Deposits into Rebate Fund***. There shall be deposited into the appropriate account of the Rebate Fund moneys paid to the Trustee pursuant to the Master Indenture.

(c) ***Use of Moneys in Rebate Fund***. The Trustee at the direction of and on behalf of an Authorized Issuer Representative shall use moneys in the Rebate Fund to make rebate payments to the United States in accordance with the Tax Certificates. If the amount on deposit in the Rebate Fund at any time is greater than the amount required under the Tax Certificates, the excess shall be transferred to the Bond Payment Fund, or the Project Fund as directed by an Authorized Issuer Representative, unless an Event of Default has occurred and is continuing, in which case the excess shall be transferred to the Bond Payment Fund.

(d) ***Administration of Rebate Fund***. The Trustee at the direction of an Authorized Issuer Representative shall invest the Rebate Fund in accordance with such direction, which shall be given in accordance with the Tax Certificates, and shall deposit earnings from the investment of moneys in the Rebate Fund into the Rebate Fund immediately upon receipt thereof. Records with respect to the deposits to, payments from and administration of the Rebate Fund shall be retained by the Issuer and the Trustee until six State Fiscal Years after the final retirement of the Bonds.

Moneys to be Held in Trust (Section 5.05)

The Project Fund, the Bond Payment Fund, the Debt Service Reserve Fund and, except for the Rebate Fund, any other fund or account created under the Master Indenture that is not expressly excluded from the Trust Estate shall be held by the Trustee, for the benefit of the Owners as specified in the Master Indenture, subject to the terms of the Master Indenture and any Supplemental Indenture. The Project Fund shall be held for the purposes specified therefor, including payments, if any, to the Bond Payment Fund, and the Rebate Fund shall be held by the Trustee for the purpose of making payments to the United States pursuant to the Master Indenture. Any Defeasance Escrow Account shall be held for the benefit of the Owners of the Bonds to be paid therefrom as provided in the agreement governing such Defeasance Escrow Account.

Investment of Moneys (Section 5.06)

(a) The State, the Issuer and the Trustee agree that all moneys held as part of any fund or account created under the Master Indenture shall be deposited or invested and reinvested by the Trustee in any Permitted Investments, at the written direction of an Authorized Issuer Representative who shall consult with the Director of Administration with respect to such Permitted Investments. The Authorized Issuer Representative's direction shall be deemed a representation that such investment is permitted by applicable law.

(b) Earnings and losses from the investment of moneys held in the Project Fund or any account thereof shall be deposited into or charged against the Project Fund, with any earnings being deposited into the Earnings Account thereof unless, and except to the extent, an Authorized Issuer Representative directs the Trustee to deposit any such earnings into the Bond Payment Fund.

(c) Earnings and losses from the investment of moneys held in the Bond Payment Fund or any account thereof shall, except as otherwise provided by Supplemental Indenture, be deposited into or charged against the fund or account in which realized.

(d) Earnings and losses from the investment of moneys held in the Debt Service Reserve Fund or any account thereof shall, except as otherwise provided by

Supplemental Indenture and unless and except to the extent an Authorized Issuer Representative directs the Trustee to deposit any such earnings into the Bond Payment Fund, be deposited into or charged against the fund or account in which realized.

(e) Earnings and losses from the investment of moneys held in the Rebate Fund or any account thereof shall, except as otherwise provided in the Tax Certificates, be deposited into or shall be charged against the account in which realized.

(f) Earnings and losses from the investment of moneys held in any Defeasance Escrow Account shall be deposited or charged as provided in the escrow agreement governing such Defeasance Escrow Account.

(g) The Trustee shall, when and as directed by an Authorized Issuer Representative, sell and reduce to cash a sufficient amount of the investments held in any fund or account whenever the cash balance therein is insufficient to make any payment to be made therefrom.

(h) In computing the amount in any fund or account for any purpose under the Master Indenture, investments shall be valued at cost (exclusive of accrued interest) or par, whichever is less.

(i) The Trustee shall provide the Issuer with periodic statements that include the investment activity undertaken pursuant to the Master Indenture. As long as the Trustee provides such statements, it shall not be required to provide the Issuer with brokerage confirmations.

Application of Pledged Revenues (Section 5.07)

The assignment and pledge of Pledged Revenues to the Trustee for the benefit of the Owners of the Bonds under the Master Indenture is intended to and shall constitute a first lien on such Pledged Revenues received by the Issuer or the Trustee. All Pledged Revenues received by the Issuer or the Trustee shall constitute Pledged Revenues which shall be subject to the assignment and lien under the Master Indenture upon receipt under the Master Indenture by Issuer or the Trustee, as applicable.

Amounts received by the Issuer or the Trustee pursuant to the Master Indenture shall be deposited and used only in the manner and order of priority specified below.

(a) Deposits shall be made into the Bond Payment Fund, as set forth in the Master Indenture in an amount sufficient to pay the Current Payments. Amounts on deposit in an account of the Bond Payment Fund shall be used only to pay Bond Payments on and Redemption Price of the Bonds and for the purposes permitted by the Master Indenture. Moneys on deposit in the Bond Payment Fund shall be used to make the following payments or for the following purposes:

(i) Interest Component. To pay the next maturing interest payment on the Bonds;

(ii) Principal Payments. To pay the next maturing principal payment on the Bonds, including amounts due pursuant to mandatory sinking fund redemption; and

(iii) Redemption Price. To pay the Redemption Price of the Bonds next coming due pursuant to optional redemption prior to maturity.

(b) Pledged Revenues shall be deposited in the Debt Service Reserve Fund, as necessary to make the amount on deposit therein (after giving effect to any Reserve Fund Credit Facility deposited therein pursuant to the Master Indenture at least equal to the Debt Service Reserve Fund Requirement.

(c) Pledged Revenues shall be deposited, as necessary, in the Rebate Fund as required by the Master Indenture.

Representations, Covenants and Warranties (Sections 6.01 through 6.10)

The Issuer and the State represent, covenant and warrant in the Master Indenture that:

(a) The execution, delivery and performance of the Master Indenture by the Issuer, and the agreement with, acknowledgment and approval thereof and consent thereto by the State are authorized by the Act and, upon the execution and delivery of the Master Indenture by the Trustee and an Authorized Issuer Representative, and the agreement with, acknowledgment and approval thereof and consent thereto by the State the Master Indenture will be enforceable against the Issuer and, to the extent applicable, the State in accordance with its terms, limited only by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, by equitable principles, whether considered at law or in equity, by the exercise by the State and its governmental bodies of the police power inherent in the sovereignty of the State and by the exercise by the United States of the powers delegated to it by the Constitution of the United States.

(b) The Governor is authorized by the Program Act to direct, but subject to annual appropriation by the State, the transfer of appropriated moneys to the Trustee, and pursuant to the Payment Agreement the Governor, but subject to annual appropriation by the State, has lawfully and irrevocably directed such transfers to be made directly from appropriated moneys to the Trustee for so long as Bonds remain Outstanding.

(c) The execution, delivery and performance of their respective obligations under the Master Indenture by the Issuer and the State as applicable, do not and will not conflict with or result in violation or a breach of any law or the terms, conditions or provisions of any restriction or any agreement or instrument to which the Issuer or the State are now a party or by which the Issuer or the State are bound, or constitute a default under any of the foregoing, or, except as specifically provided in the Master Indenture, result in the creation or imposition of any lien or encumbrance whatsoever upon any of the property or assets of either the Issuer or the State.

(d) The amount of funds borrowed pursuant to each Supplemental Indenture will not exceed the sum of the Project Costs expected to be financed, including an amount necessary to pay any applicable Program Costs.

(e) The execution and delivery of the Master Indenture, the fulfillment of or compliance with the terms and conditions in the Master Indenture and the consummation of the transactions contemplated in the Master Indenture do not conflict with or result in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Issuer is a party or by which the Issuer is bound or any laws, ordinances, governmental rules or regulations or court or other governmental orders to which the Issuer or its properties are subject or constitute a default under any of the foregoing.

(f) So long as Bonds are Outstanding, the pledge by the Issuer of the Pledged Revenues for the payment of Bond Payments shall be irrevocable until all Bond Payments have been paid in full.

(g) The State covenants that so long as Bonds remain Outstanding it will take no action that would cause the Pledged Revenues to be paid other than in accordance with the Master Indenture.

(h) The payment of Bond Payments to the Trustee for the payment of the Bonds from Pledged Revenues, subject to annual appropriation by the State, is unconditional and neither the Issuer nor the State is entitled to offset any such payment for any reason.

(i) The State covenants that it shall submit requisitions in substantially the form of Appendix A to the Master Indenture, that such requisitions shall be true, correct and complete in all material respects, and that the State shall not submit any requisition or otherwise apply proceeds of Bonds in a manner that would cause any limitation contained in the Program Act to be exceeded.

Payment of Bond Payments and Program Costs.

(a) The Issuer covenants to pay, when due, solely from Pledged Revenues or other funds available in the Trust Estate, the Bond Payments. Nothing in the Master Indenture shall be construed as obligating the Issuer or the State to pay Bond Payments from any general or other funds of the Issuer, or the State other than Pledged Revenues. Nothing contained in the Master Indenture, however, shall be construed as prohibiting the Issuer in its sole and absolute discretion, from making such payments from any other sources, to the extent legally available for that purpose.

(b) The Issuer shall promptly pay, when due, any Program Costs not otherwise paid. Any Program Costs payable to the Trustee and the Paying Agent shall be paid by the Issuer to the Trustee on or prior to the due dates thereof. Program Costs are payable solely from Pledged Revenues or the proceeds of Bonds. Nothing in the Master Indenture shall be construed as obligating the Issuer or the State to pay Program Costs from any general or other fund of the Issuer or the State other than Pledged Revenues. Nothing contained in the Master Indenture, however, shall be construed as prohibiting the Issuer or the State in its sole and absolute discretion, from making such payments from other sources, to the extent legally available for that purpose.

(c) If and to the extent the entire amount of the Bonds Payments due on a Bond Payment Date is not on deposit in the Bond Payment Fund on the fifth Business

Day preceding such Bond Payment Date, the Trustee shall immediately notify the Issuer and the State by telephone confirmed by telecopier, of the amount of any deficiency.

Payment of Pledged Revenues to Trustee.

(a) The Trustee shall deposit the Pledged Revenues and other revenues received by the Trustee as set forth in the Master Indenture.

(b) The Issuer and the State shall (i) comply with their respective obligations under the Payment Agreement, and shall use their best efforts to cause each other party to the Payment Agreement to comply with their respective obligations thereunder, but only to the extent any failure to comply would be materially adverse to the pledge of Pledged Revenues or the amount of Pledged Revenues payable to the Trustee, including such actions as are necessary to cause Pledged Revenues to be appropriated for such purposes by the State; (ii) use their best efforts to take all actions reasonably necessary in their respective judgment to protect their respective rights under the Payment Agreement; and (iii) not consent to or participate in any amendment, alteration, modification or other change with respect to the Payment Agreement, but only to the extent that any such amendment, alteration, modification or other change, as of the date thereof, would be expected by the respective party to materially and adversely impair the pledge of the Pledged Revenues or the amount of Pledged Revenues payable to the Trustee or the security provided for the Bonds under the Master Indenture; provided, however, that any amendment, alteration, modification or other change with respect to the Payment Agreement may be made with the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, obtained in accordance with the Master Indenture; provided further that in no event shall a change to the Payment Agreement (i) to provide for the payment of additional Bonds or other obligations of the Issuer issued in accordance with the Master Indenture or (ii) to conform to provisions of State law respecting the process for appropriateness or the organization of the government of the State, in either case, be deemed to be materially adverse.

Rebate Payments by the Issuer.

The Issuer shall pay to the Trustee, to the extent permitted by law, from moneys included in the Trust Estate or from moneys requisitioned from the Project Fund pursuant to the Master Indenture, or from Pledged Revenues pursuant to the Master Indenture or from any other fund or account under the Master Indenture, at the times and in the amounts required to make rebate payments due to the United States in accordance with the Master Indenture and the Tax Certificates.

Other Payments by the State.

Nothing in the Master Indenture shall be interpreted to restrict the State's or the Issuer's right, as the case may be, to the extent permitted by law, (a) to make any payment due to the Trustee under the Master Indenture or any provision of any Supplemental Indenture from any Pledged Revenues or any other available moneys, and (b) to reimburse the State or the Issuer or the fund from which such payment is made from moneys that otherwise would have been used to make such payment.

Credit Facilities and Interest Rate Exchange Agreements.

Notwithstanding any other provision of the Master Indenture:

(a) The Issuer may purchase or arrange for a Credit Facility with respect to any Bonds and may agree to reimburse the provider of such Credit Facility for moneys paid by the provider that are used to make Bond Payments on such Bonds, which reimbursement may be made from any moneys in the Trust Estate that are available for the payment of Bond Payments on such Bonds on a parity with or on a basis subordinate to the payment of such Bond Payments.

(b) To the extent permitted by law, the Issuer may purchase or arrange for an Interest Rate Exchange Agreement with respect to any Bonds and may agree to make payments to the provider of such Interest Rate Exchange Agreement, which may be made from any moneys in the Trust Estate that are available for payment of Bond Payments on such Bonds on a parity with or on a basis subordinate to the payment of such Bond Payments.

(c) All or any portion of the agreement between the Issuer and the provider of any Credit Facility or Interest Rate Exchange Agreement, or provisions to put into effect such an arrangement, may be included in any Supplemental Indenture or in a separate agreement between or among the Issuer, the Credit Facility or Interest Rate Exchange Agreement provider and/or the Trustee, and the Trustee is directed to agree to the provisions regarding such Credit Facility or Interest Rate Exchange Agreement contained in any Supplemental Indenture or separate agreement agreed to by the Issuer and the Credit Facility or Interest Rate Exchange Agreement provider that do not adversely affect the Trustee's rights or indemnities.

Tax Covenant.

Neither the Issuer nor the State shall take any action or omit to take any action with respect to the Bonds, the proceeds of the Bonds, the Trust Estate, or any other funds or property of the Issuer or the State and, to the extent within its reasonable control, it will not permit any other Person to take any action or omit to take any action with respect to the Bonds, the Trust Estate, or any other funds or property of the Issuer or the State if such action or omission would cause interest on any of the Bonds to be included in gross income for federal income tax purposes or to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (except, with respect to corporations, as such interest is required to be taken into account in determining "adjusted net book earnings" for the purpose of computing the alternative minimum tax imposed on such corporations). In furtherance of this covenant, each of the Issuer and the State agree to comply with the procedures set forth in the Tax Certificates for each Series of Bonds. The covenants set forth in this heading shall remain in full force and effect notwithstanding the payment in full or defeasance of the Bonds until the date on which all of Issuer or the State obligations in fulfilling such covenants have been met. The covenants set forth in this heading shall not, however, apply to any Series of Bonds if, at the time of issuance, the Issuer intends the interest on such Series of Bonds to be subject to federal income tax or to the federal alternative minimum tax.

Defense of Trust Estate.

The Issuer and the State shall at all times, to the extent permitted by law, defend, preserve and protect title to the Trust Estate, the grant of the Trust Estate to the Trustee under the Master Indenture and all the rights of the Owners under the Master Indenture against all claims and demands of all Persons whomsoever.

Agreement of the State.

In accordance with Section 42-64-22 of the Issuer Act, the Issuer does include the pledge and agreement of the State with the Owners of the Bonds that the State will not limit or alter the rights vested in the Issuer by the Issuer Act to fulfill the terms of any agreement made with such Owners until such agreements and Bonds with such Owners, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses for which the Issuer is liable in connection with any action or proceeding by or on behalf of such Owners, are fully met and discharged.

Events of Default (Section 7.01)

Any of the following shall constitute an "Event of Default" under the Master Indenture:

(a) Default in the payment of any portion of the Bond Payments on, or Redemption Price of, any Bond when due.

(b) Failure by the Issuer or the State to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Master Indenture, other than as referred to in paragraph (a), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied is given to the Issuer or the State by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can be wholly cured within a period of time not materially detrimental to the rights of the Owners of Bonds but cannot be cured within the applicable 60 day period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Issuer or the State within the applicable period and diligently pursued until the failure is corrected; and provided, further, that if by reason of force majeure the Issuer or the State is unable to carry out the agreements on its part contained in the Master Indenture, the Issuer or the State shall not be deemed in default under this paragraph (b) during the continuance of such inability (but force majeure shall not excuse any other Event of Default).

Remedies (Sections 7.02 through 7.10)

(a) Upon the occurrence of any Event of Default constituting of payment default, (i) the Trustee shall, notwithstanding any other provision of the Master Indenture, transfer all or any moneys held in the Project Fund to the Bond Payment Fund, and (ii) any Owner of a Bond on which payment has not been paid when due shall have the right to institute any action permitted under State law to enforce such payment as provided in the Master Indenture, as supplemented.

(b) Upon the occurrence of any Event of Default, the Trustee may by mandamus or other action or proceeding or suit at law or in equity to enforce any rights under the Master Indenture against the Issuer or the State and compel the Issuer or the State or any other party to the Payment Agreement to perform or carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Master Indenture or in the Payment Agreement.

(c) Upon the occurrence of any Event of Default, the Trustee may take whatever action at law or in equity as may appear necessary or desirable to enforce the rights of the Owners and shall deposit any moneys received as a result of such action in the Bond Payment Fund.

(d) No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy shall be cumulative and in addition to any other remedy given under the Master Indenture or now or hereafter existing at law or in equity or by statute; provided, however, that neither the Trustee nor any Owners of Bonds shall have the right to declare all Bond Payments to be immediately due and payable.

(e) A judgment requiring a payment of money entered against the Issuer or the State in connection with the Bonds and other obligations under the Master Indenture may be satisfied only from the Trust Estate.

Use of Moneys Received from Exercise of Remedies.

Moneys received by the Trustee resulting from the exercise of remedies following an Event of Default shall be deposited in the Bond Payment Fund and shall, together with other moneys in the Bond Payment Fund and other moneys available for such purpose, be applied in the following order of priority:

(a) *First*, to the payment of the reasonable and proper fees and expenses of the Trustee determined in accordance with the Master Indenture.

(b) *Second*, to the payment of interest due on the Bonds, including interest on past due interest on any Bond at the interest rate borne by such Bond, compounded on each Interest Payment Date. If more than one installment of interest is due on the Bonds, such installments shall be paid in the order in which they were due, with the first installment being paid first. If the amount available is insufficient to pay all of any particular installment of interest due on the Bonds (including interest on the past due interest), the amount available shall be paid ratably, based on the ratio of the amount due on each such Bond to the amount due on all such Bonds. For purposes of this heading, the difference between the Original Principal Amount and the Accreted Value of a Capital Appreciation Bond shall be treated as interest, the Accretion Date for a Capital Appreciation Bond shall be treated as an Interest Payment Date and the interest rate determined by straight line interpolation between Accretion Dates shall be treated as the interest rate on a Capital Appreciation Bond.

(c) *Third*, to the payment of principal due on the Bonds. If principal is due that was to have been paid on more than one date, the amount due on the earliest dates shall be paid first. If the amount available is insufficient to pay all the principal due on any particular date, the amount available shall be paid ratably, based on the ratio of the amount due on each such Bond to the amount due on all such Bonds. For purposes of this heading, the Original Principal Amount of a Capital Appreciation Bond shall be treated as principal.

Owners of Majority in Aggregate Principal Amount of Bonds May Control Proceedings.

Notwithstanding any other provision of the Master Indenture the Owners of a majority of in aggregate principal amount of Bonds shall always have the right, at any time, to the extent permitted by law, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in pursuit of remedies following an Event of Default or otherwise in connection with the enforcement of the terms of the Master Indenture.

Limitations on Rights of Owners Acting Individually.

No Owner shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any remedy under the Master Indenture or for the enforcement of the terms of the Master Indenture, unless an Event of Default under the Master Indenture has occurred and the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding have made a written request to the Trustee, have offered the Trustee indemnity satisfactory to it against its costs, expenses and liabilities reasonably anticipated to be incurred, and have given the Trustee a reasonable opportunity, to take such action in its capacity as Trustee. The purpose of the preceding sentence is to assure that no Owner or Owners shall have the right to affect, disturb or prejudice the lien of the Master Indenture by his, her, its or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture and that all proceedings at law or in equity shall be instituted and maintained in the manner provided in the Master Indenture and for the equal benefit of the Owners of all Outstanding Bonds. Nothing contained in the Master Indenture shall, however, affect or impair the right of any Owner to enforce the payment of the Bond Payments on or Redemption Price of any Bond at and after the date such payment is due.

Trustee May Enforce Rights Without Bonds.

All rights of action and claims under the Master Indenture or any of the Outstanding Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or proceedings relative thereto; any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee, without the necessity of joining as plaintiffs or defendants, any Owners; and any recovery of judgment shall be for the ratable benefit of the Owners, subject to the provisions of the Master Indenture.

Trustee to File Proofs of Claim in Receivership, Etc.

In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings affecting the Trust Estate, the Trustee shall, to the extent permitted by law, be entitled to file such proofs of claim and other documents as may be necessary or advisable in order to have claims of the Trustee and of the Owners allowed in such proceedings for the entire amount due on the Bonds under the Master Indenture, at the date of the institution of such proceedings and for any additional amounts which may become due by it after such date, without prejudice, however, to the right of any Owner to file a claim in its own behalf.

Delay or Omission No Waiver.

No delay or omission of the Trustee or of any Owner to exercise any remedy, right or power accruing upon any Event of Default or otherwise shall exhaust or impair any such remedy, right or power or be construed to be a waiver of any such Event of Default, or acquiescence therein; and every remedy, right and power given by the Master Indenture may be exercised from time to time and as often as may be deemed expedient.

Discontinuance of Proceedings on Event of Default; Position of Parties Restored.

In case the Trustee or any Owner shall have proceeded to enforce any right under the Master Indenture and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or such Owner, then and in every such case the Issuer, the Trustee and the Owners shall be restored to their former positions and rights, and all rights, remedies and powers of the Trustee and the Owner shall continue as if no such proceedings had been taken.

Waivers of Events of Default.

The Trustee may in its discretion waive any Event of Default and its consequences under the Master Indenture, and notwithstanding anything else to the contrary contained in the Master Indenture shall do so upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that there shall not be waived without the consent of the Owners of 100% of the Bonds any Event of Default in the payment of the Bond Payments and Redemption Price when due, unless, prior to such waiver, all such amounts (with interest on amounts past due on any Bond at the interest rate on such Bond or, in the case of a Capital Appreciation Bond, the interest rate determined by straight line interpolation between Accretion Dates) and all fees and expenses of the Trustee in connection with such Event of Default have been paid or provided for. In case of any such waiver, then and in every such case the Issuer, the Trustee and the Owners shall be restored to their former positions and rights under the Master Indenture, but no such waiver shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Duties of the Trustee (Section 8.02)

The Trustee accepts the trusts imposed upon it by the Master Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture. In case an Event of Default has occurred (which has not been cured or waived), the Trustee shall exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise as a reasonable and prudent man would exercise or use under the circumstances in the conduct of the affairs of another.

(b) The Trustee may execute any of the trusts or powers and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to rely and act upon a written opinion of Bond Counsel concerning all matters of trust and the duties under the Master Indenture, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts under the Master Indenture.

(c) The Trustee shall not be responsible for any recital in the Master Indenture or in the Bonds, for the validity of the execution by the Issuer of the Master Indenture, any Supplemental Indenture or any instruments of further assurance, for the sufficiency of the security for the Bonds issued under the Master Indenture or intended to be secured by the Master Trustee, or for the value of the Trust Estate. The Trustee shall have no obligation to perform any of the duties of the Issuer or the State under the Master Indenture; and the Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it pursuant to instructions from an Authorized Issuer Representative in accordance with the Master Indenture.

(d) The Trustee shall not be accountable for the use of any Bonds delivered to the Original Purchaser pursuant to the Master Indenture or any Supplemental Indenture or for the use of Bond proceeds disbursed by it in accordance with the Master Indenture and any Supplemental Indenture. The Trustee may become the Owner of Bonds with the same rights which it would have if not Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee pursuant to the Master Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the Owner of any Bond shall be conclusive and binding upon any Bonds issued in place thereof.

(f) As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the Issuer by an Authorized Issuer Representative or such other Person as may be designated for such purpose by the Issuer, as sufficient evidence of the facts therein contained.

(g) The permissive right of the Trustee to do things enumerated in the Master Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence or willful misconduct, including without limitation a breach of fiduciary duty.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under the Master Indenture except failure to pay Bond Payments or failure by the Issuer to make or cause to be made any of the payments to the Trustee required to be made pursuant to the Master Indenture, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or by the Owner of a Bond.

(i) All moneys received by the Trustee shall, until used or applied or invested as provided in the Master Indenture, be held in trust in the manner and for the purposes for which they were received and shall be segregated from all other funds held by the Trustee.

(j) The Trustee shall not be responsible for any offering document relating to the Bonds.

Resignation, Removal or Replacement of Trustee (Section 8.04)

(a) The present or any future Trustee may resign by giving written notice to the Issuer and the State not less than 60 days before such resignation is to take effect. Such resignation shall take effect only upon the appointment of a successor qualified as provided in the Master Indenture. If no successor is appointed within 60 days following the date designated in the notice for the Trustee's resignation to take effect, the resigning Trustee may petition a court of competent jurisdiction at the Issuer's expense for the appointment of a successor. The present or any future Trustee may be removed at any time (i) by the Issuer, provided that the Trustee may not be removed during the pendency of an Event of Default without the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; or (ii) by an instrument in writing executed by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, for any reason or for no reason.

(b) In case the present or any future Trustee shall at any time resign or be removed or otherwise become incapable of acting, a successor may be appointed by the Issuer. Upon making any such appointment, the Issuer shall forthwith give notice thereof to each Owner and the State, which notice may be given concurrently with the notice of resignation given by any resigning Trustee and shall include a description of the right of the Owners to object to the appointment. Any successor Trustee appointed by the Issuer pursuant to the Master Indenture shall be removed by the Issuer if the Owners of a majority in aggregate principal amount of the Bonds then Outstanding object to the appointment by an instrument or concurrent instruments signed by such Owners, or their duly appointed attorneys-in-fact, delivered to the Issuer within 60 days following the date of the Issuer's notice of the appointment of such successor. If the Owners of a majority in aggregate principal amount of the Bonds then Outstanding object to the appointment of a successor Trustee pursuant to the Master Indenture, the Issuer shall appoint another successor Trustee and the Owners shall have the same right to object to the new successor Trustee.

(c) Every successor Trustee shall be a bank or trust company in good standing, duly authorized to exercise trust powers and subject to examination by federal or state authority, qualified to act under the Master Indenture, having a capital and surplus of not less than $50,000,000. Any successor Trustee appointed under the Master Indenture shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment under the Master Indenture, and thereupon such successor shall, without any further act, deed or conveyance, become vested with all the estates, properties, rights, powers and trusts of its predecessor in the trust under the Master Indenture with like effect as if originally named as Trustee under the Master Indenture; but the Trustee retiring shall, nevertheless, on the written demand of its successor, execute and deliver an instrument conveying and transferring to such successor, upon the trusts expressed in the Master Indenture, all the estates, properties, rights, powers and trusts of the predecessor, which shall duly assign, transfer and deliver to the successor all properties and moneys held by it under the Master Indenture. Should any instrument in writing from the Issuer be required by any successor for more fully and certainly vesting in and confirming to it, such instrument in writing shall, at the reasonable discretion of the Issuer, be made, executed, acknowledged and delivered by an Authorized Issuer Representative upon request of such successor.

Conversion, Consolidation or Merger of Trustee (Section 8.05)

Any bank or trust company into which the Trustee or its successor may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business as a whole or substantially as a whole shall be the successor of the Trustee under the Master Indenture and any Supplemental Indenture with the same rights, powers, duties and obligations and subject to the same restrictions, limitations and liabilities as its predecessor, all without the execution or filing of any papers or any further act on the part of any of the parties to the Master Indenture or the Supplemental Indenture, anything therein to the contrary notwithstanding. In case any of the Bonds shall have been executed, but not delivered, any successor Trustee may adopt the signature of any predecessor Trustee, and deliver the same as executed; and, in case any of such Bonds shall not have been executed, any successor Trustee may execute such Bonds in the name of such successor Trustee.

Intervention by Trustee (Section 8.06)

In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners, the Trustee may intervene on behalf of the Owners and shall do so if requested in writing by the Owners of at least 10% in aggregate principal amount of the Bonds and offered indemnity satisfactory to it against expenses and liabilities reasonably anticipated to be incurred.

Supplemental Indentures Not Requiring Consent of Owner (Section 9.01)

The Issuer and the Trustee may, without the consent of, or notice to, the Owners, but with the acknowledgement and agreement of the State as applicable, with respect to (a) or (j) below, enter into a Supplemental Indenture to amend any provision of the Master Indenture or any Supplemental Indenture for any one or more or all of the following purposes:

(a) to add additional covenants to the covenants and agreements of the Issuer or the State set forth in the Master Indenture or to add to the limitations and restrictions in the Master Indenture, other limitations and restriction to be observed by the Issuer or the State which are not contrary to or inconsistent with the Master Indenture as theretofore in effect;

(b) to add additional revenues, properties or collateral to the Trust Estate;

(c) to cure any ambiguity, or to cure, correct or supplement any defect or omission or inconsistent provision contained in the Master Indenture;

(d) to amend any existing provision of the Master Indenture or to add additional provisions which, in the opinion of Bond Counsel, are necessary or advisable (i) to qualify, or to preserve the qualification of, the interest on any Bonds for exclusion from gross income for federal income tax purposes or for exclusion from federal alternative minimum tax; (ii) to qualify any Bonds for exemption from taxation and assessment in the State; (iii) to qualify, or to preserve the qualification of, the Master Indenture or any Supplemental Indenture under the federal Trust Indenture Act of 1939, as amended; or (iv) to qualify, or preserve the qualification of, any Bonds for an exemption from registration or other limitations under the laws of any state or territory of the United States;

(e) to amend any provision of the Master Indenture relating to the Rebate Fund if, in the opinion of Bond Counsel, such amendment does not adversely affect the exclusion of interest on any Bonds from gross income for federal income tax purposes;

(f) to provide for or eliminate book-entry registration of any of the Bonds;

(g) to obtain or maintain a rating of the Bonds by a nationally recognized securities rating agency;

(h) to authorize the issuance of any Series of Bonds in accordance with the Master Indenture;

(i) to facilitate the provision of a Credit Facility or an Interest Rate Exchange Agreement in accordance with the Master Indenture or the provision of a Reserve Fund Credit Facility in accordance with the Master Indenture;

(j) to facilitate the receipt or use of Pledged Revenues to pay Bond Payments;

(k) to establish additional funds, accounts or subaccounts necessary or useful in connection with any Supplemental Indenture authorized by any other provision of the Master Indenture;

(l) to make any amendment with Rating Confirmation from each Rating Agency then maintaining an uninsured, underlying rating on the Bonds, that such amendment will not, in itself, result in such uninsured, underlying rating on the Bonds following such amendment being lower than such rating on the Bonds immediately prior to such amendment;

(m) to modify any of the provisions in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Indenture shall cease to be Outstanding and (ii) such Supplemental Indenture shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Indenture and of Bonds issued in exchange therefor or in place thereof; or

(n) for any other purpose, provided that Bond Counsel has delivered a written opinion stating that the provisions of the Supplemental Indenture do not materially adversely affect the rights of the Owners of any Bonds.

Supplemental Indentures Requiring Consent of Owners (Section 9.02)

Except as expressly provided in the previous heading, the Issuer and the Trustee may not enter into a Supplemental Indenture without the written consent of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding; provided, however, that no Supplemental Indenture described below may be entered into without the written consent of the Owner of each Bond affected thereby:

(a) a reduction of the interest rate, Bond Payments or Redemption Price payable on any Bond, a change in the maturity date of any Bond, a change in the Original Principal Amount of any Capital Appreciation Bond, a change in any Interest Payment Date for any Current Interest Bond or any Accretion Date for any Capital Appreciation Bond or a change in the redemption provisions applicable to any Bond;

(b) the deprivation of an Owner to the lien on the Trust Estate granted in the Master Indenture;

(c) the creation of a priority right in the Trust Estate of another Bond over the right of the affected Bond, except as permitted in the Master Indenture; or

(d) a reduction in the percentage of the aggregate principal amount of the Bonds required for consent to any Supplemental Indenture.

Conditions to Effectiveness of Supplemental Indentures (Section 9.03)

(a) No Supplemental Indenture shall be effective until (i) it has been executed by an Authorized Issuer Representative, and an authorized representative of the Trustee and (ii) Bond Counsel has delivered a written opinion to the effect that the Supplemental Indenture complies with the provisions of the Master Indenture and, if applicable, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any Outstanding Bonds.

(b) No Supplemental Indenture entered into pursuant to the Master Indenture shall be effective until, in addition to the conditions set forth in subsection (a) above, (i) a notice has been mailed to the Owners of the Outstanding Bonds, at the addresses last shown on the registration records of the Trustee, which notice describes the nature of the proposed Supplemental Indenture and states that copies of it are on file at the office of the Trustee for inspection by the Owners of Outstanding Bonds and (ii) Owners of the required percentage in aggregate principal amount of the Bonds have consented to the Supplemental Indenture. Notwithstanding anything in this heading or the Master Indenture to the contrary, the consent of the Owners of any Series of additional Bonds to be issued under the Master Indenture shall be deemed irrevocably given if the Original Purchaser thereof, whether or not for resale, consents in writing to any modification or amendment, and, if such Series of additional Bonds is expected to be resold, such modification or amendment, as well as such consent, is disclosed in the official statement or other offering document pursuant to which such Series of additional Bonds is sold.

Discharge of Master Indenture (Sections 10.01 through 10.03)

If 100% of the Bond Payments and Redemption Price due, or to become due, on all the Bonds and all amounts payable to the United States pursuant to the Master Indenture, have been paid, or provision shall have been made for the payment thereof in accordance with the Master Indenture and the fees and expenses due to the Trustee and all other amounts payable under the Master Indenture have been paid or provision for such payment shall have been made in a manner satisfactory to the Trustee, then (a) the right, title and interest of the Trustee in and to the Trust Estate shall terminate and be discharged (referred to herein as the "discharge" of the Master Indenture); (b) the Trustee shall transfer and convey to or upon the order of the State all property that was part of the Trust Estate, including but not limited to any moneys held in any fund or account under the Master Indenture, except any escrow account created pursuant to the Master Indenture (which escrow account shall continue to be held in accordance with the agreement governing the administration thereof); and (c) the Trustee shall execute any instrument requested by the Issuer or the State to evidence such discharge, transfer and conveyance.

Outstanding Bonds or Bond Payments or Redemption Price or any portions thereof for the payment or redemption of which money shall have been set aside and shall be held in trust by the Trustee shall at the respective maturity or redemption dates thereof be deemed to have been paid within the meaning and with the effect expressed in the first paragraph of this heading.

(a) All or any portion of the Outstanding Bonds or Bond Payments shall be deemed to have been paid (referred to herein as "defeased") prior to their maturity or redemption if:

(i) if the defeased Bonds are to be redeemed prior to their maturity, an Authorized Issuer Representative has irrevocably instructed the Trustee to give notice of redemption of such Bonds in accordance with the Master Indenture and any applicable Supplemental Indenture;

(ii) there has been deposited in trust in a Defeasance Escrow Account either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited into or held in the Defeasance Escrow Account, shall be sufficient to pay when due the Bond Payments or Redemption Price, as applicable, due and to become due on the defeased Bonds on and prior to the redemption date or maturity date thereof, as the case may be; and

(iii) a certified public accountant or other nationally recognized expert respecting verification of escrows has delivered a verification report verifying the deposit described in clause (ii) above.

(b) The Defeasance Securities and moneys deposited in a Defeasance Escrow Account pursuant to this heading and the principal and interest payments on such Defeasance Securities shall not be withdrawn or used for any purpose other than, and shall be held in trust solely for, the payment of the Bond Payments on and Redemption Price of the defeased Bonds; provided, however, that (i) any moneys received from principal and interest payments on such Defeasance Securities that are not required to pay the Bond Payments on or Redemption Price of the defeased Bonds on the date of receipt may, to the extent practicable, be reinvested at the written direction of an Authorized Issuer Representative in Defeasance Securities maturing at the times and in amounts sufficient to pay when due the Bond Payments on and Redemption Price to become due on the defeased Bonds on or prior to the redemption date or maturity date thereof, as the case may be; and (ii) any moneys or Defeasance Securities may be withdrawn from a Defeasance Escrow Account if (A) the moneys and Defeasance Securities that are on deposit in the Defeasance Escrow Account, including any moneys or Defeasance Securities that are substituted for the moneys or Defeasance Securities that are withdrawn from the Defeasance Escrow Account, satisfy the conditions stated in subsection (a)(ii) above, (B) a verification report is delivered that complies with subsection (a)(iii) above and (C) an opinion of Bond Counsel is delivered to the effect that such withdrawal or substitution complies with the Master Indenture and will not of itself, if applicable, adversely affect the federal tax status of interest on either the related Refunding Bonds or the Bonds being refunded.

(c) Any Bonds that are defeased as provided in the Master Indenture shall no longer be secured by or entitled to any right, title or interest in or to the Trust Estate, and the Bond Payments on and Redemption Price thereof shall be paid solely from the Defeasance Securities and money held in the Defeasance Escrow Account.

If less than all the Bonds of any particular Series, any particular maturity of any Series or any particular interest rate within a maturity of a Series are defeased, the Trustee shall institute or cause to be instituted a system to preserve the identity of the individual Bonds or portions thereof that are defeased, regardless of changes in Bond numbers attributable to transfers and exchanges of Bonds.

Events Occurring on Days that are not Business Days (Section 11.12)

If the date for making any payment or the last day for performance of any act or the exercising of any right under the Master Indenture, any Supplemental Indenture or the Bonds is a day that is not a Business Day, such payment may be made, such act may be performed or such right may be exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in such instrument.

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APPENDIX C

FORM OF PAYMENT AGREEMENT

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APPENDIX C

PAYMENT AGREEMENT

Relating to Historic Structures Tax Credit Financing Program Revenue Bonds

This Payment Agreement is entered into as of June 1, 2009 by and among the Governor of the State of Rhode Island (the "Governor"), the General Treasurer of the State of Rhode Island (the "Treasurer"), the Rhode Island Economic Development Corporation (the "EDC"), the Rhode Island Department of Administration ("DOA"), the State Controller (the "Controller"), and the State Budget Officer (the "Budget Officer").

WHEREAS, the EDC was created and exists as a public corporation, governmental agency and public instrumentality of the State of Rhode Island and Providence Plantations (the "State") under the Rhode Island Economic Development Corporation Act, Chapter 64 of Title 42 of the Rhode Island General Laws ("RIGL"), as amended (the "Issuer Act"); and

WHEREAS, Section 4 of Article 4, Substitute A, as amended, of Chapter 100 of the Rhode Island Public Laws of 2008 (the "Program Act") (i) authorizes the financing of the funding of historic tax credits ("Historic Tax Credits") earned and presented to the State pursuant to RIGL §§ 44-33.2-1 et seq. (the "Project") and (ii) authorizes the Governor to enter into this Payment Agreement on behalf of the State, and to enter into agreements with the EDC to provide for transfers of monies by the State upon presentment of Historic Tax Credits; and

WHEREAS, the Issuer Act authorizes the EDC to issue bonds or notes to finance the Project, and to enter into such agreements, to deliver such instruments and to take such other actions as the EDC shall deem necessary or desirable to effectuate the financing of the Project, including, entering into this Payment Agreement, and

WHEREAS, pursuant to the Program Act bonds are to be issued by the EDC to fund the Project in an amount up to $356,200,000 (the "Bonds") to be paid from funds subject to annual appropriation by the General Assembly (the "Appropriated Funds"); and

WHEREAS, in order to facilitate appropriations of Appropriated Funds and payment of the Bonds.

NOW, THEREFORE, in consideration of the foregoing, the parties hereto agree as follows:

Section 1. Definitions. All capitalized terms contained herein shall have the meanings as ascribed to them in the Master Trust Indenture (as defined below), provided that the following terms shall have the following meanings:

"Appropriated Funds" shall have the meaning as ascribed to it in the Recitals.

"Appropriated Funds Voucher" shall have the meaning as ascribed to it in Section 4.

"EDC Request" means the annual request by the EDC to be submitted to the Budget Director for the gross appropriation of the Appropriated Funds anticipated to be required by the EDC from the State in each State Fiscal Year in order to make Bond Payments.

"Master Trust Indenture" means that certain Master Trust Indenture authorizing the issuance of the Bonds dated as of June 1, 2009 between the EDC and the Trustee, as amended and supplemented from time to time.

"State Fiscal Year" means the fiscal year of the State consisting of a 12 month period ending on the last day of June in each year, as the same may be lawfully modified from time to time.

Section 2. Request for Payment and Recommendation to General Assembly. Beginning with the budget submission process for State Fiscal Year 2010, and for each State Fiscal Year thereafter in which any of the Bonds remain Outstanding, the EDC, in a timely fashion, shall submit the EDC Request for such State Fiscal Year to the Budget Officer for recommendation to the Governor for inclusion in the Governor's proposed budget for such State Fiscal Year. The Budget Officer shall make such request to the Governor for inclusion in the Governor's proposed budget. The EDC request shall be in the gross amount necessary to make Bond Payments on all Outstanding Bonds for such State Fiscal Year.

Section 3. Appropriation in State Budget. The Governor hereby covenants and agrees to include in the Governor's proposed budget of revenues and appropriations submitted to the General Assembly for the State Fiscal Year 2010, and for each State Fiscal Year thereafter during which any Bonds remain Outstanding, an amount equal to the EDC Request. If the General Assembly enacts a budget for a State Fiscal Year which fails to include the EDC Request, the Governor hereby covenants and agrees to submit a supplemental budget to the General Assembly requesting appropriation of the omitted EDC Request.

Section 4. Disbursements by Controller. Beginning on the date hereof, and thereafter, for State Fiscal Year 2010 and in each subsequent State Fiscal Year in which any of the Bonds are Outstanding, upon enactment into law of a State budget including an EDC Request resulting in Appropriated Funds being available to pay Bond Payments, the Director of DOA shall submit vouchers (each an "Appropriated Funds Voucher") to the Controller requesting the payment of the Appropriated Funds to the Trustee for deposit in the Bond Payment Fund. Appropriated Funds Vouchers shall be submitted by the Director of DOA to the Controller thirty (30) days preceding each Bond Payment Date in any amount necessary to make the amounts on deposit in the Bond Payment Fund sufficient to make the next Bond Payment. Upon receipt of an Appropriated Funds Voucher and within ten (10) days, the Controller shall forthwith issue directions in the proper form and duly authenticated to the Treasurer directing the Treasurer to transfer, in immediately available funds, to the Trustee for deposit in the Bond Payment Fund, the amount set forth in the Appropriated Funds Voucher. Upon receipt of each such voucher from the Controller duly authenticated, the Treasurer shall, in accordance with the laws of the State, five (5) Business Days prior to the applicable Bond Payment Date transfer the amount set forth in the Appropriated Funds Voucher to the Trustee.

Section 5. Prohibition on Other Uses. It is hereby recognized and agreed by all the parties hereto that, subject to annual appropriation by the State General Assembly, the Appropriated Funds shall not be diverted from transfer to the Trustee for deposit under the Master Trust Indenture, and shall not be available for use for any other State purposes, following such transfer to the Trustee.

Section 6. Term. This Payment Agreement shall remain in full force and effect until such time as no Bonds remain Outstanding pursuant to the Master Trust Indenture.

Section 7. Trustee as Third-Party Beneficiary. The Trustee is hereby designated an intended third-party beneficiary of this Payment Agreement with a recognized and enforceable right to performance of its provisions.

Section 8. Failure of Parties to Perform. If any of the undersigned parties fail to perform or abide by their obligations established herein or in the Master Trust Indenture, the EDC or the Trustee may petition a court of competent jurisdiction to issue a mandamus order to such party failing to perform to compel specific performance thereof, or take such other actions as they deem reasonable and necessary to enforce their rights hereunder.

Section 9. Execution in Counterparts. This Payment Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which, taken together, shall constitute but one and the same instrument.

Section 10. Governing Law. This Payment Agreement shall be governed by the laws of the State.

Section 11. Amendments; Supplements; Termination; Non-Impairment. This Payment Agreement may not be amended, supplemented or terminated without the prior written consent of the parties hereto; provided, however, that, for so long as any Bonds remain Outstanding, this Payment Agreement shall not be amended other than in accordance with the provisions of Section 6.03(b) of the Master Trust Indenture.

Section 12. Section Headings. Section headings contained herein are included for convenience of reference only and shall not constitute a part of this Payment Agreement for any other purpose.

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IN WITNESS WHEREOF, the parties hereto have executed this Payment Agreement by their duly authorized officers as of the date first written above.

GOVERNOR OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

____
Donald L. Carcieri

GENERAL TREASURER OF THE STATE OF RHODE ISLAND

____
Frank T. Caprio

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION

By: ______________________________
Name:
Title:

RHODE ISLAND DEPARTMENT OF ADMINISTRATION

By: ______________________________
Name: Gary S. Sasse
Title: Director

State Controller

____
Marc A. Leonetti

State Budget Officer

____
Rosemary Booth Gallogly

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

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APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

This information concerning DTC and DTC's book-entry system has been obtained from DTC and the Issuer takes no responsibility for the accuracy thereof. The Owners should confirm this information with DTC or the DTC participants.

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series 2009 A Bonds (for purposes of this Appendix D, the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, totaling in the aggregate the principal amount of the Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to DTC. If less than all the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made by the Paying Agent to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

THE ISSUER AND THE STATE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO DTC, TO DIRECT PARTICIPANTS OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE TRUST INDENTURE; (3) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Bonds, as nominee for DTC, references in this Official Statement to "Owner" or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such Bonds.

When reference is made in this Official Statement to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Issuer or the Paying Agent to DTC only.

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APPENDIX E

PROPOSED FORM OF CONTINUING DISCLOSURE UNDERTAKING

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CONTINUING DISCLOSURE CERTIFICATE

In connection with the issuance of $150,000,000 Rhode Island Economic Development Corporation Revenue Bonds – Historic Structures Tax Credit Financing Program Series 2009 A (Federally Taxable), dated their date of delivery (the "Bonds") and with reference to the continuing disclosure requirements of Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule"), the Rhode Island Economic Development Corporation (the "Issuer") and the State of Rhode Island and Providence Plantations (the "State") hereby covenant to provide continuing disclosure consistent with the Rule and in connection therewith engage in the undertakings described in Paragraphs 1, 2 and 3 herein for the benefit of the beneficial owners of the Bonds, subject to the conditions and limitations specified herein.

1. The State hereby covenants, agrees and undertakes, pursuant to the Rule and for the benefit of the beneficial owners from time to time of the Bonds, as follows:

a. not later than the end of each calendar year, commencing with December 31, 2009, the State will provide to (i) each nationally recognized municipal securities information repository ("NRMSIR") and (ii) the appropriate state information depository for the State ("SID"), if any (as of the date hereof, there is no SID for the State) financial information and operating data relating to the State for the preceding fiscal year, of the type presented in APPENDIX A of Official Statement prepared in connection with the Bonds regarding (i) revenues and expenditures relating to operating budgets, (ii) capital expenditures, (iii) fund balances, (iv) tax information, (v) outstanding direct and indirect indebtedness, (vi) pension obligations, and (vii) such other financial information and operating data regarding the State as may be required to comply with the Rule; and

b. promptly upon public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent any such statements have been commissioned, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by Rhode Island law.

The State reserves the right to modify from time to time the specific types of information provided under subparagraph (a) above or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the State; provided that any such modification will be done in a manner consistent with the Rule.

2. The Issuer and/or the State will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material:

a. Principal and interest payment delinquencies;

b. Non-payment related defaults;

c. Unscheduled draws on debt service reserves reflecting financial difficulties;

d. Unscheduled draws on credit enhancements reflecting financial difficulties;

e. Substitution of credit or liquidity providers, or their failure to perform;

f. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

g. Modifications to the rights of beneficial owners of the Bonds;

h. Bond calls;

i. Defeasances;

j. The release, substitution, or sale of property securing repayment of the Bonds; or

k. Rating changes to the Bonds by any nationally recognized rating agency which has rated the Bonds at the request of the Issuer.

The Issuer and/or the State from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Issuer and/or the State, such other event is material with respect to the Bonds, but the Issuer and/or the State does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

3. The Issuer and/or the State will provide, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure to satisfy the requirements of Paragraph 1 herein.

4. The intent of the Issuer's and the State's undertaking in this Continuing Disclosure Certificate is to provide on a continuing basis the information described in the Rule. The provisions of the Continuing Disclosure Certificate may be amended by the Issuer and the State without the consent of, or notice to, any beneficial owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Issuer and the State for the benefit of the beneficial owners of Bonds, (d) to modify the content, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any

amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined either by a party unaffiliated with the Issuer and the State (such as special counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers of municipal securities to provide all or any portion of the information the Issuer and the State have agreed to provide pursuant to the Continuing Disclosure Certificate, the obligation of the Issuer and the State to provide such information also shall cease immediately.

5. The purpose of the Issuer's and the State's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the Bonds, from time to time, to specifically enforce the Issuer's or the State's obligations hereunder, not to create new contractual or other rights for any beneficial owner of the Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the Issuer or the State to comply with any provision herein shall be an action for the specific performance of the Issuer's or the State's obligations hereunder and not for money damages in any amount. Any failure by the Issuer or the State to comply with any provision of this undertaking shall not constitute an event of default with respect to the Bonds.

6. The NRMSIRs as of the date of this Continuing Disclosure Certificate are set forth in Exhibit A hereto. The Issuer and the State acknowledge that beginning July 1, 2009, Rule 15c2-12 is expected to require that disclosures be submitted to the MSRB through its Electronic Municipal Market Access ("EMMA"), and that as of July 1, 2009, the EMMA is expected to act as the sole NRMSIR hereunder.

7. The State Budget Officer and the Interim Executive Director of the Issuer, or such officials' designees from time to time, shall be the contact persons on behalf of the State and the Issuer, respectively from whom the foregoing information, data and notices may be obtained.

RHODE ISLAND ECONOMIC DEVELOPMENT COMMISSION

By ______________________________
J. Michael Saul
Interim Executive Director

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

By ______________________________
Rosemary Booth Gallogly
State Budget Officer

Dated: June __, 2009

EXHIBIT A

LIST OF CURRENT NATIONAL REPOSITORIES

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
PH: (609) 279-3225
FAX: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
E-Mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
PH: (201) 346-0701
FAX: (201) 947-0107
http://www.MuniFILINGS.com
E-Mail: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
PH: (212) 771-6999; (800) 689-8466
FAX: (212) 771-7390
http://www.interactivedata-prd.com
E-Mail: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, New York 10041
PH: (212) 438-4595
FAX: (212) 438-3975
www.disclosuredirectory.standardpoors.com/
E-Mail: nrmsir_respository@sandp.com
and

Such other National Repositories as are
added to the foregoing list from time to time
pursuant to the Rule

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PARTRIDGE SNOW & HAHN LLP
COUNSELORS AT LAW

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

Board of Directors
Rhode Island Economic
Development Corporation
315 Iron Horse Way, Suite 101
Providence, Rhode Island 02908

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $150,000,000 Revenue Bonds – Historic Structures Tax Credit Financing Program Series 2009 A (Federally Taxable) (the "Series 2009 A Bonds") of the Rhode Island Economic Development Corporation (the "Issuer"), a public corporation, constituting a governmental agency and public instrumentality of the State of Rhode Island and Providence Plantations (the "State"), created and existing under and by virtue of the Rhode Island Economic Development Corporation Act, as amended from time to time (the "Issuer Act").

All terms defined in the Trust Indenture (hereinafter defined) and used herein shall have the meanings assigned in the Indenture, except where the context hereof requires otherwise.

The Series 2009 A Bonds are issued under and pursuant to the Issuer Act and Section 4 of Article 4, Substitute A, as amended, of Chapter 100 of the Rhode Island Public Laws of 2008 (the "Program Act", and together with the Issuer Act, referred to collectively as, the "Act"), and under and pursuant to a Master Trust Indenture authorizing Revenue Bonds – Historic Tax Credit Financing Program entered into by and between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), dated as of June 1, 2009 (the "Master Trust Indenture"), as supplemented by a Series 2009 A Supplemental Trust Indenture entered into by and between the Issuer and the Trustee, dated as of June 1, 2009 (the "Supplemental Indenture", and the Master Trust Indenture as so supplemented, is referred to as, the "Trust Indenture").

The Series 2009 A Bonds are dated, mature, are payable and bear interest, all as provided in the Trust Indenture. The Series 2009 A Bonds are not subject to redemption prior to maturity.

We have examined one of said Series 2009 A Bonds as executed and, in our opinion, the form of said Series 2009 A Bond and its execution are regular and proper.

The Series 2009 A Bonds are issued for the principal purpose of financing of the funding of historic tax credits earned and presented to the State.

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PROVIDENCE WARWICK SOUTHCOAST

The Issuer reserves the right to issue additional Bonds on the terms and for the purposes stated in the Trust Indenture. Under the provisions of the Trust Indenture, such Bonds, together with any Bonds previously issued and Outstanding, will rank equally with the Series 2009 A Bonds as to security and payment from the Trust Estate.

We are of the opinion that:

1. The Issuer has the right and power under the Act to enter into the Trust Indenture, and the Trust Indenture has been duly and lawfully entered into by the Issuer, is in full force and effect and is valid and binding upon the Issuer and enforceable in accordance with its terms, and no other authorization for the Trust Indenture is required. The Trust Indenture creates the valid pledge of and lien on the Trust Estate, subject to the terms of the Trust Indenture.

2. The Series 2009 A Bonds are valid and binding special, limited obligations of the Issuer payable solely from the Trust Estate (subject to annual appropriation by the State of Pledged Funds) and have been duly authorized and issued in accordance with the Act and the Trust Indenture. The Series 2009 A Bonds do not give rise to a pecuniary liability or a charge against the general credit of the Issuer or the State and are not (and shall not be deemed or construed to be or to create) a debt, liability or obligation of the State or any political subdivision of the State, nor a pledge of the faith and credit of the State or any political subdivision of the State, within the meaning of the Constitution or laws of the State concerning or limiting the creation of indebtedness by the State or any political subdivision of the State. Neither the State nor any political subdivision thereof shall be obligated to pay the principal of or interest on the Series 2009 A Bonds, and the owners of the Series 2009 A Bonds shall have no right to make any claim against the State or any of its political subdivisions.

3. Interest on the Series 2009 A Bonds is wholly includable in gross income for federal income tax purposes.

4. The Series 2009 A Bonds and the income therefrom, including any gain made on the sale or exchange thereof, are free from taxation, other than estate, inheritance and gift taxes, by the State and any municipality or political subdivision of the State.

The opinions expressed in paragraphs 1 and 2 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as stated in paragraphs 3 and 4, we express no opinion regarding any other federal, state, local or foreign tax consequences with respect to the Series 2009 A Bonds.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Series 2009 A Bonds.

This opinion letter is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

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RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION • Revenue Bonds – Historic Structures Tax Credit Financing Program Series 2009 A

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