

**NEW ISSUE/BOOK-ENTRY-ONLY**

**Ratings:** *Moody's: Aaa*  
*Standard & Poor's: AAA*  
*Fitch: AAA*  
*See "RATINGS" herein*  
*(Insured)*

*In the opinion of Bond Counsel, under existing law and assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, interest on the Series C Bonds and the Series D Bonds (collectively, the "Bonds") is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax. Interest on the Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Bondholder's minimum tax based on such Bondholder's adjusted current earnings. In addition, the Bonds will be exempt from Rhode Island taxes although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes. See "TAX STATUS" and "APPENDIX B - Proposed Forms of Legal Opinions" herein.*

**\$143,410,000 STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**General Obligation Bonds**

**\$87,095,000 Consolidated Capital Development Loan of 2005,**  
**Series C**

**\$56,315,000 Consolidated Capital Development Loan of 2005,**  
**Refunding Series D**

**Dated:** Date of Delivery

**Due:** As shown on inside cover

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof and no physical delivery of the Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal and semiannual interest are payable to DTC by J.P. Morgan Trust Company, N.A., as Paying Agent. Interest on the Series C Bonds is payable on February 15 and August 15 commencing on August 15, 2005. Interest on the Series D Bonds is payable on January 15 and July 15, commencing on July 15, 2005. The Bonds constitute general obligations of the State for the payment of which the full faith and credit of the State will be pledged. **The Bonds are subject to redemption prior to maturity as described herein.**

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



*The Bonds are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Holland & Knight LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Partridge Snow & Hahn LLP, Providence, Rhode Island. Certain matters will be passed upon for the Underwriters by their counsel, Tillinghast Licht LLP, Providence, Rhode Island. Delivery of the Bonds to DTC is expected in New York, New York on or about May 5, 2005.*

**UBS Financial Services Inc.**

**Merrill Lynch & Co.**

**Banc of America Securities LLC**

**Carolan & Co., Inc.,**

**Roosevelt & Cross, Inc.**

**A Division of Oppenheimer & Co., Inc.**

**\$87,095,000 CONSOLIDATED CAPITAL DEVELOPMENT LOAN OF 2005,  
SERIES C**

<b><u>Maturity (February 15)</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP*</u></b>
2006	\$ 2,855,000	3.000%	2.650%	76222NJE2
2007	2,990,000	3.000	2.790	76222NJF9
2008	3,140,000	3.250	2.920	76222NJG7
2009	3,300,000	3.250	3.060	76222NJH5
2010	3,470,000	3.500	3.220	76222NJJ1
2011	3,645,000	5.000	3.350	76222NJK8
2012	3,820,000	5.000	3.490	76222N JL6
2013	4,005,000	5.000	3.640	76222NJM4
2014	4,215,000	5.000	3.740	76222N JN2
2015	4,435,000	5.000	3.820	76222N JP7
2016	4,650,000	5.000	108.780†	76222N JQ5
2017	4,880,000	5.000	108.189†	76222N JR3
2018	5,125,000	4.750	105.269†	76222N JS1
2019	5,375,000	4.750	104.694†	76222N JT9
2020	5,650,000	4.750	104.204†	76222N JU6
2021	5,930,000	4.750	103.716†	76222N JV4
2022	6,220,000	4.750	103.313†	76222N JW2
2023	6,530,000	4.750	102.830†	76222N JX0
2024	6,860,000	5.000	105.533†	76222N JY8

**\$56,315,000 CONSOLIDATED CAPITAL DEVELOPMENT LOAN OF 2005,  
REFUNDING SERIES D**

<b><u>Maturity (July 15)</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP*</u></b>
2005	\$ 850,000	2.50%	2.47%	76222N JZ5
2009	4,365,000	5.00	3.13	76222KA8
2010	5,330,000	5.00	3.27	76222KC4
2010	1,735,000	3.50	3.27	76222KB6
2011	1,700,000	4.00	3.40	76222KE0
2011	1,275,000	3.50	3.40	76222KD2
2012	6,230,000	4.50	3.53	76222KG5
2012	470,000	3.75	3.53	76222KF7
2013	5,650,000	5.00	3.68	76222KJ9
2013	270,000	4.00	3.68	76222KH3
2014	6,605,000	4.50	3.78	76222KL4
2014	90,000	4.00	3.78	76222KK6
2015	5,540,000	5.00	3.85	76222KN0
2015	870,000	4.00	3.85	76222KM2
2016	10,940,000	5.00	108.910††	76222KP5
2018	4,395,000	5.00	108.124††	76222KQ3

† The Series C Bonds are priced to the February 15, 2015 optional redemption date at a redemption price of 100%.

†† The Refunding Series D Bonds are priced to the July 15, 2015 optional redemption date at a redemption price of 100%.

\* The CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. Neither the Underwriters nor the State is responsible for the selection or use of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 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 to 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 Bonds.

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters of the Bonds to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the State, and other sources that are deemed to be reliable but is not guaranteed as to accuracy or completeness by the Underwriters of the Bonds or, as to information from other sources, the State. 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 since the date hereof.

**The Underwriters intend to offer the Bonds to the public initially at the offering prices or yields shown on the cover page hereof, which prices or yields may change subsequently without any requirement or prior notice. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices shown on the cover hereof.**

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 responsibility to investors 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. 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 parties referred to above or that the other information or opinions are correct as of any time subsequent to the date hereof.

First Southwest Company, financial advisor to the State (the "Financial Advisor") has provided the following sentence for inclusion in this Official Statement: The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to 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 does not guarantee the accuracy or completeness of such information. The inclusion of said sentence does not imply any such guarantee by any other party.

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit E "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

THE STATE HAS NOT MADE ANY INDEPENDENT INVESTIGATION OF FINANCIAL SECURITY OR THE MUNICIPAL BOND INSURANCE POLICY.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**



**CONSTITUTIONAL OFFICERS**

Governor ..... Donald L. Carcieri  
Lieutenant Governor ..... Charles J. Fogarty  
General Treasurer ..... Paul J. Tavares  
Attorney General..... Patrick C. Lynch  
Secretary of State ..... Matthew A. Brown

**APPOINTED OFFICIALS**

Director of Administration..... Beverly E. Najarian  
Budget Officer ..... Rosemary Booth Gallogly  
State Controller ..... Lawrence C. Franklin, Jr.  
Auditor General ..... Ernest A. Almonte

**BOND COUNSEL**

Holland & Knight LLP, Providence, Rhode Island

**DISCLOSURE COUNSEL**

Partridge Snow & Hahn LLP, Providence, Rhode Island

**FINANCIAL ADVISOR**

First Southwest Company, Lincoln, Rhode Island

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## **OFFICIAL STATEMENT**

### **\$143,410,000 State of Rhode Island and Providence Plantations General Obligation Bonds**

### **\$87,095,000 Consolidated Capital Development Loan of 2005, Series C**

### **\$56,315,000 Consolidated Capital Development Loan of 2005, Refunding Series D**

## **INTRODUCTION**

The purpose of this Official Statement, including the cover page and appendices hereto, is to set forth certain information concerning the State of Rhode Island and Providence Plantations (the "State" or "Rhode Island") and its \$87,095,000 General Obligation Bonds, Consolidated Capital Development Loan of 2005, Series C (the "Series C Bonds") and its \$56,315,000 General Obligation Bonds Consolidated Capital Development Loan of 2005, Refunding Series D Bonds (the "Series D Bonds", and together with the Series C Bonds, the "Bonds") dated the date of original delivery thereof. Proceeds of the Series C Bonds will be used primarily to fund projects included in the State's fiscal year 2005 capital budget. Proceeds of the Series D Bonds will be used primarily to refund certain bonds of the State. See "DESCRIPTION OF THE BONDS – Plan of Finance" and "PLAN OF REFUNDING" herein.

The State expects that it will issue its \$52,335,000 General Obligation Bonds Consolidated Capital Development Loan of 2005, Refunding Series A (the "Series A Bonds") and its \$8,360,000 General Obligation Bonds Consolidated Capital Development Loan of 2005, Refunding Series B (the "Series B Bonds") at or about the time that the Bonds are issued. Proceeds of the Series A Bonds and the Series B Bonds will be used primarily to refund certain bonds of the State.

## **SECURITY FOR THE BONDS**

The Bonds when duly issued will constitute valid general obligations of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on each of the Bonds as the same shall become due.

Each Bond when issued and paid for will constitute a contract between the State and the owner thereof. The General Laws of Rhode Island provide that the General Treasurer may pay debt service on State debt without the need for an annual appropriation (as would be required for other payments from the State treasury). Moreover, each act under which the Bonds are issued expressly provides an appropriation from the treasury of a sum sufficient to pay the annual principal and interest due on the Bonds to the extent the same is not otherwise provided.

Enforcement of a claim for payment of principal of or interest on the Bonds may be subject to the provisions of Federal or State statutes, if any, heretofore or hereafter enacted extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied and to the exercise of judicial discretion in accordance with equitable principles.

## SOURCES AND USES OF FUNDS

The following table sets forth estimated sources and uses of funds for the Series C Bonds.

Sources	
Par Amount of Series C Bonds	\$87,095,000.00
Net Original Issue Premium on Series C Bonds	<u>4,510,707.90</u>
Total Sources	\$91,605,707.90
Uses	
Bond Capital Fund Deposit	\$90,859,665.30
Underwriters' Discount	427,046.43
Costs of Issuance†	<u>318,996.17</u>
Total Uses	\$91,605,707.90

The following table sets forth estimated sources and uses of funds for the Series D Bonds.

Sources	
Par Amount of Series D Bonds	\$56,315,000.00
Net Original Issue Premium on Series D Bonds	<u>3,996,935.40</u>
Total Sources	\$60,311,935.40
Uses	
Series D Refunding Trust Account Deposit	\$59,917,743.17
Underwriters' Discount	252,139.82
Costs of Issuance†	<u>142,052.41</u>
Total Uses	\$60,311,935.40

†Includes bond insurance premium, counsel fees and certain other costs.



The State consolidates all separate capital development bond funds, excluding those directed by statute to other funds (i.e. enterprise funds) created under acts of the legislature, in the Bond Capital Fund. However, the General Treasurer is directed to deposit the proceeds as described above in the Bond Capital Fund for each individual capital purpose for which bonds are issued. Accrued interest and premium, if any, received upon the sale of Bonds, except Bonds issued for the benefit of the Narragansett Bay Commission, will be applied to the general debt service charges of the State. Accrued interest and premium, if any, received upon the sale of Bonds issued for the benefit of the Narragansett Bay Commission will be deposited in the Narragansett Bay Commission Fund. Expenses incurred in the issuance of the Bonds will be paid from the proceeds of the Bonds or from other available monies in the General Fund.

## **PLAN OF REFUNDING**

The State, upon delivery of the Series D Bonds, will enter into a refunding trust agreement (the "Refunding Trust Agreement") with a refunding trustee (the "Refunding Trustee") to be selected for the Refunded Bonds. The Refunding Trust Agreement will provide for the deposit of the net proceeds of the Series D Bonds with the Refunding Trustee in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of the United States of America (the "Government Obligations") and to fund, if needed, a cash deposit in such account. The Refunding Trust Agreement will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such accounts and be paid to the paying agent of the Refunded Bonds solely for the payment of the principal of and redemption premium, if any, and interest on the refunding Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Government Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposit, they will produce sufficient moneys to make such payments on the Refunded Bonds to and including their respective maturity or redemption dates. For a list of the outstanding bonds of the State to be refunded through the proceeds of the Series D Bonds, see "APPENDIX D - Table of Refunded Bonds" herein.

## **DESCRIPTION OF THE BONDS**

### **General**

Pursuant to Section 35-8-21 of the General Laws of the State, the Series C Bonds will constitute the Consolidated Capital Development Loan of 2005, Series C and the Series D Bonds will constitute the Consolidated Capital Development Loan of 2005, Refunding Series D.

The Bonds will be dated the date of original delivery thereof and will bear interest at the rates set forth on the inside cover page hereof. Interest on the Series C Bonds will be payable on August 15, 2005 and semi-annually thereafter on February 15 and August 15 of each year. Interest on the Series D Bonds will be payable on July 15, 2005 and semi-annually thereafter on January 15 and July 15 of each year. So long as The Depository Trust Company ("DTC"), or its nominee Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to Beneficial Owners will be the responsibility of the DTC Participants and Indirect Participants, as more fully described herein. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of the Bonds will be payable as set forth on the inside cover page hereof.

### **Redemption**

*Optional Redemption of the Series C Bonds.* The Series C Bonds maturing on and before February 15, 2015 are not subject to redemption prior to their stated dates of maturity. The Series C Bonds maturing on and after February 15, 2015 are subject to redemption prior to their stated dates of maturity on and after February 15, 2015 at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at the redemption price of 100% of the principal amount of Series C Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

*Optional Redemption of the Series D Bonds.* The Series D Bonds maturing on and before July 15, 2015 are not subject to redemption prior to their stated dates of maturity. The Series D Bonds maturing on and after July 15,

2016 are subject to redemption prior to their stated dates of maturity on and after July 15, 2015, at the option of the State, as a whole or in part at any time (by lot by DTC), in any order of maturity designated by the State, at the redemption price of 100% of the principal amount of Series D Bonds to be redeemed, together with interest accrued and unpaid to the redemption date.

*Notice of Redemption.* Notice of redemption of Bonds, specifying the numbers and other designations of Bonds to be redeemed, shall be given not more than 60 days nor less than 30 days prior to the date set for redemption by mailing a copy of such notice to the Bondholders. Notice having been given as specified above, the Bonds so called for redemption shall be due and payable on the redemption date and interest from and after such date shall cease to accrue thereon. If any Bond is to be redeemed in part, upon such redemption the State will issue, at its expense, for the unredeemed balance of such Bond, a new Bond or Bonds of the same interest rate and maturity in any of the authorized denominations.

The State, so long as a book-entry system with DTC is used for determining beneficial ownership of the Bonds, shall send any notice of redemption to DTC, or its nominee, as registered owner of the Bonds (see “Book-Entry-Only System” below). Transfer of such notice to DTC’s Participants is the responsibility of DTC. Transfer of such notice to Beneficial Owners by Participants is the responsibility of the Participants and other nominees of Beneficial Owners of the Bonds. Any failure of DTC to mail such notice to any Participant will not affect the validity of the redemption of the Bonds. The State can make no assurances that DTC, the Participants or other nominees of the Beneficial Owners of the Bonds will distribute such redemption notices to the Beneficial Owners of the Bonds, or that they will do so on a timely basis, or that DTC will act as described in this Official Statement.

### **Book-Entry-Only System**

The information set forth in this section concerning DTC and DTC’s book-entry system has been obtained from the office of General Counsel to DTC and has been described by DTC as accurately describing DTC, its methods of effecting book-entry transfers of securities distributed through DTC and certain related matters. No representation is made by any person, including the State, other than DTC as to the completeness or the accuracy of such information or as to the absence or material adverse changes in such information subsequent to the date hereof.

DTC will act as securities depository for 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 each Series of the Bonds, each in the aggregate principal amount of such maturity, 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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](http://www.dtcc.com).

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 (the "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 and 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 the 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 of the Bonds issued 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 State 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, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit the Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the Paying Agent, on 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, the State or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State and 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 State 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 State 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 THE STATE BELIEVES TO BE RELIABLE, BUT THE STATE TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

THE STATE, THE PAYING AGENT, THE UNDERWRITERS AND THE REFUNDING TRUSTEE WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDOWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Neither the State nor the Paying Agent shall have any responsibility or obligation with respect to: (i) the accuracy of the records of DTC or any Participant with respect to any beneficial ownership interest of the Bonds; (ii) the delivery to any Participant, Beneficial Owner of the Bonds or other person, other than DTC, of any notice with respect to the Bonds; (iii) the payment to any Participant, Beneficial Owner of the Bonds or other person, other than DTC of any amount with respect to the principal of, premium, if any, or interest on, the Bonds; (iv) any consent given by DTC as registered owner; or (v) the selection by DTC or any Participant of any Beneficial Owners to receive payment if the Bonds are redeemed in part.

**Record Date**

The record date for the Bonds will be the close of business of the fifteenth day prior to the date on which an interest payment is due, or if such day is not a business day of the Paying Agent, the next preceding day which is a regular business day of the Paying Agent.

**Components of Each Issue By Authorization and Purpose**

The Series C Bonds are composed of eight separate loans. For the amortization schedule of each of said loans, see "APPENDIX C - Table of Loan Amortization Schedules" herein. The designation of the loans is specified by the various public laws of the State authorizing the issuance of the Series C Bonds, but each loan is a general obligation of the State without distinction among them as to payment or security. See "SECURITY FOR THE BONDS" herein. Proceeds of the Series C Bonds will be applied to the following individual loans, which in the aggregate reflect the issue amount of Series C Bonds shown on the cover of this Official Statement:

<u>Amount</u>	Loan
\$ 900,000	State Capital Development Loan of 1989, Series N
3,315,000	State Capital Development Loan of 1990, Series N
150,000	State Capital Development Loan of 1994, Series I
7,650,000	State Capital Development Loan of 1996, Series K
8,735,000	State Capital Development Loan of 1998, Series H
6,740,000	State Capital Development Loan of 2000, Series D
42,530,000	State Capital Development Loan of 2002, Series B
<u>17,075,000</u>	State Capital Development Loan of 2004, Series A
\$87,095,000	

**Plan of Finance**

The Series C Bonds will be issued in the amounts, for the capital purposes and pursuant to statutory authorities (the “Acts”) approved by the electorate of the State on the dates indicated in the following table:

<u>Amount</u>	<u>Purpose</u>	<u>Statute</u>	<u>Referendum</u>
\$ 700,000	Mental Health, Retardation and Hospitals	Chapter 552 of the P.L. of 1989	November 7, 1989
200,000	Environmental Management	Chapter 552 of the P.L. of 1989	November 7, 1989
1,800,000	R.I. Water Pollution Revolving Loan Fund	Chapter 434 of the P.L. of 1990	November 6, 1990
1,515,000	Mental Health, Retardation and Hospitals	Chapter 434 of the P.L. of 1990	November 6, 1990
150,000	Elementary & Secondary Education	Chapter 70 of the P.L. of 1994	November 8, 1994
7,650,000	Quonset/Davisville	Chapter 100 of the P.L. of 1996	November 5, 1996
3,105,000	Higher Education Facilities	Chapter 31 of the P.L. of 1998	November 3, 1998
4,280,000	Environmental Management	Chapter 31 of the P.L. of 1998	November 3, 1998
1,350,000	Transportation	Chapter 31 of the P.L. of 1998	November 3, 1998
2,980,000	Higher Education	Chapter 55 of the P.L. of 2000	November 7, 2000
3,760,000	Environmental Management	Chapter 55 of the P.L. of 2000	November 7, 2000
3,200,000	Preservation, Recreation & Heritage	Chapter 65 of the P.L. of 2002	November 5, 2002
7,330,000	State Police Headquarters Training Academy	Chapter 65 of the P.L. of 2002	November 5, 2002
32,000,000	Transportation	Chapter 65 of the P.L. of 2002	November 5, 2002
2,500,000	Regional Career and Technical Schools	Chapter 595 of the P.L. of 2004	November 2, 2004
800,000	Higher Education-Residence Halls	Chapter 595 of the P.L. of 2004	November 2, 2004
1,000,000	Emergency Water Interconnect	Chapter 595 of the P.L. of 2004	November 2, 2004
1,000,000	Pell Library-Undersea Exploration Center	Chapter 595 of the P.L. of 2004	November 2, 2004
5,000,000	University of Rhode Island Center for Biotechnology	Chapter 595 of the P.L. of 2004	November 2, 2004
775,000	Open Space, Recreation, Bay and Watershed Protection	Chapter 595 of the P.L. of 2004	November 2, 2004
<u>6,000,000</u>	Quonset/Davisville	Chapter 595 of the P.L. of 2004	November 2, 2004
<u>\$87,095,000</u>			

**Authorized But Unissued Direct and Guaranteed Debt**

<u>Purpose</u>	<u>Statutory Authority</u>	<u>Authorized but Unissued</u>	<u>Bonds Described Herein</u>	<u>Authorization after Issuance</u>
<b>Direct Debt:</b>				
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	2,644,627	0	2,644,627
Open Space	Ch. 425-P.L. of 1987	168,254	0	168,254
Environmental Management	Ch. 552-P.L. of 1989	201,010	200,000	1,010
Mental Health, Retardation and Hospitals	Ch. 552-P.L. of 1989	700,000	700,000	0
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	4,360,000	1,515,000	2,845,000
R.I. Water Pollution Revolving Loan and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303- P.L. of 1989, and Ch. 434-P.L. of 1990	10,800,000	1,800,000	9,000,000
Pawtuxet River District Commission	Ch. 434-P.L. of 1990	995,000	0	995,000
Elementary and Secondary Education	Ch. 70-P.L. of 1994	965,000	150,000	815,000
Quonset Point/Davisville	Ch. 100-P.L. of 1996	7,650,000	7,650,000	0
Transportation	Ch. 31-P.L. of 1998	1,350,000	1,350,000	0
Environmental Management	Ch. 31-P.L. of 1998	4,280,000	4,280,000	0
Higher Education Facilities	Ch. 31-P.L. of 1998	7,540,000	3,105,000	4,435,000
Environmental Management	Ch. 55-P.L. of 2000	17,690,000	3,760,000	13,930,000
Higher Education	Ch. 55-P.L. of 2000	2,980,000	2,980,000	0
State Police Headquarters/Fire Academy	Ch. 65-P.L. of 2002	53,800,000	7,330,000	46,470,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	10,000,000	3,200,000	6,800,000
Transportation	Ch. 65-P.L. of 2002	32,600,000	32,000,000	600,000
Transportation	Ch. 595-P.L. of 2004	66,520,000	0	66,520,000
Regional Career and Technical Schools	Ch. 595-P.L. of 2004	15,000,000	2,500,000	12,500,000
Higher Education Residence Halls	Ch. 595-P.L. of 2004	50,000,000	800,000	49,200,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	10,000,000	1,000,000	9,000,000
Open Space, Recreation, Bay and Watershed				
Protection	Ch. 595-P.L. of 2004	70,000,000	775,000	69,225,000
Pell Library-Undersea Exploration Center	Ch. 595-P.L. of 2004	14,000,000	1,000,000	13,000,000
Historic Preservation and Heritage	Ch. 595-P.L. of 2004	3,000,000	0	3,000,000
URI Center for Biotechnology and Life Sciences	Ch. 595-P.L. of 2004	50,000,000	5,000,000	45,000,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	<u>48,000,000</u>	<u>6,000,000</u>	<u>42,000,000</u>
<b>Total Direct Debt</b>		<b>\$485,243,891</b>	<b>\$87,095,000</b>	<b>\$398,148,891</b>

Source: State Budget Office

## **BOND INSURANCE**

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2004 Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,280,883,000 and its total unearned premium reserve was approximately \$1,649,230,000 in accordance with statutory accounting practices. At December 31, 2004, Financial Security's total shareholder's equity was approximately \$2,699,786,000 and its total net unearned premium reserve was approximately \$1,342,057,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the State the information presented under this caption for inclusion in the Official Statement.

## **RATINGS**

The Bonds have been assigned ratings by Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard and Poor's") (collectively, the "Rating Agencies"). The ratings assigned by Fitch, Moody's and Standard and Poor's are AAA, Aaa and AAA respectively, with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and the interest on the Bonds will be issued by Financial Security.

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of each such rating may be obtained from the rating agency furnishing the same. There is no assurance that the ratings given the Bonds by the Rating Agencies will be maintained for any given period of time or that they may not be revised downward or withdrawn entirely. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## LEGAL MATTERS

The legality of the Bonds will be approved by Holland & Knight LLP, Providence, Rhode Island, Bond Counsel. Copies of the opinions of Bond Counsel in substantially the forms to be delivered at closing are included herein as Appendix B. The State will be advised on certain legal matters by Partridge Snow & Hahn LLP, Providence, Rhode Island, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Tillinghast Licht LLP, Providence, Rhode Island.

## TAX STATUS

In the opinion of Holland & Knight LLP, Bond Counsel, under existing law and assuming compliance with certain arbitrage and other tax requirements referred to in this section, interest on the Bonds is excludable from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax. Interest on the Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Bondholder's alternative minimum tax based on such Bondholder's adjusted current earnings. (See "APPENDIX B - Proposed Forms of Legal Opinions").

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding the use, expenditure and investment of bond and note proceeds and the payment of rebates to the United States which must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excludable from gross income for federal income tax purposes. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The State will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excludable from gross income for federal income tax purposes.

The foregoing analysis of the exclusion of interest from gross income for purposes of federal income taxation is limited to the initial issuance of the Bonds. Bondholders should consult their tax advisors with respect to any federal tax consequences of secondary market transactions.

### **Original Issue Discount**

Certain of the Bonds (the "Discount Bonds") may be offered and sold to the public at an original issue discount (the "OID"). The OID is the excess of the stated redemption price at maturity (the face amount) over the "issue price" of such Bonds. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the holder of a Discount Bond over the period to maturity at a constant yield as described in Income Tax Regulation Section 1.1272-1 (b). With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period the purchaser owns the Discount Bond (i) is interest excludable from the purchaser's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as other interest on the Bonds, and (ii) is added to the purchaser's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. Holders of Discount Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of OID properly accruable each year with respect to the Discount Bond, and as to other federal tax consequences and any state or local tax aspects of owning Discount Bonds.

### **Bond Premium**

Under the Code, a purchaser (other than the purchaser who holds such Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) who acquires a Bond (a "Premium Bond") for a price in excess of (i) in the case of a Discount Bond, its initial offering price plus accrued OID to the date of purchase (as described in the preceding paragraph) or (ii) in the case of any other non-callable Bond, its stated redemption value at maturity has acquired the Bond with "bond premium". In the case of Bonds that are callable at the Applicable Call Date (defined below) at a price less than the holder's acquisition price, the bond premium is the excess of the



holder's acquisition price over the redemption price on the Applicable Call Date. The Applicable Call Date is the first date on which the Bond may be redeemed for a redemption price less than the holder's acquisition price.

Bond premium is amortized over the remaining term of the Premium Bond for federal income tax purposes. In the case of callable Premium Bonds acquired at a price in excess of par, the bond premium will be amortizable to the Applicable Call Date. For purposes of calculating amortizable bond premium only, a Bond not redeemed on the Applicable Call Date shall be treated as if sold and reacquired on such date at the optional redemption price. The purchaser of a Premium Bond is required to decrease his adjusted basis in the Premium Bond by the amount of amortizable bond premium attributable to each taxable year during the amortization period. The amount of amortizable bond premium attributable to each taxable year is determined actuarially at a constant interest rate. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of Premium Bonds and with respect to the state and local consequences of owning and disposing of Premium Bonds.

### **Other Tax Consequences**

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain Subchapter S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Prospective purchasers of the Bonds should also be aware that ownership of the Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the collateral federal income tax and state income tax consequences to them of owning the Bonds.

In the opinion of Bond Counsel, the Bonds are exempt from Rhode Island taxes, although the Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

### **LITIGATION**

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the State seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

There are pending in courts within the State various suits in which the State is a defendant. In the opinion of State Officials, no litigation is pending or, to their knowledge, threatened which is likely to result, either individually or, in the aggregate, in final judgments against the State that would affect materially its financial position.

### **FINANCIAL ADVISOR**

The State has retained First Southwest Company (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Bonds. 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 Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds, and receipt by the State of payment therefor. The State may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of Bond proceeds.

## CONTINUING DISCLOSURE

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, and officially interpreted from time to time (the “Rule”) provides that underwriters may not purchase or sell municipal securities unless the issuer of the municipal securities undertakes to provide continuing disclosure with respect to those securities, subject to certain exemptions. The State will covenant, at the time of the delivery of the Bonds, to provide continuing disclosure consistent with the terms of the Rule, as provided in a Continuing Disclosure Certificate to be dated as of the date of the Bonds and incorporated by reference therein.

Pursuant to the Continuing Disclosure Certificate, the State will covenant, agree and undertake to provide the following continuing disclosure with respect to the Bonds:

(1) The State will provide to each nationally recognized municipal securities information repository (“NRMSIR”) and the appropriate state information depository for the State (“SID”), if any: (a) on or before the end of each calendar year commencing December 31, 2005, financial information and operating data relating to the State for the preceding fiscal year of the type presented in Appendix A of the 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 as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the State for the most recently ended fiscal year, to the extent 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 clause (a) above or the format of the presentation of such information, provided that any such modification will be done in a manner consistent with the Rule.

(2) The State will provide in a timely manner to each NRMSIR or to the Municipal Securities Rulemaking Board and to 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) nonpayment 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 rights of beneficial owners of the Bonds, (h) Bond calls; (i) defeasances; (j) release, substitution or sale of property securing repayment of the Bonds; or (k) rating changes to the Bonds by any nationally recognized credit agency which has rated the Bonds at the request of the State. 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 State, such other event is material with respect to the Bonds, but 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 State will provide, in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board and to the SID, if any, notice of a failure to satisfy the requirements of paragraph (1) above.

The provisions of the Continuing Disclosure Certificate may be amended by the State without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments to the Rule or authoritative interpretations thereto 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 necessary or desirable provisions with respect thereto, (c) to add to the covenants of the State for the benefit of the owners of the Bonds, (d) to modify the contents, 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 a SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clauses (d) and (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 changes in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the State, (such as bond counsel) or by a vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

The Continuing Disclosure Certificate will also state that to the extent the Rule no longer requires issuers such as the State to provide continuing disclosure with respect to securities such as the Bonds, the State's obligation to provide continuing disclosure shall terminate immediately.

The purpose of the State's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the holders of the Bonds from time to time, to specifically enforce the State's obligations hereunder, not to create new contractual or other rights for the original purchasers of the Bonds, any registered owner or 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 State to comply with any covenant of the Continuing Disclosure Certificate shall be an action for the specific performance of the State's obligations thereunder and not for money damages in any amount. Any failure by the State to comply with any provision of such undertaking shall not constitute an event of default with respect to the Bonds.

Except as noted in the next sentence, 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 Tax Revenue Bonds and GARVEE Bonds approximately seventeen days late. The State has implemented procedures to insure timely filing in the future.

The State Budget Officer, or such official's designee from time to time, shall be the contact person on behalf of the State from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is Rosemary Booth Gallogly, State Budget Officer, State Administration Building, One Capitol Hill, Providence, Rhode Island 02903, Telephone (401) 222-6400.

#### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore Inc., Certified Public Accountants, will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Series D Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposited listed in such schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds, and (2) the computations of yield on the securities held in the escrow for the Series D Bonds and the Series D Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Series D Bonds is not included in gross income for federal income tax purposes. Causey Demgen & Moore Inc. will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Series D Bonds from gross income for federal income tax purposes.

#### **UNDERWRITING**

The Bonds are being purchased by UBS Financial Services Inc., as representative of the Underwriters (the "Underwriters"). The aggregate offering price of the Bonds to the public is \$151,917,643.30 and the Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Bonds from the State at a purchase price of \$151,238,457.05, and to reoffer the Bonds at no greater than the initial public offering prices stated on the cover page hereof. The bond purchase agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase agreement.

#### **ADDITIONAL INFORMATION**

Information with respect to the State and a detailed description of the State's financial condition are set forth in the State's Information Statement dated March 22, 2005 and the Basic Financial Statements of the State, as of and for the year ended June 30, 2003, both of which have been prepared and furnished by the State and which are included in Appendix A.

Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies or authorities since the date of this Official Statement, except as expressly stated. This Official Statement is not to be construed as a contract or agreement between the State of Rhode Island and the purchasers of the Bonds from time to time.

The Official Statement is submitted only in connection with the sale of the Bonds and may not be reproduced or used in whole or in part for any other purpose.

STATE OF RHODE ISLAND AND PROVIDENCE  
PLANTATIONS

By: /s/ Paul J. Tavares  
General Treasurer

Dated: April 15, 2005

**INFORMATION STATEMENT OF THE  
STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS**

**DATED: March 22, 2005**

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## STATE GOVERNMENT ORGANIZATION AND FINANCES

### 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 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 have 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 does authorize 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 State increases 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 include authorization to exceed the 5 ½ percent limitation in the event of loss of non-property tax revenue, or when an emergency situation arises and is certified by the State Auditor General. In such an emergency situation, such levy in excess of a 5 ½ percent increase must 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 obligations 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.

### ***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. Local communities are 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 then again as part of the FY 2005 budget, such that the percentage distribution is now scheduled to be 4.7 percent in FY 2011. The Governor proposed to freeze the percentage reimbursement at 3.0 percent in FY 2006 and thereafter as part of the FY 2006 recommended budget. Despite these delays and proposed freezes, the local reduction in the levy on inventories has 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). Currently, the first \$4,500 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 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates.

### ***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.

Over the last several years, however, the State has typically provided a guaranteed increase for all communities and a larger increase for "poorer" communities. The FY 2005 budget was a special challenge and final school aid appropriations provided funding at least equal to the prior year's entitlement after adjustment for enrollment changes and other data.

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 2004 Enacted Budget provides \$40.7 million for this category of aid, an increase of 125 percent since FY 1997. A related program will provide approximately \$2.5 million in FY 2004 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the 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 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 2005 Enacted Budget includes \$52.4 million for this program.



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 2005 Enacted Budget includes \$22.7 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of \$8.5 million were made for FY 2005 to fund entitlements for four communities. Of these four 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 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 \$14.6 million for FY 2005.

## **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 the Department of Administration, the Department of Labor and Training, and the Board of Elections, and regulatory agencies including the Department of Business Regulation and the Public Utilities Commission. The two major departments in the General Government function are the Department of Administration 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, motor vehicle registration, child support enforcement, 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, supervising the assessment and collection of all State taxes and 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, tax equalization, and planning for municipalities, as well as building code administration.

*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 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.

*Department of Corrections.* 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) include 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; 6.85 cents to RIPTA; 1.0 cent to the Department of Elderly Affairs; and 1.4 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 21<sup>st</sup> 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. It is the State's expectation that such "GARVEE" financing will be completed 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.

## **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 were prepared, for the first time for the fiscal year ending June 30, 2002, in compliance with Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial States – 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, 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.

In anticipation of the implementation of GASB Statement 43, *“Other Post Employment Benefits,”* the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability is estimated to be approximately \$600 million for State employees and \$29 million for the State’s share for teachers. The actuarially based funding of this liability is reflected in the State’s five-year forecast and would require an estimate rate of contribution of 8.57% of payroll.

## **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 16 of the Rhode Island Constitution and Rhode Island General Laws section 35-3-7, the Governor must present spending recommendations to the Legislature on or before the third Wednesday in February, 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 Legislature 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. The FY 2004 budget reserve account balance was \$83.7 million.

## **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 Administration'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. 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 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 2005 reflect the State Controller's preliminary actual revenues.

### Major Sources of State Revenue

**Tax Revenues:** Approximately 69.4 percent of all taxes and departmental receipts in FY 2004 were derived from the Rhode Island personal income tax and the sales and use tax. They constituted 61.3 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. The most significant modification provides for eliminating capital gains taxes on assets held more than five years. This modification takes effect on January 1, 2007. 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 corporation). 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 current 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 the Governor’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 ones for the costs incurred to receive certification from the International Standards Organization, for the loan guaranty fees charged by the 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 agreed with 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, in order to meet the demands associated with these collection initiatives, the Governor proposed and the General Assembly concurred to the hiring of six additional field auditors in the Division of Taxation.

The Rhode Island personal income tax accounted for approximately \$890.9 million, or 31.9 percent, of the State’s FY 2004 preliminary general revenues. FY 2004 preliminary income tax collections rose not only in dollar amount but also in share of total general revenues from FY 2003.

*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 (excluding food sold by restaurants, drive-ins or other eating places) for human consumption off the premises of the retailer; (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.

The sales and use tax accounted for approximately \$823.1 million, or 29.4 percent, of the State's FY 2004 preliminary general revenues. FY 2004 preliminary sales and use tax collections rose in dollar terms and also in share of total general revenues from FY 2003.

*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. 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 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, with partial agreement from the Governor, 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.

The business corporation tax accounted for approximately \$76.0 million, or 2.7 percent, of the State's FY 2004 preliminary general revenues. FY 2004 preliminary business corporations tax collections rose both in dollar terms and in the share of total general revenues from FY 2003.

*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.

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.

The health care provider assessment accounted for approximately \$40.3 million, or 1.4 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount and the share of total general revenues increased for the health care provider assessment between preliminary FY 2004 and FY 2003.

*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.

As noted above in Personal Income Tax and Business Corporation Tax, 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 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.

The public service corporation tax accounted for approximately \$92.2 million, or 3.3 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount and the share of total general revenues increased for the public utilities gross earnings tax between preliminary FY 2004 and FY 2003.

*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 businesses. 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 country 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 are the premiums paid to the insurer that maintains the State's workers compensation insurance fund. Nonprofit hospital service corporations are specifically excluded from the insurance companies' tax. 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 two to four 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 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.

As noted above, 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 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.

The insurance companies' tax accounted for approximately \$43.4 million, or 1.6 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount and the share of total general revenues decreased for the tax on insurance companies between preliminary FY 2004 and FY 2003.

*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 are subject to the tax, effective 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 two to four 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 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.

As noted above, 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 excise tax owed by financial institutions.

The financial institutions tax accounted for approximately \$(7.3 million), or -0.3 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount and the share of total general revenues decreased for the financial institutions excise tax between preliminary FY 2004 and FY 2003.

*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 .0348 cents for each \$100 for institutions with over \$150 million in deposits and a rate of .0313 cents for each \$100 applying to credit unions with less than \$150 million in deposits.

The bank deposits tax accounted for approximately \$1.6 million, or 0.1 percent, of the State's FY 2004 preliminary general revenues. The dollar amount of bank deposits taxes was less in preliminary FY 2004 vs. FY 2003 while its share of total general revenues remained stable.

*Estate Tax.* For decedents whose deaths occurred before January 1, 2002, the estate tax will equal the applicable credit allowable under federal estate tax law. For decedents whose deaths occur on or after January 1, 2002, the estate tax will equal 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 date of death.

The estate tax accounted for approximately \$23.9 million, or 0.9 percent, of the State's FY 2004 preliminary general revenues. The dollar amount of estate taxes was less in preliminary FY 2004 vs. FY 2003 while its share of total general revenues remained stable.

*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 well over 98 percent of the total cigarette taxes collected by the state.

The cigarette stamp tax 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. Finally, on July 1, 2004, it was increased by 75 cents to \$2.46 per pack of 20 cigarettes.

The cigarette tax accounted for approximately \$117.4 million, or 4.2 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between preliminary FY 2004 and FY 2003.

*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. This 2.0 cents a 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. Finally, 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.

The transfer of the motor fuel tax to the General Fund accounted for approximately \$8.4 million, or 0.3 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount of the motor fuel tax transfer and its share of total general revenues decreased between preliminary FY 2004 and FY 2003. It should be noted that \$14.3 million of FY 2003 motor fuel taxes collected represented the Department of Transportation's repayment of the debt service savings it reaped from the defeasance of some of its outstanding debt via the securitization of the State's future tobacco Master Settlement Agreement payments.

*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.

Other taxes accounted for approximately \$76.6 million, or 2.7 percent, of the State's FY 2004 preliminary general revenues. Both the dollar amount of other taxes and their share of total general revenues increased between preliminary FY 2004 and FY 2003.

*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.

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 hospital's 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 hospital's 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 hospital's 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 hospital's 2000 base year. Finally, for FY 2004 the rate was set at 4.0 percent of net patient service revenues applicable to the 2001 base year. Other significant license and fees revenues are derived from the registration of securities, motor vehicle title fees and various professional licenses.

In the 2004 Session, the Governor proposed and the General Assembly agreed to increase a wide variety of fees as part of the Governor's Fiscal Fitness initiative. Fee increases were passed for the Department of Administration, Department of Business Regulation, the Department of Children, Youth, and Families, the Department of Education, the Department of Environmental Management, the Department of Labor and Training, and the Department of Transportation. In addition, the hospital licensing fee was renewed for another year at a rate of 3.14 percent of 2003 net patient service revenues.

The second largest 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.

Departmental Receipts were approximately \$290.8 million, or 10.4 percent, of the State's preliminary general revenue in FY 2004. Preliminary FY 2004 departmental receipts were slightly higher on a nominal basis than in FY 2003, however, as a share of total general revenues they declined slightly.

*Other Sources.* The largest component of Other Sources is the transfer from the Rhode Island Lottery Commission. The State Lottery Fund was created in 1974 for the receipt and disbursement of revenues of the State Lottery Commission 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 Commission 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.

Lottery transfers to the General Fund totaled \$281.1 million, which accounted for 10.1 percent of the State's preliminary general revenues in FY 2004. Both the dollar amount of the lottery transfer and its share of total general revenues increased between preliminary FY 2004 and FY 2003.

The next largest component of Other Sources is the Other Miscellaneous category. This category includes the State's Tobacco Master Settlement Agreement (MSA) payments as well as operating transfers to the General Fund from the proceeds of the State's securitization of its future tobacco MSA payments. The former totaled \$52.7 million and the later \$113.5 million for a total of \$166.2 million in tobacco settlement monies utilized in FY 2003. In FY 2004, tobacco Master Settlement Agreement payments totaled \$453,661 while tobacco securitization proceeds were \$1.45 million, or a total of \$1.9 million in tobacco settlement monies.

The total amount of Other Miscellaneous monies received was approximately \$19.7 million, which accounted for 0.7 percent of the State's preliminary FY 2004 total general revenues. For FY 2003, these amounts were \$184.1 million and 6.7 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 \$8.4 million in FY 2004 preliminary revenues.

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.

Unclaimed property transfers totaled \$17.0 million in FY 2004 and accounted for 0.6 percent of the State's preliminary general revenues for FY 2004. Both the dollar amount of the unclaimed property transfer and its share of total general revenues increased between preliminary FY 2004 and FY 2003.

*Restricted Receipts.* In FY 2003, the State expended \$136.6 million that was received in restricted receipts, excluding transfers into the General Fund. These reflect various specialized 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 2003, the State expended \$1.851 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), Temporary Assistance to Needy Families (TANF), and State Children's Health Insurance Programs – SCHIP (Title XXI). The federal participatory rates for Titles XIX and XXI are recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. The federal match rate was 55.4 percent effective October 1, 2002 and was increased to 58.35 percent in April 2003 due to the passage of the Jobs and Growth Tax Relief Program. Effective October 1, 2003 to June 30, 2003, the rate is 58.98 percent.

## 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)).

The Revenue Estimating Conference incorporates a range of economic forecasts and economic information in making revenue estimates. During its November 2004 meeting, forecasts were presented by *Economy.com* and *Global Insight*. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends.

Due to the Rhode Island Division of Taxation's procurement of an updated personal income tax simulation model in 2001, additional economic variables needed to be forecast at the November 2001 Conference and all Revenue Estimating Conferences thereafter. Thus, at the November 2004 Revenue Estimating Conference, fiscal year forecasts for the following economic variables were agreed upon (all measures are for Rhode Island unless otherwise noted): total employment, total personal income, wage and salary income, farm income, non-farm business income, dividends, interest and rent, total transfer payments, the unemployment rate, the U.S. consumer price index, the interest rate for ten year U.S. Treasury notes, and the interest rate for three month U.S. Treasury bills. Furthermore, the forecast of these economic variables was expanded to include the relevant calendar years and extended to cover the period from 2001 through 2013.

During the November 2004 Conference, as compared to the consensus economic forecast adopted at the May 2004 Revenue Estimating Conference, *Economy.com* shifted out its forecast for Rhode Island non-farm employment growth from FY 2005 to FY 2006. That is, *Economy.com* reduced its forecast for RI non-farm employment growth by 20 basis points in FY 2005 while increasing its FY 2006 forecast by the same amount. *Global Insight*, on the other hand, revised its FY 2005 estimate for RI non-farm employment growth down by 0.3 percent with a similar reduction in FY 2006. In addition, *Economy.com* decreased its estimate for RI non-farm employment growth in FY 2007 by 20 basis points but increased it every year for the FY 2008–FY 2010 period by 10 to 20 basis points. Again, *Global Insight's* forecast was much more pessimistic with a reduction in RI non-farm employment growth in FY 2007 of 60 basis points and reductions of 30 to 40 basis points each year for the FY 2008–FY 2010 period. The stark differences in these two forecasts revolved around how each forecaster thought the Massachusetts economy would perform in this period and the interaction between it and the Rhode Island economy. Faced with such divergent views, the conferees adopted a growth forecast for RI non-farm employment that was a 10 basis points reduction from the May 2004 Consensus Economic Forecast for FY 2005 and FY 2006 while maintaining the May 2004 adopted forecast for the FY 2007–FY 2010 period.

As determined by the November 2004 Revenue Estimating Conference (REC), Rhode Island's labor market has been strong, with total non-farm employment growing from 477.9 thousand jobs in FY 2002 to 486.3 thousand jobs in FY 2004, a gain of approximately 8,400 jobs. In addition, the November 2004 REC forecasted job growth in FY 2005 of approximately 7,300 jobs, or 1.5 percent, and forecasted job growth of 7,600 jobs, or 1.5 percent, in non-farm employment in FY 2006. Rhode Island's long-run steady state non-farm employment growth rate is estimated at 0.8 percent, however, the principals of the November 2004 REC forecast that the State will be able to exceed that level in FY 2007 and FY 2008. This employment refers to the number of Rhode Island residents working, as opposed to the number of jobs in Rhode Island establishments.

The November 2004 Conference forecasted that personal income will grow steadily over the FY 2005–FY 2010 period, with average growth of approximately 4.2 percent over these fiscal years. The November 2004 Conference forecasts consumer price inflation to remain at or below 2.3 percent for the FY 2005–FY 2010 period. In addition, Rhode Island's unemployment rate is forecasted to remain stable at 5.3 percent in FY 2004 and FY 2005. It is then expected to decline to 5.1 percent in FY 2006 and to continue this slow decline to 5.0 percent in FY 2007 – 2008. The State's unemployment rate will attain its steady state equilibrium of 4.9 percent in FY 2009 – FY 2010.

The consensus economic forecast for the fiscal years 2003 to 2006 agreed upon by the conferees at the November 2004 Revenue Estimating Conference is shown in the following table. This consensus economic forecast reflects the belief that the economic recovery in Rhode Island will be strong but with slightly less robust growth in employment and similar growth in personal income than was predicted at the May 2004 Revenue Estimating Conference.

<b>The November 2004 Consensus Economic Forecast</b>				
<b>Rates of Growth</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
Total Employment	0.7%	1.1%	1.5%	1.5%
Personal Income	3.0%	4.3%	4.3%	4.1%
Wage and Salary Income	4.4%	4.6%	4.1%	4.8%
Farm Income	0.0%	0.0%	0.0%	0.0%
Non-Farm Business Income	2.7%	9.5%	7.0%	5.9%
Dividends, Interest and Rent	-3.2%	0.6%	2.3%	1.5%
Total Transfer Payments	3.6%	4.2%	4.6%	4.1%
<b>Nominal Levels</b>				
U.S. CPI-U	2.2%	2.2%	2.3%	1.8%
Unemployment Rate	5.4%	5.3%	5.3%	5.1%
Ten Year Treasury Notes	4.0%	4.3%	4.7%	5.3%
Three Month Treasury Bills	1.3%	1.0%	2.2 %	3.2 %



## REVENUE ESTIMATES

Revenue estimates are predicated upon the consensus arrived at the November 2004 Revenue Estimating Conference. The Consensus Revenue Estimating Conference is required by law to convene at least twice annually to forecast general revenues for the current year and the budget year, based upon current law, collection trends, and the Consensus Economic Forecast.

The November 2004 Revenue Estimating Conference estimated general revenues of \$2.977 billion in FY 2005. This revised FY 2005 estimate is an increase of \$22.9 million, or 0.8 percent, from the General Assembly's estimated general revenues of \$2.954 billion that were included in the FY 2005 Enacted Budget. The annual estimated revenue growth for FY 2005 is 6.5 percent more than the preliminary determination of the general revenues collected in FY 2004.

### FY 2005 Revised Revenue Estimate

The November 2004 Conference revised the enacted FY 2005 revenue estimate up by \$22.9 million. The increase in FY 2005 general revenues is comprised of a large increase in personal income tax collections, sales and use tax collections, public utilities gross earnings taxes, and the unclaimed property transfer to the General Fund. These revenue increases were offset in part by downward revisions in cigarette tax collections, departmental receipts, business corporations tax collections, and the lottery transfer to the General Fund.

The revised FY 2005 revenue estimate is a 0.8 percent increase from the enacted estimate passed by the General Assembly in July 2004. Revised revenues for FY 2005 are predicated upon a \$140.8 million increase in tax collections over preliminary FY 2004, or growth of 6.5 percent. The increase in Departmental Receipts is estimated to be on the order of \$6.2 million over preliminary FY 2004 collections, an increase of 2.1 percent. Other Sources, on the other hand, are estimated to decline in FY 2005 by \$2.9 million, or -14.8 percent, from preliminary FY 2004 collections. Much of the decrease in revised FY 2005 Other Sources is due to the \$1.9 million decrease in the use of tobacco settlement monies, including securitization proceeds, between FY 2004 and FY 2005. This decrease in the use of tobacco settlement monies is compounded by a decrease in expected reimbursements from DEPCO of \$1.0 million in FY 2005. The State Lottery Fund's transfer to the General Fund is anticipated to be \$36.8 million more in FY 2005 than in FY 2004. This is an increase of 13.1 percent. The increase in the lottery transfer is due in part to the General Assembly's enactment of a change in the video lottery revenue sharing formula that is more favorable to the State. The General Fund is scheduled to receive \$9.6 million in gas tax revenues, an increase of 13.8 percent from FY 2004 collections. This growth is a result of the increase in the General Fund's share of the motor fuel tax from 1.4 cents per gallon of motor fuel sold to 2.0 cents in March 2004.

The largest source of FY 2005 revised general revenues is personal income tax payments, which are estimated to increase to \$949.9 million, or 6.6 percent over preliminary FY 2004 collections. Rhode Island's personal income tax rate remains unchanged from FY 2004 at 25.0 percent of Rhode Island taxable income. The increased Investment Tax Credit and Research and Development Tax Credits also continue to impact tax collections in FY 2005, as individuals and businesses continue to reap the benefits of an improved tax structure in Rhode Island. The Historic Preservation Tax Credits are estimated to decrease personal income tax collections by \$12.0 million in FY 2005. In preliminary FY 2004 collections, these credits decreased personal income tax revenues by \$1.2 million. Personal income taxes are expected to comprise 31.9 percent of revised general revenues collected in FY 2005.

The Sales Tax is expected to show gains in revised FY 2005 collections of \$40.9 million over preliminary FY 2004 collections. Sales taxes represent 29.0 percent of revised general revenues in FY 2005. Rhode Island sales tax collections are expected to increase in FY 2005 due primarily to the strength of the Rhode Island housing market and continued improvement in the State's economy. Revised collections for FY 2005 are \$864.0 million, reflecting a growth rate of 5.0 percent over preliminary FY 2004 collections and an increase of \$5.4 million from the enacted FY 2005 estimate passed by the General Assembly in July 2004.

Within the excise tax category, motor vehicle tax collections are revised to \$47.1 million in FY 2005, a decrease of 0.7 percent over preliminary FY 2004 collections. The Motor Fuel tax estimate was revised down to \$850,000 from the \$1.1 million enacted estimate. This revised value is slightly lower than preliminary FY 2004 receipts. The revised FY 2005 Cigarette tax estimate of \$137.5 million is a decrease of \$6.3 million from the enacted FY 2005 estimate but a sharp upward increase of \$20.1 million from preliminary FY 2004 collections. Both of these figures reflect the 2004 General Assembly's enactment of an increase in the cigarette tax from \$1.71 per pack to \$2.46 per pack effective July 1,

2004. The revised FY 2005 Cigarette tax estimate is a decrease of 4.4 percent from the enacted FY 2005 estimate and 17.1 percent greater than preliminary FY 2004 collections.

The revised FY 2005 estimate of general business taxes projects positive growth over preliminary FY 2004 collections in nearly all categories, the exception being insurance companies and the Public Utilities Gross Earnings taxes which declined \$1.7 million and \$809,614 respectively. The revised FY 2005 estimate for insurance companies taxes includes a \$6.0 million decrease in collections due to the Historic Preservation Tax Credits. In preliminary FY 2004, Historic Preservation Tax Credits totaled \$3.1 million. The FY 2005 revised estimate for Business Corporations taxes is \$10.0 million, or 13.2 percent above preliminary FY 2004 collections. This revised estimate includes \$1.0 million of Historic Preservation Tax Credits estimated to be taken in tax year 2004 (i.e., FY 2005). The Financial Institutions taxes estimate has been revised upward to -\$1.1 million in FY 2005, \$1.9 million above the enacted FY 2005 estimate of -\$3.0 million. The primary reason for the upward revision in the Financial Institutions tax was the fact that a large financial institution in the State took a tax year 2002 refund of \$10.8 million in November 2003. At this time, although an additional \$10.7 million of tax year 2003 refundable tax payments are still owed this financial institution, it has been intimated that this institution will not request a payment of this refund in the near future. The Public Utilities Gross Earnings Tax was decreased by \$809,614 from the enacted FY 2005 estimate. The revised FY 2005 estimate for this tax is \$91.4 million. The revised FY 2005 estimate reflects growth of -0.9 percent from preliminary FY 2004 collections. The Health Care Provider Tax is estimated to yield \$43.4 million in FY 2005, an increase of \$3.1 million, or 7.6 percent, from the \$40.3 million collected in FY 2004.

Inheritance and Gift Taxes were revised upward in FY 2005 to \$27.0 million, \$2.0 million, or 8.0 percent, more than the enacted FY 2005 estimate and \$3.1 million, or 12.9 percent, greater than preliminary FY 2004 collections. Racing and Athletics Taxes were revised slightly downward for FY 2005 by \$10,000 from the enacted FY 2005 estimate. Realty Transfer Taxes were revised up by \$2.4 million in FY 2005 to \$13.4 million from an enacted FY 2005 estimate of \$11.0 million. This upward revision is attributable to the robust Rhode Island housing market, which was one of the strongest markets in the country during 2004. The revised FY 2005 estimate is 2.8 percent greater than preliminary FY 2004 collections.

The revised FY 2005 estimate for Departmental Receipts is \$297.0 million, an increase of \$6.2 million, or 2.1 percent, from preliminary FY 2004 collections. The revised FY 2005 Departmental Receipts estimate is \$6.4 million less than the enacted FY 2005 estimate. Other Sources receipts were revised to \$361.4 million in FY 2005 from an enacted estimate of \$362.3 million. The major components in this category include other miscellaneous revenues, as well as transfers from the State Lottery Fund, unclaimed property and gas tax transfers from the Intermodal Surface Transportation Fund (ISTF).

Other Miscellaneous Revenues were reduced by \$2.4 million from the FY 2005 Enacted Budget. Other Miscellaneous Revenues are expected to decrease by \$2.9 million from preliminary FY 2004 collections. The remaining components of Other Sources are expected to increase or remain stable in FY 2005 relative to preliminary FY 2004 collections.

Transfers from the State Lottery Fund have been revised to increase by \$36.9 million in FY 2005 over preliminary FY 2004 transfers. The increase in State Lottery Fund transfers relative to preliminary FY 2004 collections is attributable to growth in all lottery components and a favorable change in the allocation of net terminal income to the State passed by the General Assembly in July 2004. With respect to the FY 2005 enacted lottery transfer estimate, the revised FY 2005 lottery transfer estimate is \$4.4 million less. The downward revision in the lottery transfer in FY 2005 from the enacted FY 2005 estimate is a result of current fiscal year collections from instant ticket and on-line games growing at rates well below those anticipated in July 2004.

Transfers from the ISTF are expected to be \$9.6 million in FY 2005. This total is \$1.2 million more than in 2004 due to the shift of \$0.006 of the \$0.30 per gallon motor fuel tax to the general fund from the Rhode Island Public Transit Authority effective March 1, 2004.

Transfers from the Unclaimed Property fund were revised in FY 2005 to remain consistent with preliminary FY 2004 collections. The stabilization in the unclaimed property transfer is due to a one-time, sizeable jump in revenue that the State's unclaimed property program expects to receive from non-Rhode Island sources in FY 2005.

In the revised FY 2005 budget, the Governor proposes minor net changes to the adopted revenue estimates of \$35,699. In total, the Governor's revised FY 2005 budget estimates revenue of \$2.977 billion. This is an increase of \$181.9 million, or 6.5 percent, over preliminary FY 2004 revenue collections and an increase of \$22.7 million, or 0.8 percent, from the enacted FY 2005 budget passed by the General Assembly in July 2004.

### **FY 2006 Revenue Estimate**

The November 2004 Revenue Estimating Conference estimated general revenues of \$3.033 billion for FY 2006. This FY 2006 estimate is an increase of \$56.0 million, or 1.9 percent, from the FY 2005 revised revenue estimate of \$2.977 billion. This increase does not include \$58.6 million for the Hospital Licensing Fee realized in FY 2005. The Governor's proposed FY 2006 budget contains revenue enhancements of \$86.8 million, including \$64.4 million for the Hospital Licensing Fee, for total recommended revenues of \$3.120 billion. The Governor's recommended FY 2006 revenues represent growth of 4.8 percent over the revised FY 2005 budget.

The estimate for personal income taxes adopted at the November 2004 Revenue Estimating Conference was \$999.2 million. The Governor's recommended FY 2006 budget estimates the personal income tax to be \$999.3 million, a minor increase over the estimate in the Governor's revised FY 2005 budget. The Governor's FY 2005 personal income tax estimate contains a loss of \$12.0 million in collections due to the Historic Preservation Tax Credits as well as other foregone revenue due to the Investment Tax Credit and the Research and Development Tax Credit.

The estimate for sales and use taxes adopted at the November 2004 Revenue Estimating Conference was \$904.2 million. The Governor's recommended FY 2006 budget estimates the sales and use tax to be \$906.1 million, an increase of \$42.1 million, or 4.9 percent, over the estimate in the revised FY 2005 budget. The enacted FY 2005 sales and use tax estimate contains \$1.9 million in revenue enhancements. Additional sales tax revenues are estimated from the Governor's proposal to require that cigarette wholesalers pay the state sales tax on cigarettes at the time that cigarette excise tax stamps are purchased.

The estimate for taxes on insurance companies adopted at the November 2004 Revenue Estimating Conference was \$42.7 million. The Governor's recommended FY 2006 budget estimates the insurance companies tax to be \$45.8 million, an increase of \$4.1 million, or 9.8 percent, over the estimate in the Governor's revised FY 2005 budget. The recommended FY 2006 insurance companies tax estimate contains \$3.1 million in revenue enhancements associated with the proposed repeal of the tax exemption for Beacon Mutual Insurance Company, the State's workers compensation insurer of last resort. It should be noted that the Governor's recommended estimate for insurance company tax revenues includes a decrease of \$6.0 million in collections due to Historic Preservation Tax Credits.

The estimate for cigarette tax collections adopted at the November 2004 REC was \$126.1 million, a decrease of \$11.4 million, or 8.3 percent, from the revised FY 2005 estimate. The sharp decrease in projected revenue collections reflects the increasing elasticity of demand for cigarettes subject to the State's cigarette stamp excise tax as the price of cigarettes has risen sharply over that past five years. The Governor's recommended FY 2006 budget does not propose any change to the State's cigarette tax.

The estimate for other miscellaneous revenues adopted at the November 2004 Revenue Estimating Conference was \$8.5 million. The Governor's recommended FY 2006 budget estimates other miscellaneous revenues to be \$15.0 million, an increase of \$6.5 million, or 76.8 percent, over the estimate adopted at the November 2004 REC. The increase is due to the Governor's proposal to transfer surplus retained earnings from the Rhode Island Resource Recovery Corporation and the Underground Storage Tank Review Board of \$6.5 million in FY 2006.

The estimate for the lottery transfer to the General Fund adopted at the November 2004 Revenue Estimating Conference was \$356.7 million. The Governor's recommended FY 2006 budget maintains this estimated level of the lottery transfer. It represents an increase of \$38.7 million, or 12.2 percent, over the revised FY 2005 estimate for the lottery transfer to the General Fund. The recommended FY 2006 lottery transfer estimate contains no revenue enhancements from altering the revenue distribution formula and does not rely on the installation of any new video lottery terminals at either of the State's two authorized video lottery retailers.

The estimate for the unclaimed property transfer to the General Fund adopted at the November 2004 Revenue Estimating Conference was \$11.8 million, a decrease of \$5.2 million from the revised FY 2005 estimate. This decrease is attributable to the purchase of Fleet Boston Financial by Bank of America and the resultant change in ownership. Bank of

America is a North Carolina chartered bank holding company and therefore North Carolina will receive all escheated unclaimed property from all states in which Bank of America does business. Fleet Boston Financial was a Rhode Island chartered bank holding company and the State received escheated Fleet Boston Financial monies in the past. The Governor's recommended FY 2006 budget lowers this estimate by \$507,000 to account for the increase in the indirect cost recovery rate that is applied to the unclaimed property revenue source.

### **COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES**

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2003 through 2006 and expenditures for the fiscal years 2003 through 2006. General Fund data for FY 2003 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller, and post audited by the Auditor General. Expenditure data for fiscal year 2004 reflects preliminary estimates of actual expenditures derived the preliminary closing report of the State Controller, and modified by certain adjustments by the State Controller. Expenditures for fiscal year 2005 reflect enacted appropriations adjusted for the changes to expenditures proposed by the Governor in January 2005, with amendments. Expenditures for FY 2006 reflect those in the Appropriation Act proposed to the General Assembly by the Governor in January 2005, with amendments. 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. The expenditure tables restate amounts classified by the Controller as "operating transfers," or amounts received by or transferred to other funds, as expenditures.

General Fund revenues for FY 2003 reflect the audited actual revenues as reported by the State Controller. General Fund revenues for FY 2004 reflect preliminary estimates of actual revenues derived from preliminary closing statements of the State Controller, modified by certain adjustments by the State Controller. FY 2005 and FY 2006 revenues are predicated upon consensus estimates of the Revenue Estimating Conferences in November 2004, as adjusted by the statutory changes to revenues adopted by the Revenue Estimating Conference which were proposed by the Governor in January 2005, with amendments. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

## General Revenues as Recommended

	<b>FY 2003 Actual</b>	<b>FY 2004 Preliminary</b>	<b>FY 2005 Revised</b>	<b>FY 2006 Recommended</b>
<b>Personal Income Tax</b>	\$813,341,218	\$890,916,809	\$949,900,000	\$999,261,455
<b>General Business Taxes</b>				
Business Corporations*	62,818,292	75,996,096	86,000,000	91,538,545
Franchise				
Public Utilities Gross Earnings	76,134,288	92,209,614	91,400,000	92,400,000
Financial Institutions	9,804,211	(7,296,194)	(1,100,000)	100,000
Insurance Companies	51,287,425	43,418,735	41,700,000	45,784,623
Bank Deposits	1,697,630	1,579,935	1,600,000	1,600,000
Health Care Provider Assessment	28,140,784	40,317,507	43,400,000	44,100,000
<b>Sales and Use Taxes</b>				
Sales and Use	777,364,781	823,121,943	864,000,000	906,095,581
Motor Vehicle	47,250,900	47,412,677	47,100,000	49,520,200
Motor Fuel	1,022,168	877,113	850,000	875,000
Cigarettes	94,379,289	117,418,114	137,500,000	126,100,000
Alcohol	10,059,399	10,342,162	11,600,000	12,100,000
Controlled Substances	-	-	-	-
<b>Other Taxes</b>				
Inheritance and Gift	24,351,448	23,904,508	27,000,000	27,500,000
Racing and Athletics	4,939,017	4,939,874	4,600,000	4,470,000
Realty Transfer	9,781,150	13,036,709	13,400,000	14,100,000
<b>Total Taxes</b>	<b>2,012,372,000</b>	<b>2,178,195,602</b>	<b>2,318,950,000</b>	<b>2,415,545,404</b>
<b>Departmental Receipts</b>	290,254,791	290,768,971	297,035,699	311,841,487
<b>Taxes and Departmentals</b>	<b>2,302,626,791</b>	<b>2,468,964,573</b>	<b>2,615,985,699</b>	<b>2,727,386,891</b>
<b>Other Sources</b>				
Gas Tax Transfer	25,506,330	8,398,244	9,560,000	9,600,000
Other Miscellaneous	184,086,402	19,705,661	16,799,000	14,966,000
Lottery	236,540,055	281,141,647	318,000,000	356,700,000
Unclaimed Property	8,458,048	17,042,121	16,765,068	11,293,000
<b>Other Sources</b>	<b>454,590,835</b>	<b>326,287,673</b>	<b>361,124,068</b>	<b>392,559,000</b>
<b>Total General Revenues</b>	<b>\$2,757,217,626</b>	<b>\$2,795,252,246</b>	<b>\$2,977,109,767</b>	<b>\$3,119,945,891</b>

\* Business Corporations Taxes was merged with Franchise Taxes at the May 2003 Revenue Estimating Conference.

## Expenditures from General Revenues

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>General Government</b>				
Administration	\$ 367,405,218	\$ 336,916,344	\$ 417,939,078	\$ 406,485,260
Business Regulation	9,185,949	9,330,043	9,822,036	10,209,291
Labor and Training	6,842,571	7,534,669	6,939,593	6,768,870
Legislature	27,421,875	24,362,256	29,130,423	27,951,951
Lieutenant Governor	795,014	841,746	869,076	917,362
Secretary of State	5,974,313	4,554,708	5,132,164	4,799,470
General Treasurer	3,497,996	2,731,693	3,605,979	2,898,672
Boards for Design Professionals	439,718	418,901	419,493	434,116
Board of Elections	3,118,288	1,315,570	1,605,970	1,421,683
Rhode Island Ethics Commission	880,894	850,786	1,129,593	1,207,394
Governor's Office	6,206,325	4,380,811	4,397,125	4,530,495
Public Utilities Commission	658,167	639,946	678,534	710,111
Rhode Island Commission on Women	128,402	65,185	83,876	86,557
<b>Subtotal - General Government</b>	<b>\$ 432,554,730</b>	<b>\$ 393,942,657</b>	<b>\$ 481,752,940</b>	<b>\$ 468,421,232</b>
<b>Human Services</b>				
Children, Youth, and Families	142,506,880	141,197,300	153,572,657	161,640,261
Elderly Affairs	27,333,971	29,279,214	27,917,924	28,697,126
Health	34,814,798	33,719,333	29,954,554	27,866,355
Human Services	603,149,660	635,211,245	719,157,089	768,915,978
Mental Health, Retardation, & Hospitals	220,817,604	215,193,724	233,551,439	238,267,015
Office of the Child Advocate	534,804	497,068	394,960	498,621
Commission on Deaf & Hard of Hearing	216,486	236,615	299,540	307,606
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	518,275	538,148	508,483	531,409
Commission for Human Rights	814,166	1,038,517	989,299	979,397
Office of the Mental Health Advocate	309,546	322,571	335,157	351,329
<b>Subtotal - Human Services</b>	<b>\$ 1,031,016,190</b>	<b>\$ 1,057,233,733</b>	<b>\$ 1,166,681,102</b>	<b>\$ 1,228,055,097</b>
<b>Education</b>				
Elementary and Secondary	742,734,656	777,029,245	794,655,689	837,030,846
Higher Education - Board of Governors	169,453,714	171,028,237	173,200,070	181,512,437
RI Council on the Arts	1,682,788	1,605,871	2,443,965	2,341,921
RI Atomic Energy Commission	668,866	695,635	719,144	765,890
Higher Education Assistance Authority	6,017,049	11,051,447	9,957,984	9,900,422
Historical Preservation and Heritage Commission	1,023,624	1,022,293	1,218,829	1,266,602
Public Telecommunications Authority	1,121,228	1,217,692	1,143,252	1,285,906
<b>Subtotal - Education</b>	<b>\$ 922,701,925</b>	<b>\$ 963,650,419</b>	<b>\$ 983,338,933</b>	<b>\$ 1,034,104,024</b>

## Expenditures from General Revenues

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>Public Safety</b>				
Attorney General	15,598,431	16,077,703	17,283,697	17,808,654
Corrections	137,096,214	144,082,968	148,105,766	146,602,300
Judicial	63,839,003	66,785,021	72,189,646	72,661,023
Military Staff	2,203,488	2,019,613	2,311,762	2,331,813
E-911 Emergency Telephone System	3,965,519	4,037,237	3,841,168	3,968,299
Fire Safety Code Board of Appeal & Review	241,753	211,693	243,629	266,894
State Fire Marshal	1,352,605	1,514,606	1,912,765	2,368,505
Commission on Judicial Tenure and Discipline	111,692	95,720	125,254	106,650
Rhode Island Justice Commission	166,450	161,663	253,962	253,085
Municipal Police Training Academy	344,422	343,298	361,375	373,710
State Police	38,382,940	39,147,188	42,477,586	44,785,482
Office Of Public Defender	5,935,302	6,291,199	6,915,154	7,677,125
<b>Subtotal - Public Safety</b>	<b>\$ 269,237,819</b>	<b>\$ 280,767,909</b>	<b>\$ 296,021,764</b>	<b>\$ 299,203,540</b>
<b>Natural Resources</b>				
Environmental Management	32,311,629	31,448,346	33,006,632	36,531,685
Coastal Resources Management Council	1,464,113	1,457,694	1,467,463	1,524,855
Water Resources Board	1,037,286	911,497	1,227,071	1,295,239
<b>Subtotal - Natural Resources</b>	<b>\$ 34,813,028</b>	<b>\$ 33,817,537</b>	<b>\$ 35,701,166</b>	<b>\$ 39,351,779</b>
<b>Transportation</b>				
Transportation	-	-	-	-
<b>Subtotal - Transportation</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total</b>	<b>\$ 2,690,323,692</b>	<b>\$ 2,729,412,255</b>	<b>\$ 2,963,495,905</b>	<b>\$ 3,069,135,672</b>

## Expenditures from Federal Funds

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>General Government</b>				
Administration	\$ 32,502,341	\$ 82,181,651	\$ 37,669,461	\$ 25,888,496
Business Regulation	-	-	-	-
Labor and Training	34,400,596	31,357,468	32,169,765	28,569,144
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	28,638	1,502,841	2,573,724	981,955
General Treasurer	329,090	2,372,572	2,188,724	1,499,239
Boards for Design Professionals	-	-	-	-
Board of Elections	-	953,091	1,342,576	1,086,873
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	64,117	60,539	72,490	75,437
Rhode Island Commission on Women	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 67,324,782</b>	<b>\$ 118,428,161</b>	<b>\$ 76,016,740</b>	<b>\$ 58,101,144</b>
<b>Human Services</b>				
Children, Youth, and Families	92,044,324	109,087,004	107,206,478	107,444,380
Elderly Affairs	10,325,114	11,776,519	13,284,640	12,846,033
Health	58,733,812	67,152,707	67,988,849	66,752,877
Human Services	811,725,133	911,983,417	944,015,281	996,086,834
Mental Health, Retardation, & Hospitals	217,167,224	240,824,691	235,460,401	240,595,171
Office of the Child Advocate	371,516	84,478	34,172	48,060
Commission on Deaf & Hard of Hearing	-	-	-	45,336
RI Developmental Disabilities Council	499,370	481,413	510,313	511,924
Governor's Commission on Disabilities	1,408	17,568	153,349	116,928
Commission for Human Rights	347,282	62,689	213,808	269,705
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 1,191,215,183</b>	<b>\$ 1,341,470,486</b>	<b>\$ 1,368,867,291</b>	<b>\$ 1,424,717,248</b>
<b>Education</b>				
Elementary and Secondary	128,195,727	147,742,910	169,112,172	178,766,858
Higher Education - Board of Governors	2,829,217	1,882,161	3,351,931	3,085,532
RI Council on the Arts	575,627	568,614	676,661	758,437
RI Atomic Energy Commission	(2,558)	123,663	325,000	325,000
Higher Education Assistance Authority	5,007,519	7,481,023	10,406,758	12,390,339
Historical Preservation and Heritage Commission	545,283	511,398	603,760	583,881
Public Telecommunications Authority	-	194,865	360,736	-
<b>Subtotal - Education</b>	<b>\$ 137,150,815</b>	<b>\$ 158,504,635</b>	<b>\$ 184,837,018</b>	<b>\$ 195,910,047</b>



## Expenditures from Federal Funds

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>Public Safety</b>				
Attorney General	1,648,743	1,477,922	2,197,376	1,158,544
Corrections	3,127,232	1,800,395	10,831,916	9,461,400
Judicial	3,267,741	3,294,417	5,071,158	3,129,095
Military Staff	10,857,391	23,690,071	36,578,498	26,461,158
E-911 Emergency Telephone System	-	-	136,000	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	151,515	100,454	340,379	341,635
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	4,798,274	4,748,950	5,785,219	5,451,607
Municipal Police Training Academy	18,535	21,819	129,351	30,000
State Police	1,768,728	1,323,303	1,740,301	1,379,224
Office Of Public Defender	376,402	384,243	451,359	237,847
<b>Subtotal - Public Safety</b>	<b>\$ 26,014,561</b>	<b>\$ 36,841,574</b>	<b>\$ 63,261,557</b>	<b>\$ 47,650,510</b>
<b>Natural Resources</b>				
Environmental Management	14,887,796	14,636,019	28,357,942	30,190,338
Coastal Resources Management Council	1,653,805	1,541,458	2,832,511	1,753,000
Water Resources Board	172,500	\$553,805	500,000	500,000
<b>Subtotal - Natural Resources</b>	<b>\$ 16,714,101</b>	<b>\$ 16,731,282</b>	<b>\$ 31,690,453</b>	<b>\$ 32,443,338</b>
<b>Transportation</b>				
Transportation	163,081,687	179,496,694	207,381,293	207,852,520
<b>Subtotal - Transportation</b>	<b>\$ 163,081,687</b>	<b>\$ 179,496,694</b>	<b>\$ 207,381,293</b>	<b>\$ 207,852,520</b>
<b>Total</b>	<b>\$ 1,601,501,129</b>	<b>\$ 1,851,472,831</b>	<b>\$ 1,932,054,352</b>	<b>\$ 1,966,674,807</b>

## Expenditures From Restricted Receipts

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>General Government</b>				
Administration	\$ 9,675,537	\$ 10,244,668	\$ 9,618,697	\$ 10,145,202
Business Regulation	403,145	555,047	783,192	808,362
Labor and Training	20,390,413	22,053,116	25,006,814	20,684,521
Legislature	1,256,539	1,488,885	1,101,145	1,272,479
Lieutenant Governor	-	-	-	-
Secretary of State	415,326	475,516	481,587	485,628
General Treasurer	16,478,403	25,044,602	26,474,902	19,671,386
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	3,827,731	3,909,396	5,369,768	5,634,792
Rhode Island Commission on Women	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 52,447,094</b>	<b>\$ 63,771,229</b>	<b>\$ 68,836,105</b>	<b>\$ 58,702,370</b>
<b>Human Services</b>				
Children, Youth, and Families	2,494,922	1,976,012	2,219,959	1,628,401
Elderly Affairs	-	-	-	-
Health	8,627,102	9,900,940	12,687,734	12,631,175
Human Services	3,474,543	3,625,799	4,438,871	5,612,622
Mental Health, Retardation, & Hospitals	43,760	45,970	100,000	100,000
Office of the Child Advocate	-	16,682	1,318	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	9,252	12,489	61,635	63,605
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 14,649,579</b>	<b>\$ 15,577,892</b>	<b>\$ 19,509,517</b>	<b>\$ 20,035,803</b>
<b>Education</b>				
Elementary and Secondary	1,220,713	1,900,632	3,249,734	4,702,554
Higher Education - Board of Governors	-	-	583,355	607,689
RI Council on the Arts	(42,573)	12,132	200,000	200,000
RI Atomic Energy Commission	-	-	-	-
Higher Education Assistance Authority	-	-	-	-
Historical Preservation and Heritage Commission	50,757	77,853	218,900	236,662
Public Telecommunications Authority	-	-	-	-
<b>Subtotal - Education</b>	<b>\$ 1,228,897</b>	<b>\$ 1,990,618</b>	<b>\$ 4,251,989</b>	<b>\$ 5,746,905</b>

## Expenditures From Restricted Receipts

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>Public Safety</b>				
Attorney General	582,076	667,937	841,962	861,932
Corrections	2,456,374	1,811,063	220,349	136,875
Judicial	6,559,800	7,209,394	7,284,388	7,390,042
Military Staff	114,415	80,254	173,704	176,429
E-911 Emergency Telephone System	-	-	1,534,189	1,656,924
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	-	-
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	11,596	20,421	30,000	30,000
Municipal Police Training Academy	-	-	-	-
State Police	193,184	379,015	445,268	301,100
Office Of Public Defender	-	-	-	-
Sheriffs of Several Counties	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$ 9,917,445</b>	<b>\$ 10,168,085</b>	<b>\$ 10,529,860</b>	<b>\$ 10,553,302</b>
<b>Natural Resources</b>				
Environmental Management	9,210,337	9,856,218	11,186,623	10,527,788
Coastal Resources Management Council	3,352,963	5,210,304	390,000	665,733
Water Resources Board	596,555	537,975	939,134	338,899
<b>Subtotal - Natural Resources</b>	<b>13,159,855</b>	<b>\$ 15,604,498</b>	<b>\$ 12,515,757</b>	<b>\$ 11,532,420</b>
<b>Transportation</b>				
Transportation	25,860,444	29,525,852	6,379,851	6,000
<b>Subtotal - Transportation</b>	<b>\$ 25,860,444</b>	<b>\$ 29,525,852</b>	<b>\$ 6,379,851</b>	<b>\$ 6,000</b>
<b>Total</b>	<b>\$ 117,263,314</b>	<b>\$ 136,638,173</b>	<b>\$ 122,023,079</b>	<b>\$ 106,576,800</b>

## Expenditures From Other Funds

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>General Government</b>				
Administration	\$ 65,301,395	\$ 74,678,353	\$ 66,334,543	\$ 90,963,719
Business Regulation	-	-	-	-
Labor and Training	425,441,233	407,472,563	379,983,149	389,254,534
Legislature	-	-	-	-
Lieutenant Governor	-	-	-	-
Secretary of State	-	-	-	-
General Treasurer	7,647,972	4,592,435	7,746,237	5,499,474
Boards for Design Professionals	-	-	-	-
Board of Elections	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-
Governor's Office	-	-	-	-
Public Utilities Commission	-	-	-	-
Rhode Island Commission on Women	-	-	-	-
<b>Subtotal - General Government</b>	<b>\$ 498,390,600</b>	<b>\$ 486,743,351</b>	<b>\$ 454,063,929</b>	<b>\$ 485,717,727</b>
<b>Human Services</b>				
Children, Youth, and Families	133,637	20,757	965,281	2,629,660
Elderly Affairs	4,955,717	4,726,979	4,780,000	4,800,000
Health	83,519	79,292	112,463	115,076
Human Services	140,000	-	-	385,000
Mental Health, Retardation, & Hospitals	1,250,716	677,591	4,848,366	8,411,261
Office of the Child Advocate	-	-	-	-
Commission on Deaf & Hard of Hearing	-	-	-	-
RI Developmental Disabilities Council	-	-	-	-
Governor's Commission on Disabilities	-	17,000	217,000	300,000
Commission for Human Rights	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-
<b>Subtotal - Human Services</b>	<b>\$ 6,563,589</b>	<b>\$ 5,521,620</b>	<b>\$ 10,923,110</b>	<b>\$ 16,640,997</b>
<b>Education</b>				
Elementary and Secondary	72,088	198,023	1,279,162	277,280
Higher Education - Board of Governors	404,769,856	440,299,936	471,875,962	485,914,437
RI Council on the Arts	-	-	-	-
RI Atomic Energy Commission	144,657	148,512	202,195	157,049
Higher Education Assistance Authority	3,381,948	3,967,934	6,364,746	6,398,486
Historical Preservation and Heritage Commission	-	-	-	-
Public Telecommunications Authority	523,200	935,942	3,565,051	756,911
<b>Subtotal - Education</b>	<b>\$ 408,891,749</b>	<b>\$ 445,550,347</b>	<b>\$ 483,287,116</b>	<b>\$ 493,504,163</b>

## Expenditures From Other Funds

	FY2003 Audited	FY2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>Public Safety</b>				
Attorney General	-	-	397,500	271,000
Corrections	1,135,960	768,628	3,333,975	6,180,648
Judicial	74,215	245,356	852,654	1,250,000
Military Staff	57,260	233,333	721,300	878,825
E-911 Emergency Telephone System	-	-	-	-
Fire Safety Code Board of Appeal & Review	-	-	-	-
State Fire Marshal	-	-	12,599	12,599
Commission on Judicial Tenure & Discipline	-	-	-	-
Rhode Island Justice Commission	-	-	-	-
Municipal Police Training Academy	-	-	-	-
State Police	2,026,060	2,446,386	2,759,587	2,595,511
Office Of Public Defender	-	-	-	-
<b>Subtotal - Public Safety</b>	<b>\$ 3,293,495</b>	<b>\$ 3,693,703</b>	<b>\$ 8,077,615</b>	<b>\$ 11,188,583</b>
<b>Natural Resources</b>				
Environmental Management	1,445,326	1,149,269	6,199,516	5,270,041
Coastal Resources Management Council	145,000	172,000	-	-
Water Resources Board	146,613	\$201,545	504,390	719,312
<b>Subtotal - Natural Resources</b>	<b>\$ 1,736,939</b>	<b>\$ 1,522,813</b>	<b>\$ 6,703,906</b>	<b>\$ 5,989,353</b>
<b>Transportation</b>				
Transportation	105,152,879	134,053,365	100,563,247	100,939,888
<b>Subtotal - Transportation</b>	<b>\$ 105,152,879</b>	<b>\$ 134,053,365</b>	<b>\$ 100,563,247</b>	<b>\$ 100,939,888</b>
<b>Total</b>	<b>\$ 1,024,029,251</b>	<b>\$ 1,077,085,199</b>	<b>\$ 1,063,618,923</b>	<b>\$ 1,113,980,711</b>

## Expenditures from All Funds

	FY2003 Audited	FY 2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>General Government</b>				
Administration	\$ 474,884,491	\$ 504,021,016	\$ 531,561,779	\$ 533,482,677
Business Regulation	9,589,094	9,885,090	10,605,228	11,017,653
Labor and Training	487,074,813	468,417,816	444,099,321	445,277,069
Legislature	28,678,414	25,851,141	30,231,568	29,224,430
Lieutenant Governor	795,014	841,746	869,076	917,362
Secretary of State	6,418,277	6,533,065	8,187,475	6,267,053
General Treasurer	27,953,461	34,741,302	40,015,842	29,568,771
Boards for Design Professionals	439,718	418,901	419,493	434,116
Board of Elections	3,118,288	2,268,661	2,948,546	2,508,556
Rhode Island Ethics Commission	880,894	850,786	1,129,593	1,207,394
Governor's Office	6,206,325	4,380,811	4,397,125	4,530,495
Public Utilities Commission	4,550,015	4,609,881	6,120,792	6,420,340
Rhode Island Commission on Women	128,402	65,185	83,876	86,557
<b>Subtotal - General Government</b>	<b>\$ 1,050,717,206</b>	<b>\$ 1,062,885,399</b>	<b>\$ 1,080,669,714</b>	<b>\$ 1,070,942,473</b>
<b>Human Services</b>				
Children, Youth, and Families	237,179,763	252,281,073	263,964,375	273,342,702
Elderly Affairs	42,614,802	45,782,712	45,982,564	46,343,159
Health	102,259,231	110,852,272	110,743,600	107,365,483
Human Services	1,418,489,336	1,550,820,461	1,667,611,241	1,771,000,434
Mental Health, Retardation, & Hospitals	439,279,304	456,741,976	473,960,206	487,373,447
Office of the Child Advocate	906,320	598,227	430,450	546,681
Commission on Deaf & Hard of Hearing	216,486	236,615	299,540	352,942
RI Developmental Disabilities Council	499,370	481,413	510,313	511,924
Governor's Commission on Disabilities	528,935	585,204	940,467	1,011,942
Commission for Human Rights	1,161,448	1,101,206	1,203,107	1,249,102
Office of the Mental Health Advocate	309,546	322,571	335,157	351,329
<b>Subtotal - Human Services</b>	<b>\$ 2,243,444,541</b>	<b>\$ 2,419,803,730</b>	<b>\$ 2,565,981,020</b>	<b>\$ 2,689,449,145</b>
<b>Education</b>				
Elementary and Secondary	872,223,184	926,870,811	968,296,757	1,020,777,538
Higher Education - Board of Governors	577,052,787	613,210,333	649,011,318	671,120,095
RI Council on the Arts	2,215,842	2,186,617	3,320,626	3,300,358
RI Atomic Energy Commission	810,965	967,811	1,246,339	1,247,939
Higher Education Assistance Authority	14,406,516	22,500,404	26,729,488	28,689,247
Historical Preservation and Heritage Commission	1,619,664	1,611,544	2,041,489	2,087,145
Public Telecommunications Authority	1,644,428	2,348,499	5,069,039	2,042,817
<b>Subtotal - Education</b>	<b>\$ 1,469,973,386</b>	<b>\$ 1,569,696,019</b>	<b>\$ 1,655,715,056</b>	<b>\$ 1,729,265,139</b>

## Expenditures from All Funds

	FY2003 Audited	FY 2004 Unaudited	FY2005 Rev Recommended	FY2006 Recommended
<b>Public Safety</b>				
Attorney General	17,829,250	18,223,562	20,720,535	20,100,130
Corrections	143,815,780	148,463,054	162,492,006	162,381,223
Judicial	73,740,759	77,534,189	85,397,846	84,430,160
Military Staff	13,232,554	26,023,271	39,785,264	29,848,225
E-911 Emergency Telephone System	3,965,519	4,037,237	5,511,357	5,625,223
Fire Safety Code Board of Appeal & Review	241,753	211,693	243,629	266,894
State Fire Marshal	1,504,120	1,615,060	2,265,743	2,722,739
Commission on Judicial Tenure & Discipline	111,692	95,720	125,254	106,650
Rhode Island Justice Commission	4,976,320	4,931,034	6,069,181	5,734,692
Municipal Police Training Academy	362,957	365,117	490,726	403,710
State Police	42,370,912	43,295,892	47,422,742	49,061,317
Office Of Public Defender	6,311,704	6,675,442	7,366,513	7,914,972
<b>Subtotal - Public Safety</b>	<b>\$ 308,463,320</b>	<b>\$ 331,471,271</b>	<b>\$ 377,890,796</b>	<b>\$ 368,595,935</b>
<b>Natural Resources</b>				
Environmental Management	57,855,088	57,089,852	78,750,713	82,519,852
Coastal Resources Management Council	6,615,881	8,381,456	4,689,974	3,943,588
Water Resources Board	1,952,954	2,204,822	3,170,595	2,853,450
<b>Subtotal - Natural Resources</b>	<b>\$ 66,423,923</b>	<b>\$ 67,676,129</b>	<b>\$ 86,611,282</b>	<b>\$ 89,316,890</b>
<b>Transportation</b>				
Transportation	294,095,010	343,075,911	314,324,391	308,798,408
<b>Subtotal - Transportation</b>	<b>\$ 294,095,010</b>	<b>\$ 343,075,911</b>	<b>\$ 314,324,391</b>	<b>\$ 308,798,408</b>
<b>Total</b>	<b>\$ 5,433,117,386</b>	<b>\$ 5,794,608,459</b>	<b>\$ 6,081,192,259</b>	<b>\$ 6,256,367,990</b>

## 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. Free surplus is the amount available at the end of any fiscal year for future appropriation by the General Assembly.

As shown in the free surplus table, the preliminary opening surplus for FY 2005 is \$48.9 million, with \$10.1 million of general revenues reappropriated to FY 2005. Based upon the Governor's FY 2005 recommended budget, as amended, the State Budget Office projects a surplus of \$12.2 million, based upon an upward revision in resources of \$37.4 million and projected departmental spending which is forecasted to exceed appropriated levels by \$25.7 million, including the expenditure of \$10.1 million of reappropriations. The FY 2005 and FY 2006 budgets recommended by the Governor contain proposed statutory changes which would impact required levels of expenditures.

	<b>FY 2003</b> <b><u>Audited</u></b> <b>(In Millions)</b>	<b>FY 2004</b> <b><u>Unaudited<sup>(1)</sup></u></b> <b>(In Millions)</b>	<b>FY 2005</b> <b><u>Enacted<sup>(2)</sup></u></b> <b>(In Millions)</b>	<b>FY 2005</b> <b><u>Revised<sup>(3)</sup></u></b> <b>(In Millions)</b>	<b>FY 2006</b> <b><u>Recommended<sup>(4)</sup></u></b> <b>(In Millions)</b>
Opening Surplus					
Free Surplus	\$31.0	\$42.6	\$43.9	\$48.9	\$12.2
Reappropriated Surplus	<u>7.8</u>	<u>7.3</u>	<u>0.0</u>	<u>10.1</u>	<u>0.0</u>
Subtotal	\$38.9	\$50.0	\$43.9	\$59.1	\$12.2
Revenues and Transfers					
Revenues	2,306.6	2,469.2	2,592.1	2,615.9	2,646.5
Revenue Enhancements	0.0	0.0	0.0	(0.2)	86.8
Other Sources	<u>454.6</u>	<u>326.3</u>	<u>362.3</u>	<u>361.4</u>	<u>386.6</u>
Subtotal	2,757.2	2,795.3	2,954.4	2,977.1	3,119.9
Cash Stabilization Fund	(55.6)	(56.8)	(60.0)	(60.5)	(62.6)
Total Available	\$2,740.3	\$2,788.5	\$2,938.3	\$2,975.7	\$3,069.4
Projected Expenditures	\$2,690.3	\$2,729.4	\$2,937.8	\$2,963.5	\$3,069.1
<b>Free Surplus</b>	<b>\$42.6</b>	<b>\$48.9</b>	<b>\$0.5</b>	<b>\$12.2</b>	<b>\$3</b>
<b>Reappropriations</b>	<b>7.3</b>	<b>10.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Ending Balances</b>	<b>\$50.0</b>	<b>\$59.1</b>	<b>\$0.5</b>	<b>\$12.2</b>	<b>\$3</b>

<sup>(1)</sup>Reflects preliminary actual results for FY 2004 derived from the State Controller.

<sup>(2)</sup>Reflects the FY 2005 budget adopted by the General Assembly.

<sup>(3)</sup>Reflects the FY 2005 budget including revenues adopted by the Revenue Estimating Conference in November 2004 and proposed changes to those adopted revenue estimates and changes in appropriations recommended in the Governor's Supplemental Appropriation Act, as amended.

<sup>(4)</sup>Reflects the Governor's FY 2006 budget including revenues adopted by the Revenue Estimating Conference in November 2004 and the Governor's proposed changes to those adopted revenue estimates.

Due to the past fiscal challenges facing the State, the budget has 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 uses 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 in FY 2004.

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003, which provides additional federal appropriation support of \$20 billion to the States. The aid is divided equally between a flexible grant and an enhancement to the federal medical assistance percentage (FMAP) for Medicaid for five calendar quarters. There will be approximately \$101.7 million provided to the State of Rhode Island over the span of the 2003 and 2004 fiscal years. It is estimated that \$51 million will come in the form of increased Medicaid funds and \$50 million in flexible funds. There is an estimated loss of approximately \$9.5 million in state tax revenues due to provisions of the federal tax act which will flow through to Rhode Island taxes if current law remains unchanged.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2003 through 2006. FY 2003 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 unaudited free surplus for FY 2004 is \$48.9 million, and there are \$10.1 million of reappropriations carried forward. The budget enacted by the General Assembly in July 2004 for FY 2005 was predicated upon available resources of \$2,938.2 billion net of reserve fund contributions, and expenditures of \$2,937.8 billion resulting in an estimated closing surplus of \$0.5 million. The current projections reflect an estimated surplus of \$48.9 million. These projections are based upon the preliminary closing FY 2004 surplus and revenues estimated by the November 2004 Revenue Estimating Conference, and \$.2 million of net changes to adopted estimates resulting from statutory changes proposed by the Governor. Expenditures for FY 2005 reflect the enacted FY 2005 appropriations, and recommended supplemental appropriations of \$25.7 million, as amended. Included within the revenue and expenditure change are \$10.1 million of reappropriations from FY 2003.

Revenues for FY 2006 reflect the adopted November Revenue Estimates as amended by \$86.8 million of changes to adopted estimates recommended by the Governor. Expenditures for FY 2006 reflect the November 2004 Caseload Estimating Conference results, and other amendments recommended by the Governor.

The State is required by the State Constitution to maintain a balanced budget and will take such action as necessary to do so. In the event of a budgetary imbalance, the available free surplus will be reduced and/or additional resources (i.e. taxes, fines, fees, licenses, etc.) will be required and/or certain of the expenditure controls discussed under “State Government Organization and Finances – Budget Procedures” will be put into effect. A combination of these measures will be utilized by the State in order to maintain a balanced budget.

## General Revenue Budget Surplus Statement

	FY2003 Audited	FY2004 Unaudited	FY 2005		FY2006 Recommended
			Enacted	Revised	
<b>Surplus</b>					
Opening Surplus	\$ 31,080,906	\$ 42,633,628	\$ 43,884,617	\$ 48,916,527	\$ 12,155,751
Reappropriated Surplus	7,770,430	7,346,513		10,145,888	
Subtotal	<b>38,851,336</b>	<b>49,980,141</b>	<b>43,884,617</b>	<b>59,062,415</b>	<b>12,155,751</b>
<b>General Taxes</b>	2,012,372,000	2,178,195,602	2,288,617,960	2,288,617,960	2,408,545,000
Revenue estimators' revision	-	-	-	30,332,040	
Changes to adopted revenue estimates					7,000,404
Subtotal	<b>2,012,372,000</b>	<b>2,178,195,602</b>	<b>2,288,617,960</b>	<b>2,318,950,000</b>	<b>2,415,545,404</b>
<b>Departmental Revenues</b>	290,254,791	290,768,971	303,475,075	303,475,075	238,000,000
Revenue estimators' revision	-	-	-	(6,475,075)	
Changes to adopted revenue estimates				35,699	73,841,487
Subtotal	<b>290,254,791</b>	<b>290,768,971</b>	<b>303,475,075</b>	<b>297,035,699</b>	<b>311,841,487</b>
<b>Other Sources</b>					
Gas Tax Transfers	25,506,330	8,398,244	9,560,000	9,560,000	9,600,000
Other Miscellaneous	184,086,402	19,705,661	19,173,000	19,173,000	8,466,000
Rev Estimators' revision-Miscellaneous	-	-	-	(2,374,000)	
Changes to adopted revenue estimates					6,500,000
Lottery	236,540,055	281,141,647	322,397,366	322,397,366	356,700,000
Revenue Estimators' revision-Lottery	-	-	-	(4,397,366)	
Unclaimed Property	8,458,048	17,042,121	11,150,000	11,150,000	11,800,000
Revenue Estimators' revision-Unclaimed	-	-	-	5,850,000	
Changes to adopted revenue estimates				(234,932)	(507,000)
Subtotal	<b>454,590,835</b>	<b>326,287,673</b>	<b>362,280,366</b>	<b>361,124,068</b>	<b>392,559,000</b>
<b>Total Revenues</b>	<b>\$ 2,757,217,626</b>	<b>\$ 2,795,252,246</b>	<b>\$ 2,954,373,401</b>	<b>\$ 2,977,109,767</b>	<b>\$ 3,119,945,891</b>
<b>Budget Stabilization</b>	<b>(55,765,129)</b>	<b>(56,757,717)</b>	<b>(59,965,161)</b>	<b>(60,520,526)</b>	<b>(62,642,033)</b>
<b>Total Available</b>	<b>\$ 2,740,303,833</b>	<b>\$ 2,788,474,670</b>	<b>\$ 2,938,292,858</b>	<b>\$ 2,975,651,656</b>	<b>\$ 3,069,459,609</b>
Actual/Enacted Expenditures	\$ 2,690,323,692	\$ 2,729,412,255	\$ 2,937,776,732	\$ 2,937,776,732	\$ 3,069,135,672
Reappropriations	-	-	-	10,145,888	
Recommended changes to appropriations	-	-	-	15,573,285	
<b>Total Expenditures</b>	<b>\$ 2,690,323,692</b>	<b>\$ 2,729,412,255</b>	<b>\$ 2,937,776,732</b>	<b>\$ 2,963,495,905</b>	<b>\$ 3,069,135,672</b>
<b>Free Surplus</b>	<b>\$ 42,633,628</b>	<b>\$ 48,916,527</b>	<b>\$ 516,126</b>	<b>\$ 12,155,751</b>	<b>\$ 323,937</b>
<b>Reappropriations</b>	<b>7,346,513</b>	<b>10,145,888</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Ending Balances</b>	<b>\$ 49,980,141</b>	<b>\$ 59,062,415</b>	<b>\$ 516,126</b>	<b>\$ 12,155,751</b>	<b>\$ 323,937</b>
<b>Budget Reserve and Cash Stabilization Account</b>	<b>\$ 83,647,695</b>	<b>\$ 85,136,576</b>	<b>\$ 89,947,741</b>	<b>\$ 90,733,953</b>	<b>\$ 93,991,130</b>

## **Timing of Audited Financial Reports**

The State's audited annual financial report had typically been completed approximately six to nine months after the close of a fiscal year. The report for the year ending June 30, 2002 was completed sixteen months after the close of that year. There were two primary reasons for this delay. First, the 2002 report was the first report required to comply with GASB Statement 34. Completing the inventory of fixed assets which was required in order to provide a complete report of the State entity in accordance with GASB 34 took longer than anticipated. Second, at the beginning of the year ending June 30, 2002, the State introduced a new accounting system. There had been a number of training and system problems with the new software package which have required adjustments to correct initial recording of expenditures or interfund transfers. The 2003 report was completed sixteen months after the close of the fiscal year due to the late start on the FY 2003 audit and some continuing issues with the reconciliation and fixed assets reporting.

## **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 nine-member 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:

<u>Fiscal Year</u>	<u>Maximum Principal Amount Outstanding</u>	<u>Percent of Prior Year's Tax Receipts</u>
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

## Net Tax Supported State Debt

The State has multiple categories of State debt, 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 March 1, 2005, authorized but unissued direct and guaranteed debt totaled \$485,243,891.

**Net Tax Supported Debt Ratios**  
(in thousands)

	<b>Debt Outstanding June 30, 2000</b>	<b>Debt Outstanding June 30, 2001</b>	<b>Debt Outstanding June 30, 2002<sup>(1)</sup></b>	<b>Debt Outstanding June 30, 2003<sup>(1)</sup></b>	<b>Debt Outstanding June 30, 2004<sup>(1)</sup></b>
<b>Direct Debt:</b>					
Various Purpose Bonds Outstanding	\$816,268	\$822,485	\$654,879	\$ 694,933	\$ 737,772
Variable Rate General Obligations	<u>64,790</u>	<u>31,365</u>	<u>28,165</u>	<u>27,965</u>	<u>24,865</u>
<b>Subtotal</b>	<b>\$881,058</b>	<b>\$853,850</b>	<b>\$683,044</b>	<b>\$722,898</b>	<b>\$762,637</b>
<b>Guaranteed Debt:</b>					
Narragansett Bay District Commission Bonds	<u>19,869</u>	<u>18,459</u>	<u>15,019</u>	<u>13,119</u>	<u>11,266</u>
<b>Subtotal</b>	<b>19,869</b>	<b>18,459</b>	<b>15,019</b>	<b>13,119</b>	<b>11,266</b>
<b>Other Debt Subject to Annual Appropriation:</b>					
RI Depositors Economic Protection Corp.	41,725	-	-	-	-
RI Refunding Bond Authority Lease Rental Bonds	159,210	146,055	132,440	100,705	84,730
RI Refunding Bond Authority – Direct	1,955	1,300	650	-	-
RI Refunding Bond Auth. – Gurmtd Narr. Bay	45	30	15	-	-
Convention Center Authority Outstanding	322,930	315,805	319,435	310,005	302,320
Economic Development Corporation – Transportation	-	-	-	-	47,395
Certificates of Participation – Master Equipment Lease <sup>(2)</sup>	9,843	11,015	7,995	8,865	5,180
Certificates of Participation – Intake Center	23,355	21,470	19,500	17,440	15,245
Certificates of Participation – Attorney General	3,905	3,740	2,795	2,795	2,795
Certificates of Participation – DLT Howard Complex	23,150	22,265	21,335	20,365	19,345
Certificates of Participation – Pastore Steam Plant	-	28,180	23,440	23,440	23,440
Certificates of Participation – Shepards Building	31,400	30,215	28,820	27,655	26,410
Rhode Island Housing/Traveler’s Aid/NOP Program	-	-	12,550	12,550	12,550
Economic Development – Dow Chemical Corporation	25,000	25,000	25,000	25,000	25,000
Economic Development – URI Power Plant	16,395	15,859	15,304	14,729	14,134
Economic Development – McCoy Stadium	<u>10,360</u>	<u>9,585</u>	<u>8,780</u>	<u>7,945</u>	<u>7,080</u>
<b>Subtotal</b>	<b>669,273</b>	<b>630,519</b>	<b>618,059</b>	<b>574,849</b>	<b>585,664</b>
<b>Performance Based Agreements <sup>(3)</sup></b>					
Economic Development – Fidelity Building I	24,579	24,116	23,615	23,071	22,487
Economic Development – Fidelity Building II	-	-	10,000	10,000	10,000
Economic Development – Fleet Bank Lease	<u>10,770</u>	<u>10,640</u>	<u>10,500</u>	<u>10,350</u>	<u>10,180</u>
<b>Subtotal</b>	<b>35,349</b>	<b>34,756</b>	<b>44,115</b>	<b>43,421</b>	<b>42,677</b>
Gross Debt	1,605,549	1,537,584	1,360,237	1,354,288	1,402,243
Less: Adjustments for Agency Payments:	(68,751)	(66,700)	(72,593)	(70,000)	(67,441)
<b>Net Tax Supported Debt</b>	<b>\$1,536,798</b>	<b>\$1,470,884</b>	<b>\$1,287,643</b>	<b>\$1,280,933</b>	<b>\$1,334,802</b>
<b>Debt Ratios</b>					
<b>Personal Income</b>	<b>\$29,714,750</b>	<b>\$31,527,250</b>	<b>\$32,767,677</b>	<b>\$33,747,431</b>	<b>\$35,181,697</b>
<b>Debt as a Percent of Personal Income</b>	<b>5.17%</b>	<b>4.67%</b>	<b>3.93%</b>	<b>3.80%</b>	<b>3.79%</b>

(1) Reflects defeasance with tobacco securitization proceeds of \$242,978,728 of general obligation bonds and \$4,650,000 of certificates of participation in June 2002.

(2) Includes non-certificated lease obligations in the master equipment lease category in the amount of \$318,000 as of June 30, 2000.

(3) Excludes contract for Providence Place Mall described under “State Revenues – Sales Tax”.

*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, 2004, the State had approximately \$737.8 million of general obligation tax supported bonds outstanding. Authorized but unissued direct debt totaled \$485.2 million as of March 1, 2005.

The following table sets forth the debt service requirements on general obligation bonds of the State issued as of June 30, 2004 which are supported by State revenues for FY 2005 through FY 2023.

**Debt Service Schedule for General Obligation**  
**Debt Issued as of June 30, 2004**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2005	\$48,766,243	\$35,633,306	\$84,399,549
2006	44,179,243	39,626,119	83,805,362
2007	40,397,653	36,318,941	76,716,594
2008	35,025,786	33,295,969	68,321,755
2009	40,563,740	28,491,229	69,054,969
2010	44,434,000	26,101,612	70,535,612
2011	42,975,000	23,965,156	66,940,156
2012	54,615,000	21,641,994	76,256,994
2013	61,680,000	18,556,203	80,236,203
2014	54,345,000	15,540,651	69,885,651
2015	49,525,000	12,844,709	62,369,709
2016	44,240,000	10,481,187	54,721,187
2017	42,820,000	8,213,418	51,033,418
2018	34,000,000	6,107,028	40,107,028
2019	32,235,000	4,407,743	36,642,743
2020	24,735,000	2,847,431	27,582,431
2021	21,205,000	1,714,181	22,919,181
2022	10,780,000	936,169	11,716,169
2023	11,250,000	407,719	11,657,719
Subtotal-Fixed Rate Debt	<u>\$737,771,665</u>	<u>\$327,130,764</u>	<u>\$1,064,902,429</u>
Subtotal-Variable Rate Debt**	24,865,000		
Total*	\$762,636,665		

\* Reflects full fiscal year general obligation tax supported debt service for bonds issued as of June 30, 2004. Excludes guaranteed and contingent debt. Debt outstanding as of June 30, 2004 totaled \$762.6 million.

\*\* Reflects multi-modal general obligation bonds which bear interest at variable rates. Reflects total principal outstanding as of June 30, 2004 in the amount of \$24,865,000.

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 March 1, 2005 which has been approved by referenda of the electors.

<u>Purpose</u>	<u>Statutory Authorization</u>	<u>Balance of Authority as of March 1, 2005</u>
<b>Direct Debt:</b>		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	2,644,627
Open Space	Ch. 425-P.L. of 1987	168,254
Environmental Management	Ch. 552-P.L. of 1989	201,010
Mental Health, Retardation and Hospitals	Ch. 552-P.L. of 1989	700,000
Mental Health, Retardation and Hospitals	Ch. 434-P.L. of 1990	4,360,000
RI Water Pollution Revolving Loan Fund	Ch. 434-P.L. of 1990	10,800,000
Pawtuxet River District Commission	Ch. 434-P.L. of 1990	995,000
Elementary & Secondary Education	Ch. 70-P.L. of 1994	965,000
Quonset Point/Davisville	Ch. 100-P.L. of 1996	7,650,000
Transportation	Ch. 31-P.L. of 1998	1,350,000
Environmental Management	Ch. 31-P.L. of 1998	4,280,000
Higher Education Facilities	Ch. 31-P.L. of 1998	7,540,000
Higher Education	Ch. 55-P.L. of 2000	2,980,000
Environmental Management	Ch. 55-P.L. of 2000	17,690,000
State Police Headquarters Facility and State Municipal Fire Academy	Ch. 65-P.L. of 2002	53,800,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	10,000,000
Transportation	Ch. 65-P.L. of 2002	32,600,000
Transportation	Ch. 595-P.L. of 2004	66,520,000
Regional Career and Technical Schools	Ch. 595-P.L. of 2004	15,000,000
Higher Education Residence Halls	Ch. 595-P.L. of 2004	50,000,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	10,000,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	70,000,000
Pell Library – Undersea Exploration Center	Ch. 595-P.L. of 2004	14,000,000
Historic Preservation	Ch. 595-P.L. of 2004	3,000,000
URI Biotechnology & Life Sciences Center	Ch. 595-P.L. of 2004	50,000,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	<u>48,000,000</u>
<b>Total Direct and Guaranteed Debt</b>		<b>\$485,243,891</b>

Source: State Budget Office

**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. These include the Blackstone Valley District Commission, and the Narragansett Bay Commission. As of June 30, 2004, these entities had bonds constituting guaranteed debt outstanding of \$11,265,823 and no authorized but unissued debt.

**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 then, the State has extinguished a total of \$21,095,874.99, which was previously reflected in the above table.

**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. As of June 30, 2004, \$2,795,000 of these certificates were outstanding. This reflects the defeasance of \$775,000 of certificates of participation in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

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, 2004, \$15,285,000 was outstanding.

The State has 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. As of June 30, 2004, \$19,345,000 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. As of June 30, 2004, \$26,410,000 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, 2004, \$7,080,000 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. As of June 30, 2004, \$3,895,000 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. As of June 30, 2004, there was \$23,440,000 of certificates outstanding. This reflects defeasance of \$3,875,000 in June 2002 from the proceeds of the securitization of revenues from the State’s tobacco master settlement.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of \$12,550,000 of debt to provide funds for the relocation of the Traveler’s Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. As of June 30, 2004, there was \$12,550,000 outstanding.



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. As of June 30, 2004, \$47,395,000 was outstanding.

**Performance-based obligations of the Rhode Island 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 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 bonds with similar provisions were issued. As of June 30, 2004, \$32.487 million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of \$1.6 million in 2005, and \$2.5 million 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, 2004, \$10.19 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 \$.3 million per year.

#### **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 \$33,620,000 at June 30, 2004.

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.

**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.

In addition, certain general obligation bonds of the State were issued on behalf of the Commission, with certain user fees and charges dedicated to support debt service. Operating and maintenance expenses of the Commission also are funded

with user charges. As of June 30, 2004, the State had issued \$92,425,000 of outstanding general obligation bonds on behalf of the Commission. Of this amount, the Commission was responsible for paying debt service on \$13,485,000 from its user fee revenues. The total outstanding payable from user fees is \$3,628,344 as reflected in the financial statements as of June 30, 2004.

The State also has issued \$42,585,000 general obligation bonds on behalf of the Blackstone Valley District Commission. Bonds issued on behalf of the Blackstone Valley District Commission are supported by the rates and charges levied by the Commission for services provided to municipalities and other users of its facilities. On January 1, 1992, the Blackstone Valley District Commission was merged into the Commission. Outstanding bonds attributable to the Blackstone Valley District Commission as of June 30, 2004, totaled \$7,579,557 including the issuance of capital appreciation bonds in 1993.

The Commission has borrowed monies from the Rhode Island Clean Water Finance Agency's revolving loan fund described below. In addition, the Commission has outstanding \$70,000,000 in variable rate Wastewater System Revenue Bonds payable for user fees.

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.

As of June 30, 2004, the Authority had outstanding mortgage agreements and other commitments for \$27,078,472 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, 2004, the Fund had a balance of \$3,721,188. 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. The State has never been called upon to replenish the Industrial-Recreational Building Mortgage Insurance Fund.

***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, 2004 totals \$84,730,000.

***Rhode Island Depositors Economic Protection Corporation.*** The Rhode Island Depositors Economic Protection Corporation (DEPCO) was created in 1991 under Chapter 116, title 42, as a public corporation, having a distinct legal existence from the State and not constituting a department of State government. DEPCO was created for the purpose of protecting depositors of certain credit unions and other financial institutions ("Eligible Institutions") in the State whose deposits were previously insured by the Rhode Island Share and Deposit Indemnity Corporation ("RISDIC"), a private deposit insurance fund which ceased operations and entered conservatorship on December 31, 1990. DEPCO is authorized to purchase assets and to assume liabilities including depositor liabilities of Eligible Institutions. DEPCO is also authorized to assist any Eligible Institutions in the acquisition of federal deposit insurance. The Corporation is carrying out a plan which included successfully paying substantially all depositors one hundred percent (100%) of their original deposit claims prior to October 31, 1993 through a combination of Corporation supported acquisitions and direct payments to depositors. The Corporation is authorized to issue general and/or special obligation bonds. Special obligation bonds are secured solely by a portion of the State sales and use tax receipts, subject to annual appropriation by the General Assembly or from other funds appropriated by the General Assembly for such purposes.

The Corporation issued special obligation bonds in the amount of \$149,996,923.60 in 1991. The Corporation also issued parity special obligation bonds in the principal amount of \$306,470,000 in 1992. In March 1993, DEPCO issued Special Obligation Refunding Bonds in the principal amount of \$138,835,000 to provide for the advance refunding of \$119,465,000 principal amount of the 1991 Special Obligation Bonds. In July 1993, the Corporation issued Special Obligation Refunding Bonds in the principal amount of \$206,635,000 to refund \$187,990,000 of the 1992 Special Obligation Bonds. As of August 3, 2000 all of the Special Obligation Bonds had been paid, cancelled, refunded or defeased. All other bonded debt of DEPCO was repaid on July 3, 1995.

***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 and related facilities. 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. The Authority has issued \$182,395,000 of 1993 Series B Refunding Revenue Bonds (however during June 2003 all bonds maturing after 2015 in the amount of \$61,640,000 were in-substance defeased), \$56,755,000 of 1993 Series C Refunding Revenue Bonds, \$101,315,000 of 2001 Series A Refunding Revenue Bonds, \$58,285,000 of 2003 Series A Refunding Revenue Bonds. As of June 30, 2004, \$302,320,000 remains outstanding. After adjusting for unamortized bond premium, bond discount, and deferred loss on advanced refunding which is attributable to the issuance of refunding bonds, the outstanding principal totals \$284,553,876.

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. The State is obligated to make lease payments in an amount sufficient to pay the operating expenses of the Authority and the 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, 2004 totals \$18,301,085.

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.

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:

<b>Fiscal Year</b>	<b>Amount</b>
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	<u>4,300,000</u>
	\$43,415,000

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 \$31,500,000 into the trust fund and has disbursed approximately \$5,150,000 for remediation expenses through June 30, 2004. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$6,400,000.

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 postclosure care costs related to Phases II, III and IV. At June 30, 2004, the Corporation had transferred approximately \$20,400,000 into the trust funds to meet the financial requirements of closure and postclosure care

costs related to Phases II & III and Phase IV. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and postclosure care cost. On September 30, 2004, the Corporation transferred an additional \$3,288,000 into the Phase IV trust fund.

***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, 2004, the Agency has issued bonds in the aggregate amount of \$472,430,000 to fund \$510,001,555 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, 2004 is \$307,760,000 in the clean water state revolving fund (CWSRF wastewater projects), \$63,795,000 for three conduit financing and one note for \$7,719,000 and \$40,170,000 in the drinking water state revolving fund. Also, in years 1997 through 2004, the Agency made a total of \$36,830,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of \$25,375,250 in Direct Loans out of the drinking water State revolving fund and \$58,095,000 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 238 buses and 115 vans carrying approximately 20.2 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 and then to \$1.25 in October 1998. 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, 2004, audited results of operations reveal that State-operating assistance to the Authority totaled \$30,686,644, operating revenues totaled \$21,951,763, and other revenues totaled \$17,259,916.

***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 Economic Development 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.

The Quonset Development Corporation was created in 2004 by Title 42, Chapter 64.9 of the Rhode Island General Laws, as a subsidiary of the Rhode island Economic Development Corporation. Effective January 1, 2005, the Economic

Development Corporation transferred oversight of the Quonset Point/Davisville Industrial Park in North Kingstown to the newly created Quonset Development Corporation.

As of June 30, 2004, the Corporation had revenue bonds outstanding of \$637,974,403 including conduit debt of \$55,372,767 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 Economic Development 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.

In May 1996, Rhode Island Economic Development 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 Economic Development 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 Economic Development 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. In FY 2000, the State's expenditure for this purpose was \$222,176, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2004, the outstanding balance was \$22,486,636.

In May 2002, the Rhode Island Economic Development 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 Rhode Island Economic Development 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, 2004, the outstanding balance was \$10,000,000.

In November 1997, the Rhode Island Economic Development Corporation issued \$11,000,000 in revenue bonds on behalf of Fleet National Bank 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, 2004, the outstanding balance was \$10,000,000.

Bonds secured by the Corporation's capital reserve fund (including bonds for the Dow Chemical Corporation, 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 Economic Development 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 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.

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. 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 are recorded as general revenues. The State is not obligated to fund the note payments if the sales tax generated is not sufficient.

In November 2003, the Rhode Island Economic Development Corporation issued \$53.03 million of motor fuel tax revenue bonds, secured by a payment agreement with the State pledging two cents of the gasoline tax, subject to annual appropriation. The Corporation also issued \$216.805 million of grant anticipation notes (GARVEE's) secured by future federal revenues.

**Rhode Island Airport Corporation.** RIAC was created by the Rhode Island Port Authority and Economic Development Corporation, now the Rhode Island Economic Development Corporation (EDC), on December 9, 1992, as a subsidiary public corporation, governmental agency and public instrumentality, having a distinct legal existence from the State, and the EDC, and having many of the same powers and purposes of EDC. Pursuant to its Articles of Incorporation, RIAC is empowered to undertake the planning, development, management, acquisition, ownership, operations, repair, construction, reconstruction, rehabilitation, renovation, improvement, maintenance, development, sale, lease, or other disposition of any "airport facility" as defined in Rhode Island General Law. The Airport Corporation's financial position and results of operations are presented in the financial statements of the EDC by discrete presentation. This presentation involves reporting the Airport Corporation's financial position and results of operations in one column separate from the financial position of the Economic Development Corporation and its results of operations.

Pursuant to the Lease and Operating Agreement (Lease Agreement) by and between the State, the Rhode Island Department of Transportation and RIAC dated as of June 25, 1993, RIAC leased, initially for a period of thirty years, all of the airports which previously had been under the jurisdiction of the Department of Transportation of the State of Rhode Island. A second amendment to the Lease Agreement, effective as of June 2, 1998, amended the "Demised Term," extending the lease term to June 30, 2028. The rental rate per the lease is \$1 per year. Pursuant to the Lease Agreement, effective July 1, 1993, the State transferred to RIAC all of the personal property and other assets of the State located at or relating to the six airports.

RIAC operates on a fiscal year basis of July 1 through June 30. RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Purpose Fund for the operation and maintenance of any of the six airports under its jurisdiction. RIAC has utilized State General Obligation (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. RIAC does not have the power to issue bonds or notes, or to borrow money without the approval of EDC, nor does it have the power of eminent domain with respect to real property.

RIAC operates T.F. Green Airport (Airport), which is Rhode Island's only certified Part 139 commercial carrier. There are five outlying airports operated by RIAC, each of which is managed pursuant to a Management Contract originally dated as of May 7, 1996 by and between RIAC and Hawthorne Aviation, Inc. RIAC's agreement with Hawthorne Aviation, Inc. has been extended and is scheduled to expire on June 30, 2006. Each of these airports is briefly described below:

- North Central Airport – located in Lincoln, R.I., approximately fifteen miles from T.F. Green Airport. North Central Airport is classified as a reliever airport to T.F. Green by the Federal Aviation Administration (FAA).
- Quonset Airport – located in North Kingstown, R.I., approximately ten miles south of T.F. Green Airport. The Rhode Island Air National Guard moved its operations from T.F. Green Airport to Quonset Airport in 1986. Quonset also has additional industrial facilities which are leased to various tenants. Quonset Airport is classified as a reliever airport.
- Westerly Airport – located in Westerly, R.I., approximately thirty-five miles from T.F. Green Airport. Westerly Airport is classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.
- Newport Airport – located in Middletown, R.I., approximately seventeen miles from T.F. Green Airport. Newport Airport is classified as a general aviation airport.

- Block Island Airport – located in Block Island, just off the southern coast of Rhode Island, approximately twenty-five miles from T.F. Green Airport. Block Island Airport is also classified as a commercial service airport and enplanes approximately 10,000 commuter passengers annually.

As of June 30, 2004, seven United States major, national passenger airlines operating jet aircraft with at least sixty seats provided scheduled passenger service at the airport to domestic destinations. Fourteen regional and commuter airlines also provided passenger service to domestic and international destinations. Three carriers provided all cargo service.

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following signatory airlines:

- American Airlines
- Continental Airlines
- Delta Airlines
- Northwest Airlines
- Southwest Airlines
- United Airlines
- US Airways

The term of the Airline agreements extends through June 30, 2010, and establishes 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.

T.F. Green Airport ranked as the 56<sup>th</sup> busiest in the country for the federal fiscal year 2002 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 57<sup>th</sup> in federal fiscal year 2001, 58<sup>th</sup> in federal fiscal years 2000 and 1999, 60<sup>th</sup> in federal fiscal year 1998, and 63<sup>rd</sup> in federal fiscal year 1997.

Moreover, the Airport has experienced a smaller reduction in passengers after the terrorist attacks of September 11, 2001, than the national average of all commercial airports. Actual enplaned passengers for fiscal year 2004 was approximately 21,600 below 2003 resulting in a decline of .89 percent. While passenger traffic at T.F. Green continues to lag behind fiscal years 2002 and 2003, the decline for 2004 is less than the reported nationwide average of 7-9 percent.

In July 1993, the date RIAC took financial responsibility of the Airport from the State, RIAC agreed under the Lease Agreement to reimburse the State for the principal and interest payments due on G.O. bonds issued by the State for airport purposes. These bonds mature annually from 1993 through 2020. The balance outstanding at June 30, 2004 and 2003 was \$18,856,688 and \$20,971,408, respectively.

In 1993, RIAC issued \$78,100,000 of General Airport Revenue Bonds dated October 20, 1993, maturing annually from 1998 through 2004 with interest coupons ranging from 4.2 percent to 5.25 percent. The balance outstanding at June 30, 2004 and 2003 was \$2,400,000 and \$68,010,000, respectively.

In May 1994, RIAC issued \$30,000,000 General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25 percent to 7 percent. The balance outstanding at June 30, 2004 and 2003 was \$6,700,000 and \$27,480,000, respectively.

In December 1998, RIAC issued \$8,035,000 Series A and \$53,140,000 Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2 percent to 5.25 percent. The balance outstanding as of June 30, 2004 and 2003 was \$58,050,000 and \$59,135,000, respectively.

In May 2000, RIAC issued \$8,380,000 Series A and \$42,165,000 Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51 percent to 6.5 percent. The balance outstanding as of June 30, 2004 and 2003 was \$50,545,000 for each year.

On October 2, 2003, RIAC issued \$31,725,000 Series A Airport Revenue Refunding Bonds to enable the defeasance of \$31,395,000 of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5 percent to 5 percent. The balance outstanding as of June 30, 2004 was \$31,725,000.



On March 12, 2004, RIAC issued \$52,665,000 Series A Airport Revenue Refunding Bonds to enable the defeasance of \$31,915,000 and \$20,190,000 in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARB(s), respectively. The refund issue matures annually from 2005 through 2024 with interest coupons from 2 percent to 5 percent. The balance outstanding as of June 30, 2004 was \$52,665,000.

Since the inception of RIAC in 1992, there have been four General Airport Revenue Bonds (GARBs) issued by the Rhode Island Economic Development Corporation (EDC), the parent of RIAC, to finance construction and other related costs for certain capital improvements at T.F. Green Airport and two Airport Revenue Refunding Bonds (ARRBs) to defease substantially all of the 1993 and a portion of the 1994 GARB debt. The GARBs include the 1993 Series A Bonds (\$78,100,000), 1994 Series A Revenue Bonds (\$30,000,000), 1998 Series A&B Revenue Bonds (\$61,175,000), and the 2000 Series A&B Revenue Bonds (\$50,545,000). The ARRBs include the 2003 Series A Bonds (\$31,725,000) and the 2004 Series A Bonds (\$52,665,000).

***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, 2004, the Corporation had an outstanding principal balance of conduit debt of \$113,077,339. 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 \$27,078,472 as of June 30, 2004.

***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 to make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, and 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, 2004 was \$1,381,033,532 consisting of \$1,063,173,532 of long-term bonds and \$317,860,000 of short-term or convertible-option bonds. Included in the \$1,063,173,532 is \$260,466,777 in bonds, which are secured in part by capital reserve funds, which have aggregated to \$38,791,306 on June 30, 2004. 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. As of June 30, 2004, the Corporation had combined total fund equity of approximately \$253,298,707.

***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, 2004, the Authority held \$609,351,888 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, 2004, \$17,075,441 in Rhode Island Family Education Loans and \$142,155,899 in College Bound Loans. As of September 30, 2004, the Authority had \$806,225,000 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, 2004 was \$5,550,000.

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 revenue bonds. A portion of the proceeds refunded the 1994 series on March 1, 2004 in the amount of \$7,847,700. The excess proceeds will be used to fund Phase III of public drinking water protection. The amount of the series 2002 refunding bonds outstanding as of June 30, 2004 was \$10,515,000.

***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, 2004, the Corporation had \$1,606,092,010 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 a 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 Corporation 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, 2004, \$681,680,000 of bonds were outstanding.

In accordance with the Act, the TASC bonds are payable both as to principal and interest solely out of the assets of the Corporation 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 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 March 2, 2005 the State had 14,966 full-time equivalent positions. Of this amount, 12,451 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 4,660 employees, or 38.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (1,011 employees); the Rhode Island Brotherhood of Correctional Officers (1,197 employees); the American Association of University Professors (696 employees) to name a few. In addition, there are 3,375 non-union employees. Contracts with six of the collective bargaining units had previously expired and nine others expired on June 30, 2004. The contracts provide that the terms of the previous contract prevail until a new contract is negotiated.

## 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 System 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 (LEAs) and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. 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 27 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

### Progress Toward Realization of Financing Objectives

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 decreased from 71.7 percent to 65.5 percent during the period July 1, 2002 to June 30, 2003, while for teachers the ratio decreased from 73.2 percent to 64.9 percent over the same period. These are based on the Entry Age Normal funding method effective June 30, 1999.

The fiscal year 2006 employer contribution rate will increase for state employees from 11.51 percent to 16.96 percent and for teachers, from 14.84 percent to 20.01 percent. The State contribution for teachers will be 8.17 percent with an additional 11.84 percent paid by LEAs. The fiscal year 2005 state contributions for teachers is 6.12 percent with an additional 8.72 percent paid by LEAs. Pursuant to Rhode Island General Laws, State employees contribute 8.75 percent and teachers contribute 9.50 percent.

### 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 set equal to the assumed inflation rate, and does not include any allowance for membership growth.

Development of Contribution Rates  
June 30, 2003

		State Employees	Teachers
1.	Compensation		
(a)	Supplied by ERSRI	\$ 575,919,807	\$ 781,718,751
(b)	Adjusted for one-year's pay increase	606,102,182	834,642,391
2.	Actuarial accrued liability	3,461,708,161	5,284,933,149
3.	Actuarial value of assets	2,267,673,016	3,427,685,554
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)	1,194,035,145	1,857,247,595
5.	Remaining amortization period at valuation date	26	26
6.	Contribution effective for fiscal year ending:	June 30, 2006	June 30, 2006
7.	Payroll projected for two-year delay	652,412,176	898,414,286
8.	Amortization of UAAL	85,666,560	134,020,108
9.	Normal cost		
(a)	Total normal cost rate	12.58%	14.59%
(b)	Employee contribution rate	8.75%	9.50%
(c)	Employer normal cost rate ( a - b )	3.83%	5.09%
10.	Employer contribution rate as percent of payroll		
(a)	Employer normal cost rate	3.83%	5.09%
(b)	Amortization payments ( 8 / 7 )	13.13%	14.92%
(c)	Total ( a + b )	16.96%	20.01%
11.	Estimated employer contribution amount (7 x 10(c))	\$ 110,649,105	\$ 179,772,699

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability <sup>2</sup>	Unfunded Actuarial Accrued Liability <sup>3</sup> (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(3)-(2) (4)	(2)/(3) (5)	(6)	(7)
<b>State Employees</b>						
June 30, 1997	\$1,810,447,649	\$2,312,563,765	\$502,116,116	78.3%	\$443,709,290	113.2%
June 30, 1998	2,075,619,320	2,576,282,134	500,662,814	80.6%	477,319,627	104.9%
June 30, 1999 <sup>1</sup>	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	3,461,708,161	1,194,035,145	65.5%	606,102,182	197.0%
<b>Teachers</b>						
June 30, 1997	2,626,621,502	3,579,652,537	953,031,035	73.4%	604,076,573	157.8%
June 30, 1998	3,045,858,851	3,999,722,806	953,863,955	76.2%	636,246,593	149.9%
June 30, 1999 <sup>1</sup>	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	105.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	120.2%
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	5,284,933,149	1,857,247,595	64.9%	834,642,391	222.5%

<sup>1</sup>Restated numbers based on Entry Age Normal funding method

<sup>2</sup>Frozen Actuarial Liability for plan years 1998 and prior

<sup>3</sup>Unfunded Frozen Actuarial Liability for plan years 1998 and prior

**Schedules Of Contributions From The Employers  
And Other Contributing Entity**

ERS Fiscal Year Ended June 30	<u>State Employees</u>		<u>Teachers (State)</u>		<u>Teachers (Local)</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	\$45,323,258	100%	\$38,242,690	100%	\$56,888,431	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%
1998	51,310,092	100%	35,005,382	100%	52,040,574	100%
1997	45,403,827	100%	34,871,679	100%	48,945,845	100%

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage, closed	Level percentage, closed
Remaining amortization period	26 years	26 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 8.25%	4.50% to 17.00%
* Includes inflation at:	3.00%	3.00%
Cost of living adjustment	3.00%	3.00%

## **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 anticipation of the implementation of GASB Statement 43, "Other Post Employment Benefits," the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability is estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers. The actuarially based funding of this liability is reflected in the State's five-year forecast and would require an estimate rate of contribution of 8.57% of payroll.

## **LITIGATION**

No litigation is pending or, to the knowledge of the Attorney General, threatened against or affecting the State seeking to restrain or enjoin the issuance, sale or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds.

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. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. Gen. Laws § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 limitation contained in the State's Tort Claims Act.

## **FINANCIAL STATEMENTS**

Attached are the combined financial statements and notes of the State for fiscal year ended June 30, 2003, and the report thereon by the Auditor General, a certified public account appointed by the Joint Committee on Legislative Services.



**Exhibit A – Audited Financial Statements of the State for the Fiscal Year Ended June 30, 2003**

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ERNEST A. ALMONTE, CPA, CFE  
AUDITOR GENERAL  
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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, 2003 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 4% 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 represents 47% of the assets and 4% of the revenues of the business-type activities; and
- certain component units which represent 100% of the assets and 99% 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 opinion, insofar as it relates 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, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, 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.

Exhibit A-1

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in governmental activities at June 30, 2003. Due to insufficient physical inventories of capital assets and weaknesses in accounting controls over the accumulation of capital asset acquisitions and disposals, we were unable to satisfy ourselves as to the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, and building improvement capital asset categories represent \$139 million or 13% of total recorded governmental activities capital assets of \$1,086 million at June 30, 2003.

Management has not presented encumbrances outstanding at June 30, 2003 as a reserved component of fund balance within the State's major governmental funds and other governmental funds or disclosed such amounts in the notes to the basic financial statements as required by generally accepted accounting principles. The amount by which this departure would affect the reserved and unreserved components of fund balance of the governmental funds is not reasonably determinable.

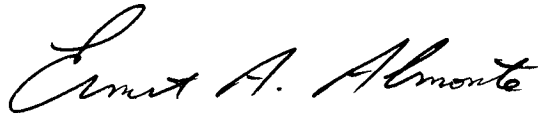
In our opinion, except for the effect of such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the carrying value of the furniture and equipment, and building improvement components of capital assets, and except for the omission of encumbrances outstanding at June 30, 2003 as a component of reserved fund balance of the governmental funds, 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1(R) and 17 to the basic financial statements, the Tobacco Settlement Financing Corporation, a blended component unit, early implemented guidance provided in GASB Technical Bulletin *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. As a result, the Tobacco Settlement Financing Corporation changed its method of accounting for its purchased interest in future tobacco settlement revenues and the State changed its presentation of the Corporation from a discretely presented component unit to a blended component unit.

As provided by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*, the State has included only capital outlays for infrastructure since July 1, 2001 as capital assets within governmental activities on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 and required supplementary information, listed in the accompanying table of contents, 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, CPA, CFE  
Auditor General

October 13, 2004

## 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, 2003. 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 fiscal year ended June 30, 2003 by \$82.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$872.8) million was reported as unrestricted net assets, \$557.5 million was restricted net assets, and \$397.6 million was invested in capital assets net of related debt. Net assets of the governmental activities decreased by \$549.4 million for the fiscal year ended June 30, 2003. The primary reason for the decrease is the additional \$651 million of debt reported in governmental activities due to the changes in presentation as listed below. This decrease is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated." The restatement is further detailed in Note 17.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets changed by (\$64.5) million in fiscal year 2003. Net assets of governmental activities changed by \$5.1 million, while net assets of the business-type activities changed by (\$69.6) million. The primary reason for the difference in the change in governmental activities was the one-time influx of \$544.2 million, during fiscal year 2002, from the Tobacco Settlement Finance Corporation that was reported as a special item. The primary reason for the difference in the business-type activities was the increase in operating transfers out.

#### Fund Financial Statements

- State's governmental funds reported a combined ending fund balance of \$458.1 million, a decrease of \$55.9 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$42.6 million, an increase of \$11.6 million in comparison with the previous fiscal year.
- The Budget Reserve Account ended the fiscal year with a balance of \$83.6 million, an increase of \$1.6 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$24.1 million, which was a decrease of \$7.9 million from the previous year.
- The R.I. Temporary Disability Insurance Fund ended the current fiscal year with a 21.4% increase of \$20.1 million over last year. The fund balance at year end was \$114.1 million.
- The Rhode Island State Lottery transferred \$249.1 million to the General Fund during the fiscal year, an increase of \$34.9 million in comparison with the previous fiscal year.

# Management's Discussion and Analysis

## Overview of the Financial Statements

This discussion and analysis are 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.

## Changes in Presentation

The R.I. General Laws were amended giving the R.I. Underground Storage Tank Financial Responsibility Fund separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Corporation early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund.

## 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.

## Management's Discussion and Analysis

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 Lottery Commission, R.I. 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. The State has 21 discretely presented component units. 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.



## Management's Discussion and Analysis

Governmental funds include the general fund and special revenue, capital projects, debt service 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 and management defines the Intermodal Surface Transportation Fund as a major fund. The R.I. Temporary Disability Insurance Fund and the Bond Capital 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 this report.

- **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 and the Employment Security Trust 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 14 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 this report.
- **Fiduciary funds:** These funds are used to account 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 this report.

# Management's Discussion and Analysis

Major Features of the Basic Financial Statements				
	Government-wide	Fund Financial Statements		
	Financial Statements	Governmental Funds	Proprietary Funds	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 the end of the 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 component units' 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 includes combining financial statements for nonmajor governmental, internal service and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

## 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 \$82.3 million at the end of fiscal year 2003, compared to \$701.3 million (before restatement) at the end of the prior fiscal year. The primary reason for the change is the additional \$651 million of debt reported in governmental activities due to the changes in presentation as listed above.

## Management's Discussion and Analysis

This change is reflected in the Changes in Net Assets in the line "Net assets-beginning, as restated." The restatement is further detailed in Note 17.

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.

State of Rhode Island's Net Assets as of June 30, 2003 (Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 967,379	\$ 1,082,235	\$ 312,155	\$ 365,997	\$ 1,279,534	\$ 1,448,232
Capital assets	1,086,556	936,397	208,273	209,022	1,294,829	1,145,419
<b>Total assets</b>	<b>2,053,935</b>	<b>2,018,632</b>	<b>520,428</b>	<b>575,019</b>	<b>2,574,363</b>	<b>2,593,651</b>
Long-term liabilities outstanding	1,599,965	1,589,439	294,364	286,930	1,894,329	1,876,369
Other liabilities	559,261	539,639	38,471	30,836	597,732	570,475
<b>Total liabilities</b>	<b>2,159,226</b>	<b>2,129,078</b>	<b>332,835</b>	<b>317,766</b>	<b>2,492,061</b>	<b>2,446,844</b>
Net assets:						
Invested in capital assets, net of related debt	481,460	371,614	(83,896)	(84,909)	397,564	286,705
Restricted	273,559	196,913	283,944	340,512	557,503	537,425
Unrestricted	(860,310)	(678,973)	(12,455)	1,650	(872,765)	(677,323)
<b>Total net assets</b>	<b>\$ (105,291)</b>	<b>\$ (110,446)</b>	<b>\$ 187,593</b>	<b>\$ 257,253</b>	<b>\$ 82,302</b>	<b>\$ 146,807</b>

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used.

### Changes in Net Assets

The State's net assets decreased by (\$64.5) million during the current fiscal year. Total revenues of \$6.0 billion (including special items) were less than expenses of \$6.1 billion. Approximately 38.9% of the State's total revenue came from taxes, while 28.1% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 29.8% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (37.0%) and intergovernmental (15.6%). In fiscal year 2003, governmental activity expenses exceeded program revenues, which resulted in the use of \$2.73 billion in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in 2003 exceeded expenses by \$142.7 million.

## Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets						
For the Fiscal Year Ended June 30, 2003						
(Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 313,733	\$ 306,007	\$ 1,473,723	\$ 1,345,922	\$ 1,787,456	\$ 1,651,929
Operating grants and contributions	1,452,834	1,315,974	45,712	50,656	1,498,546	1,366,630
Capital grants and contributions	191,993	176,071			191,993	176,071
General revenues:						
Taxes	2,335,329	2,187,342			2,335,329	2,187,342
Interest	7,668	10,005	17,336	21,134	25,004	31,139
Other	160,547	153,947	5,354	7,615	165,901	161,562
Total revenues	4,462,104	4,149,346	1,542,125	1,425,327	6,004,229	5,574,673
Program expenses:						
General government	459,989	455,489			459,989	455,489
Human services	2,244,980	2,115,220			2,244,980	2,115,220
Education	103,476	339,455			103,476	339,455
Public safety	309,569	288,291			309,569	288,291
Natural resources	67,597	138,287			67,597	138,287
Transportation	170,082	192,824			170,082	192,824
Intergovernmental	947,792	896,512			947,792	896,512
Grants	291,208	287			291,208	287
Interest	98,831	79,381			98,831	79,381
Lottery			1,054,764	958,626	1,054,764	958,626
Convention Center			59,372	57,900	59,372	57,900
Employment insurance			262,585	231,665	262,585	231,665
	4,693,524	4,505,746	1,376,721	1,248,191	6,070,245	5,753,937
Increase in net assets before transfers and special items						
	(231,420)	(356,400)	165,404	177,136	(66,016)	(179,264)
Transfers	235,064	198,969	(235,064)	(198,969)		
Special items	1,511	525,276			1,511	525,276
Change in net assets	5,155	367,845	(69,660)	(21,833)	(64,505)	346,012
Net assets - Beginning	(110,446)	76,251	257,253	279,086	146,807	355,337
Cumulative effect of prior period adjustments		(554,542)				(554,542)
Net assets - Beginning, as restated	(110,446)	(478,291)	257,253	279,086	146,807	(199,205)
Net assets - Ending	\$ (105,291)	\$ (110,446)	\$ 187,593	\$ 257,253	\$ 82,302	\$ 146,807

### 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 \$458.1 million, a decrease of \$55.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$83.6 million for a "rainy day" account, (2) \$45.5 million for continuing appropriations, (3) \$74.4 million principally for liquidating debt, (4) \$114.0 million for employment insurance programs and (5)

## Management's Discussion and Analysis

\$1.4 million for other restricted purposes. Approximately 30.3% (\$139.0 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 of the General Fund was \$42.6 million, while total fund balance was \$171.8 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent 1.0% of total General Fund expenditures, while total fund balance represent 3.9% of the same amount.

The General Fund's unreserved fund balance increased from \$31.0 million to \$42.6 million, an increase of \$11.6 million during the current fiscal year. This is primarily attributed to the revenue increases for taxes, licenses, fines and services.

**Intermodal Surface Transportation Fund.** The Intermodal Surface Transportation Fund (ISTEA) 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 current fiscal year, unreserved fund balance of the ISTEA fund was \$24.1 million, while the total fund balance was \$25.5 million. Total fund balance of the ISTEA fund decreased by \$7.9 million during the current fiscal year.

**R.I. Temporary Disability Insurance Fund.** This fund is responsible to account for the employee tax on wages which are levied to pay benefits to covered workers who are absent due to non job-related illnesses. The ending fund balance for the current fiscal year was \$114.1 million. It represents an increase of \$20.1 million or 21.4% over last year. This was mainly attributed to the increase in the wage limit used for the employee contribution.

**Bond Capital Fund.** The Bond Capital Fund tracks the proceeds from the bonds issued and the related capital expenditures not required to be disclosed in another capital projects fund. At fiscal year end, the balance at June 30, 2003 was \$57.6 million for a decrease of \$.8 million.

### General Fund Budgetary Highlights

According to the State's Constitution, 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. 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 revenues must be imposed. Certain agencies have federal programs that are entitlements which must continue to receive the federal funds. Agencies may get additional appropriations providing a need is established. Adjustments to general revenue receipt estimates resulted in an increase of \$42.7 million (1.58%) between the original budget and the final budget. In addition, general revenue appropriations increased from the original budget by \$26.6 million (1.00%). Some significant

## Management's Discussion and Analysis

changes between the estimated general revenue receipts and general revenue appropriations are listed below.

- Personal income tax decreased by \$ 17.5 million (2%)
- Business corporation tax increased by \$17.9 million (39%)
- Public gross earnings tax decreased by \$20.8 million (22%)
- Insurance companies tax increased by \$14.0 million (39%)
- Inheritance and gift tax increased by \$8.0 million (36%)
- Departmental general revenue increased by \$17.7 million (7%)
- Gas tax transfer increased by \$14.2 million (134%)
- General revenue appropriations increased in the Departments of Administration, Corrections and Elementary and Secondary Education increased by \$13.2 million, \$6.9 million and \$4.1 million, respectively

### 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, 2003, amounts to \$1,295 million, net of accumulated depreciation of \$432 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 14.0% in terms of net book value.

Actual expenditures to purchase or construct capital assets were \$198.8 million for the year. Of this amount, \$106.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$47.4 million.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Capital assets not being depreciated						
Land	\$ 382,579	\$ 373,186	\$ 38,032	\$ 38,032	\$ 420,611	\$ 411,218
Construction in progress	102,881	52,193		1,336	102,881	53,529
Total capital assets not being depreciated	485,460	425,379	38,032	39,368	523,492	464,747
Capital assets being depreciated						
Land improvements	3,601	3,209			3,601	3,209
Buildings	374,127	369,453	229,748	227,336	603,875	596,789
Buildings improvements	198,449	195,860			198,449	195,860
Equipment	148,924	137,163	23,571	18,466	172,495	155,629
Infrastructure	224,490	118,311			224,490	118,311
	949,591	823,996	253,319	245,802	1,202,910	1,069,798
Less: Accumulated depreciation	(348,495)	(312,978)	(83,078)	(76,148)	(431,573)	(389,126)
Total capital assets being depreciated	601,096	511,018	170,241	169,654	771,337	680,672
Total capital assets (net)	\$ 1,086,556	\$ 936,397	\$ 208,273	\$ 209,022	\$ 1,294,829	\$ 1,145,419

## Management's Discussion and Analysis

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 \$1,498 million of which \$739 million is general obligation debt and \$759 million is debt of the blended component units. The State's total bonded debt increased by \$23.7 million during the current fiscal year. This increase is the net of a \$48.5 million increase in general obligation debt and a decrease of \$24.8 million in the blended component units. 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 \$77.1 million of general obligation bonds and \$62.7 of general obligation refunding 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 \$238.5 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

### Economic Factors

The State's economy weathered the national recession of 2001 better than it did the recession of the early 1990s. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced a decline in non-farm employment of 17,300 jobs in FY 1992 vs. a decline in non-farm employment of 1,300 jobs in FY 2002. On a calendar year basis, Rhode Island did even better experiencing an increase in employment of 1,700 jobs in CY 2001 vs. a loss of 29,700 jobs in CY 1991. In FY 2003, Rhode Island added 3,100 total jobs. On a calendar year basis, the State increased its non-farm employment by 4,200 in 2003.

According to Economy.com's August 2004 *Forecast Report: U.S., New England, and Rhode Island*, Rhode Island's recent job gains have begun to decelerate causing the State to fall "behind the nation in terms of year-over-year job growth in the last couple of months for the first time in three years." The slowdown in Rhode Island's employment growth can be attributed to a decrease in employment in the construction industry. Again according to Economy.com (8/2004), "From July 2002 to February 2004, the Rhode Island construction industry added 3,600 jobs, an increase of nearly 19%." The State's strong housing market and an increase in government spending on several large public works and road improvement projects fueled this hiring. Since February, construction employment has fallen.

Rhode Island personal income growth has performed similarly to Rhode Island employment growth in the current recession. In CY 1992, Rhode Island personal income growth was more

## Management's Discussion and Analysis

than two percentage points less than that of the U.S. (4.3% vs. 6.6% respectively) reflecting the deeper decline in Rhode Island's economy vis-à-vis the U.S. economy during this period. In CY 2002, however, Rhode Island personal income growth was more than a full percentage point better than that of the U.S. as a whole (3.4% vs. 2.3% respectively) reflecting the reversal in the State's fortunes during the 2001 national recession.

Interestingly, Rhode Island has been able to maintain the positive differential between its personal income growth rate and the U.S. personal income growth rate in spite of the fact that Rhode Island's employment growth performance has begun to lag that of the nation as a whole. In FY 2003, Rhode Island personal income growth was 3.7% vs. 2.6% for the U.S. On a calendar year basis, Rhode Island personal income growth was 4.4% in 2003 vs. 2003 personal income growth of 3.4% for the United States.

According to Economy.com (8/2004), the near term outlook for Rhode Island's economy is "generally favorable" with payroll growth expected "to strengthen in the second half of 2004 and employment to rise a solid 1.9% in 2005." One of the catalysts for this growth is rising national defense spending. Economy.com (8/2004) notes that "Electric Boat continues to win federal contracts to retrofit submarines for use in special operations and surveillance." In addition, "Raytheon is also enjoying more business from a larger defense budget given its emphasis on surveillance and control systems." Finally, the national defense build-up is moving the State's manufacturing sector into a much better position to support growth in the Rhode Island economy. With the assistance of the Rhode Island Manufacturing Extension Services, "area businesses with little history of defense work" anticipate capturing a significant part of the U.S. Department of Defense's increased spending.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State's long term economic performance. In 2002, the Brown University Medical School won \$90 million in research grants from the National Institutes of Health. A referendum is being put before the voters in November 2004 seeking approval of \$50 million in general obligation bonds for the construction of a Center for Biotechnology and Life Sciences at the University of Rhode Island. Finally, Amgen has invested \$1.5 billion in the State since 2001 building the largest biopharmaceutical manufacturing facility in the U.S. for the production of its blockbuster rheumatoid arthritis drug Enbrel®. The final phase of the plant is expected to open in 2005 adding anywhere from 300 to 500 jobs.

### 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](mailto:finreport@mail.state.ri.us). As of fiscal year 1999, the State's Comprehensive Annual Financial Report may be found on the State Controller's home page, <http://controller.doa.state.ri.us>. 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, 2003**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental activities	Business - Type Activities	Totals	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 350,738	\$ 23,179	\$ 373,917	\$ 751,479
Funds on deposit with fiscal agent	11,529	222,960	234,489	
Investments	101,020	294	101,314	886,257
Receivables (net)	281,817	44,890	326,707	1,135,626
Due from primary government				4,240
Due from component units	17,498		17,498	
Internal balances	4,885	(4,885)		
Due from other governments and agencies	144,615	1,338	145,953	7,870
Inventories	2,058	1,155	3,213	7,512
Other assets	18,416	1,204	19,620	17,625
Total current assets	<u>932,576</u>	<u>290,135</u>	<u>1,222,711</u>	<u>2,810,609</u>
Noncurrent assets:				
Investments		17,219	17,219	88,487
Receivables (net)	668		668	1,107,524
Due from component units	25,753		25,753	
Capital assets - nondepreciable	485,460	38,032	523,492	275,217
Capital assets - depreciable (net)	601,096	170,241	771,337	966,648
Lease receivable				5,555
Other assets	8,382	4,801	13,183	141,517
Total noncurrent assets	<u>1,121,359</u>	<u>230,293</u>	<u>1,351,652</u>	<u>2,584,948</u>
Total assets	<u>2,053,935</u>	<u>520,428</u>	<u>2,574,363</u>	<u>5,395,557</u>
<b>Liabilities</b>				
Current Liabilities:				
Cash overdraft	26,634		26,634	215
Accounts payable	317,764	16,440	334,204	76,972
Due to primary government				5,035
Due to component units	8,536		8,536	
Due to other governments and agencies		1,671	1,671	659
Accrued expenses	58,911	4,413	63,324	63,746
Deferred revenue		1,769	1,769	16,889
Other current liabilities	34,312	334	34,646	8,694
Current portion of long-term debt	113,104	7,838	120,942	302,906
Obligation for unpaid prize awards		6,006	6,006	
Total current liabilities	<u>559,261</u>	<u>38,471</u>	<u>597,732</u>	<u>475,116</u>
Noncurrent Liabilities:				
Due to other governments and agencies	5,442		5,442	4,217
Accrued liabilities				33,516
Deferred revenue		11,875	11,875	3,960
Notes payable				4,151
Loans payable				131,007
Obligations under capital lease	102,885		102,885	43,747
Compensated absences	15,604		15,604	23,901
Bonds payable	1,445,547	282,444	1,727,991	2,905,829
Other liabilities	30,487	45	30,532	290,489
Total noncurrent liabilities	<u>1,599,965</u>	<u>294,364</u>	<u>1,894,329</u>	<u>3,440,817</u>
Total liabilities	<u>2,159,226</u>	<u>332,835</u>	<u>2,492,061</u>	<u>3,915,933</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	481,460	(83,896)	397,564	718,560
Restricted for:				
Budget Reserve	83,648		83,648	
State infrastructure bank	1,354		1,354	
Debt	74,363	24,522	98,885	573,571
Self-insurance	100		100	
Employment Insurance Programs	114,094	259,422	373,516	
Unrestricted	(860,310)	(12,455)	(872,765)	187,493
Total net assets	<u>\$ (105,291)</u>	<u>\$ 187,593</u>	<u>\$ 82,302</u>	<u>\$ 1,479,624</u>

**State of Rhode Island and Providence Plantations**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**  
**(Expressed in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government		Totals	
					Governmental Activities	Business-type activities		
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 459,989	\$ 108,369	\$ 68,994	\$ 164	\$ (282,462)		\$ (282,462)	\$
Human services	2,244,980	113,247	1,203,908	100	(927,725)		(927,725)	
Education	103,476	2,877	132,003		31,404		31,404	
Public safety	309,569	60,341	24,516	945	(223,767)		(223,767)	
Natural resources	67,597	25,807	14,680	20,175	(6,935)		(6,935)	
Transportation	170,082	3,092	8,733	170,609	12,352		12,352	
Intergovernmental	947,792				(947,792)		(947,792)	
Grants	291,208				(291,208)		(291,208)	
Interest and other charges	98,831				(98,831)		(98,831)	
Capital outlays								
Total governmental activities	<u>4,693,524</u>	<u>313,733</u>	<u>1,452,834</u>	<u>191,993</u>	<u>(2,734,964)</u>		<u>(2,734,964)</u>	
Business-type activities:								
State lottery	1,054,764	1,290,406				235,642	235,642	
Convention Center	59,372	39,610				(19,762)	(19,762)	
Employment security	262,585	143,707	45,712			(73,166)	(73,166)	
Total business-type activities	<u>1,376,721</u>	<u>1,473,723</u>	<u>45,712</u>			<u>142,714</u>	<u>142,714</u>	
Total primary government	<u>\$ 6,070,245</u>	<u>\$ 1,787,456</u>	<u>\$ 1,498,546</u>	<u>\$ 191,993</u>	<u>(2,734,964)</u>	<u>142,714</u>	<u>(2,592,250)</u>	
<b>Component units</b>	<u>\$ 991,267</u>	<u>\$ 931,981</u>	<u>\$ 37,929</u>	<u>\$ 53,731</u>				<u>32,374</u>
<b>General Revenues:</b>								
Taxes					2,335,329		2,335,329	
Interest and investment earnings					7,668	17,336	25,004	49,119
Miscellaneous					160,547	5,354	165,901	(815)
Special items					1,511		1,511	
Transfers					235,064	(235,064)		
Total general revenues, special items, and transfers					<u>2,740,119</u>	<u>(212,374)</u>	<u>2,527,745</u>	<u>48,304</u>
Change in net assets					5,155	(69,660)	(64,505)	80,678
Net assets - beginning, as restated					(110,446)	257,253	146,807	1,398,946
Net assets - ending					<u>\$ (105,291)</u>	<u>\$ 187,593</u>	<u>\$ 82,302</u>	<u>\$ 1,479,624</u>

Exhibit A-16

**State of Rhode Island and Providence Plantations**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**  
**(Expressed in Thousands)**

	<b>General</b>	<b>Intermodal Surface Transportation</b>	<b>R.I. Temporary Disability</b>	<b>Bond Capital</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 164,446	\$ 9,951	\$ 66,402	\$ 90,214	\$ 14,175	\$ 345,188
Funds on deposit with fiscal agent					11,529	11,529
Investments					101,020	101,020
Receivables (net)	213,185	12,372	49,086		9	274,652
Due from other funds	65,000	10,586	2	7,955	3	83,546
Due from component units	14,517	647				15,164
Due from other governments and agencies	104,360	37,959		2,299		144,618
Loans to other funds	120					120
Other assets	16,240				1,485	17,725
<b>Total assets</b>	<b>577,868</b>	<b>71,515</b>	<b>115,490</b>	<b>100,468</b>	<b>128,221</b>	<b>993,562</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Cash overdraft				21,011	4,337	25,348
Accounts payable	277,598	20,896	76	1,351	947	300,868
Due to other funds	20,519	7,146	1,320	20,437	30,815	80,237
Due to component units	6,146	2,389				8,535
Loans from other funds					20	20
Accrued expenses	44,473					44,473
Deferred revenue	27,188	15,140		66		42,394
Other liabilities	30,105	490		57	2,892	33,544
<b>Total liabilities</b>	<b>406,029</b>	<b>46,061</b>	<b>1,396</b>	<b>42,922</b>	<b>39,011</b>	<b>535,419</b>
<b>Fund Balances</b>						
<b>Reserved for:</b>						
Budget reserve	83,648					83,648
Appropriations carried forward	45,557					45,557
Debt					74,363	74,363
Self-insurance					100	100
State infrastructure bank		1,354				1,354
Employment Insurance Programs			114,094			114,094
<b>Unreserved, reported in:</b>						
General fund	42,634					42,634
Special revenue funds		24,100			1,303	25,403
Capital projects funds				57,546	12,607	70,153
Permanent fund					837	837
<b>Total fund balances</b>	<b>171,839</b>	<b>25,454</b>	<b>114,094</b>	<b>57,546</b>	<b>89,210</b>	<b>458,143</b>
<b>Total liabilities and fund balances</b>	<b>\$ 577,868</b>	<b>\$ 71,515</b>	<b>\$ 115,490</b>	<b>\$ 100,468</b>	<b>\$ 128,221</b>	<b>\$ 993,562</b>

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, 2003  
 (Expressed in Thousands)

Fund Balance of Governmental Funds	\$	458,143
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.		1,082,623
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.		(1,706,890)
Long-term receivables from component units are not available to pay for current-period expenditures and therefore are not recorded in the fund financial statements.		28,594
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.		20,577
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 is reported with governmental activities.		11,662
Net Assets - Governmental Activities	\$	<u><u>(105,291)</u></u>

**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	R.I. Temporary Disability	Bond Capital	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 2,012,372	\$ 139,458	\$ 178,246	\$	\$	\$ 2,330,076
Licenses, fines, sales, and services	223,894	692			6,331	230,917
Departmental restricted revenue	75,726	2,400				78,126
Federal grants	1,433,410	153,197		10,938		1,597,545
Income from investments		201	936	1,452	5,219	7,808
Other revenues	66,336	4,306	47		52,948	123,637
Total operating revenues	3,811,738	300,254	179,229	12,390	64,498	4,368,109
<b>Expenditures:</b>						
Current:						
General government	283,618		157,749	655	3,475	445,497
Human services	2,232,252					2,232,252
Education	101,270					101,270
Public safety	297,070					297,070
Natural resources	53,170			37		53,207
Transportation		143,635				143,635
Capital outlays	42,999	114,062	164	19,999	18,387	195,611
Intergovernmental	937,237	1,549		8,881	124	947,791
Debt service:						
Principal	58,161					58,161
Interest and other charges	52,998				47,630	100,628
Total operating expenditures	4,058,775	259,246	157,913	29,572	69,616	4,575,122
Excess (deficiency) of revenues over (under) expenditures	(247,037)	41,008	21,316	(17,182)	(5,118)	(207,013)
<b>Nonoperating revenues (expenditures)</b>						
Bonds and notes issued				138,685	1,220	139,905
Proceeds from the sale of Certificates of Participation					3,890	3,890
Premium and accrued interest				10,810	71	10,881
Operating transfers in	524,139	44,130		54,141	2,675	625,085
Operating transfers in from component units	18,578				192	18,770
Other	9,461				(471)	8,990
Payment to refunded bonds escrow agent				(68,657)	(16,701)	(85,358)
Operating transfers out	(77,386)	(58,308)	(1,225)	(84,649)	(166,783)	(388,351)
Operating transfers out to component units	(219,716)	(34,741)		(33,958)	(2,793)	(291,208)
Total nonoperating revenues (expenditures) and other financing (uses)	255,076	(48,919)	(1,225)	16,372	(178,700)	42,604
Special item					1,510	1,510
Change in fund balances	8,039	(7,911)	20,091	(810)	(182,308)	(162,899)
Fund balances - beginning, as restated	163,800	33,365	94,003	58,356	271,518	621,042
Fund balances - ending	\$ 171,839	\$ 25,454	\$ 114,094	\$ 57,546	\$ 89,210	\$ 458,143

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, 2003  
 (Expressed in Thousands)

Change in Fund Balance - Governmental Funds	\$ (162,899)
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.	
	150,157
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.	
	(31,246)
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.	
	48,150
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.	
	993
Change in Net Assets - Governmental Activities	\$ 5,155

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2003**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 10,417	\$ 11,239	\$ 1,523	\$ 23,179	\$ 5,549
Funds on deposit with fiscal agent			222,960	222,960	
Investments	294			294	
Receivables (net)	6,268	2,333	36,289	44,890	7,165
Due from other funds			19	19	3,242
Due from other governments and agencies			1,338	1,338	
Inventories	1,155			1,155	2,058
Other assets	327	877		1,204	849
Total current assets	<u>18,461</u>	<u>14,449</u>	<u>262,129</u>	<u>295,039</u>	<u>18,863</u>
Noncurrent assets:					
Investments	45	17,174		17,219	
Capital assets - nondepreciable		38,032		38,032	
Capital assets - depreciable (net)	1,838	168,403		170,241	3,764
Other assets		4,801		4,801	668
Total noncurrent assets	<u>1,883</u>	<u>228,410</u>		<u>230,293</u>	<u>4,432</u>
Total assets	<u>20,344</u>	<u>242,859</u>	<u>262,129</u>	<u>525,332</u>	<u>23,295</u>
<b>Liabilities</b>					
Current Liabilities					
Cash overdraft					1,285
Accounts payable	12,643	3,797		16,440	5,474
Due to other funds	940	2,928	1,036	4,904	1,666
Due to other governments and agencies			1,671	1,671	
Loans from other funds					100
Accrued expenses		4,413		4,413	
Deferred revenue	1,001	768		1,769	
Other current liabilities	334			334	1,940
Notes payable		153		153	
Bonds payable		7,685		7,685	
Obligations under capital lease					400
Obligation for unpaid prize awards	6,006			6,006	
Total current liabilities	<u>20,924</u>	<u>19,744</u>	<u>2,707</u>	<u>43,375</u>	<u>10,865</u>
Noncurrent Liabilities					
Deferred contract revenue	11,875			11,875	
Obligations under capital lease					767
Bonds payable		282,444		282,444	
Obligation for unpaid prize awards	45			45	
Total noncurrent liabilities	<u>11,920</u>	<u>282,444</u>		<u>294,364</u>	<u>767</u>
Total liabilities	<u>32,844</u>	<u>302,188</u>	<u>2,707</u>	<u>337,739</u>	<u>11,632</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt		(83,896)		(83,896)	2,597
Restricted for:					
Capital Projects					
Debt		24,522		24,522	
Employment Insurance Programs			259,422	259,422	
Unrestricted	(12,500)	45		(12,455)	9,066
Total net assets	<u>\$ (12,500)</u>	<u>\$ (59,329)</u>	<u>\$ 259,422</u>	<u>\$ 187,593</u>	<u>\$ 11,663</u>

**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, 2003**  
**(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	\$ 1,290,406	\$ 39,000	\$ 142,439	\$ 1,471,845	\$ 98,279
Grants			45,712	45,712	
Miscellaneous		610	1,268	1,878	
Total operating revenues	1,290,406	39,610	189,419	1,519,435	98,279
Operating expenses:					
Personal services	3,476	15,150		18,626	13,945
Supplies, materials, and services	174,535	16,021		190,556	80,839
Prize awards	876,438			876,438	
Depreciation	315	10,618		10,933	799
Benefits Paid			255,672	255,672	
Total operating expenses	1,054,764	41,789	255,672	1,352,225	95,583
Operating income (loss)	235,642	(2,179)	(66,253)	167,210	2,696
Nonoperating revenues (expenses):					
Interest revenue	947	1,110	15,279	17,336	25
Other nonoperating revenue			5,354	5,354	
Interest expense		(17,583)		(17,583)	(61)
Other nonoperating expenses			(6,913)	(6,913)	
Total nonoperating revenue (expenses)	947	(16,473)	13,720	(1,806)	(36)
Net income (loss) before transfers	236,589	(18,652)	(52,533)	165,404	2,660
Transfers in		17,351	1,622	18,973	
Transfers out	(249,124)	(2,928)	(1,985)	(254,037)	(1,668)
Change in net assets	(12,535)	(4,229)	(52,896)	(69,660)	992
Total net assets - beginning	35	(55,100)	312,318	257,253	10,671
Total net assets - ending	\$ (12,500)	\$ (59,329)	\$ 259,422	\$ 187,593	\$ 11,663



State of Rhode Island and Providence Plantations  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2003  
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 1,297,212	\$ 39,529	\$ 140,973	\$ 1,477,714	\$ 100,110
Cash received from grants			45,712	45,712	
Cash payments to suppliers for goods and services	(3,977)	(14,017)		(17,994)	(81,446)
Cash payments to employees for services	(3,444)	(14,758)		(18,202)	(14,050)
Cash payments to prize winners	(880,724)			(880,724)	
Cash payments for commissions	(167,312)			(167,312)	
Cash payments for benefits			(255,279)	(255,279)	
Other operating revenue (expense)			1,268	1,268	
Net cash provided by (used for) operating activities	<u>241,755</u>	<u>10,754</u>	<u>(67,326)</u>	<u>185,183</u>	<u>4,614</u>
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds					2,050
Loans to other funds					(714)
Repayment of loans to other funds					(3,738)
Operating transfers in		18,619	1,686	20,305	
Operating transfers out	(250,326)	(2,928)	(917)	(254,171)	
Net transfers from (to) fiscal agent			66,664	66,664	
Negative cash balance implicitly financed	(212)			(212)	(337)
Other	12,500			12,500	
Net cash provided by (used for) noncapital financing activities	<u>(238,038)</u>	<u>15,691</u>	<u>67,433</u>	<u>(154,914)</u>	<u>(2,739)</u>
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations		(7,621)		(7,621)	(416)
Interest paid on capital obligations		(15,165)		(15,165)	(61)
Acquisition of capital assets	(877)	(8,923)		(9,800)	(326)
Proceeds from bonds		1,134		1,134	
Net cash provided by (used for) capital and related financing activities	<u>(877)</u>	<u>(30,575)</u>		<u>(31,452)</u>	<u>(803)</u>
<b>Cash flows from investing activities:</b>					
Proceeds from sale and maturity of investments	691			691	
Interest on investments	286	1,123		1,409	25
Net cash provided by (used for) investing activities	<u>977</u>	<u>1,123</u>		<u>2,100</u>	<u>25</u>
Net increase (decrease) in cash and cash equivalents	3,817	(3,007)	107	917	1,097
Cash and cash equivalents, July 1	6,600	14,246	1,416	22,262	4,452
Cash and cash equivalents, June 30	<u>\$ 10,417</u>	<u>\$ 11,239</u>	<u>\$ 1,523</u>	<u>\$ 23,179</u>	<u>\$ 5,549</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	235,642	(2,179)	(66,253)	167,210	2,695
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation	315	10,618		10,933	799
Other revenue (expense) and operating transfer in (out)			1,246	1,246	
Net changes in assets and liabilities:					
Receivables, net	1,326	(123)	(2,766)	(1,563)	(19,808)
Inventory	(269)			(269)	245
Prepaid items	(10)			(10)	(373)
Other assets	117			117	
Due to / due from transactions			447	447	
Accounts and other payables	3,766	1,506		5,272	21,160
Accrued expenses	(91)	861		770	(105)
Deferred revenue	219	71		290	
Prize awards payable	740			740	
Total adjustments	<u>6,113</u>	<u>12,933</u>	<u>(1,073)</u>	<u>17,973</u>	<u>1,918</u>
Net cash provided by (used for) operating activities	<u>\$ 241,755</u>	<u>\$ 10,754</u>	<u>\$ (67,326)</u>	<u>\$ 185,183</u>	<u>\$ 4,613</u>

**State of Rhode Island and Providence Plantations**  
**Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**  
**(Expressed in Thousands)**

	<b>Pension Trust</b>	<b>Private Purpose</b>	
		<b>Touro Jewish Synagogue</b>	<b>Agency</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,427	\$ 154	\$ 18,541
Receivables			
Contributions	21,224		
Due from state for teachers	14,873		
Miscellaneous	3,185		
Total receivables	39,282		
Investments, at fair value			
Equity in Short-Term Investment Fund	2,091		
Equity in Pooled Trust	5,361,720		
Plan specific investments	22,850		
Other investments		1,734	65,500
Total investments before lending activities	5,386,661	1,734	65,500
Invested securities lending collateral	582,424		
Property and equipment, at cost, net of accumulated depreciation			
Line of Business System in Development	15,115		
Computer Equipment	302		
Total Property and Equipment	15,417		
Total assets	6,027,211	1,888	84,041
<b>Liabilities</b>			
Securities lending liability	582,424		
Accounts payable	4,511		
Deposits held for others			84,041
Total liabilities	586,935		84,041
Net assets held in trust for pension and other benefits	\$ 5,440,276	\$ 1,888	\$

**State of Rhode Island and Providence Plantations**  
**Statement of Changes in Fund Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2003**  
**(Expressed in Thousands)**

	<u>Pension Trust</u>	<u>Private Purpose Touro Jewish Synagogue</u>
<b>Additions</b>		
Contributions		
Member contributions	\$ 148,198	\$
Employer contributions	112,683	
State contributions for teachers	38,243	
Interest on service credits purchased	1,389	
Total contributions	<u>300,513</u>	
Investment income		
Net appreciation (depreciation) in fair value of investments	15,599	36
Interest	91,858	56
Dividends	44,783	
Other investment income	16,653	
	<u>168,893</u>	<u>92</u>
Less investment expense	23,458	
Net income from investing activities	<u>145,435</u>	<u>92</u>
Securities Lending		
Securities lending income	7,495	
Less securities lending expense	5,713	
Net securities lending income	<u>1,782</u>	
Total net investment income	<u>147,217</u>	<u>92</u>
Total additions	<u>447,730</u>	<u>92</u>
<b>Deductions</b>		
Benefits		
Retirement benefits	358,447	
Cost of living adjustment	83,698	
SRA Plus (option)	24,241	
Supplemental benefits	1,007	
Death benefits	2,743	
Total benefits	<u>470,136</u>	
Refund of contributions	6,570	
Administrative expense	5,006	
Distribution		166
Total deductions	<u>481,712</u>	<u>166</u>
Net increase (decrease)	(33,982)	(74)
Net assets held in trust for pension benefits		
Net assets - beginning	5,474,258	1,962
Net assets - ending	<u>\$ 5,440,276</u>	<u>\$ 1,888</u>

State of Rhode Island and Providence Plantations  
Notes to the Basic Financial Statements  
June 30, 2003

**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* 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.

**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.

**State Lottery Fund (Lottery)** - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to 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 Commission, 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. 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, 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

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general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings 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.

**Rhode Island Economic Policy Council (RIEPC)** - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, 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 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 Mr. Robert Weygand, Vice President For Administration, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of The Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI

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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 a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. 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, One West Exchange Street, 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

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be obtained by writing to the Narragansett Bay Commission, One 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 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 Depositors Economic Protection Corporation (DEPCO)** - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the State which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. DEPCO ceased operations in January 2003. For more detailed information, a copy of the financial statements can be obtained by writing to the State of Rhode Island, Department of Administration, DEPCO, One Capitol Hill, Providence, R.I. 02903.

**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

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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, One West Exchange Street, 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, One West Exchange Street, 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, 100 North Main Street, Providence, RI 02903.

**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.

**Rhode Island Children's Crusade for Higher Education (RICCHE)** - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of

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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 R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

**Rhode Island Underground Storage Tank Review Board (RIUSTRB)** - The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

**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 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. 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

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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 and management determined that the intermodal surface transportation fund should be reported 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.

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.

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**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.

**R.I. Temporary Disability Insurance Fund.** This fund accounts for the employee tax on wages that are levied to pay benefits to covered employees who are out of work for an extended period of time due to a non-job-related illness.

**Bond Capital.** This fund accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund.

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.

**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.

**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.

**Debt Service Fund.** This fund accounts for resources obtained and used for the payment of interest and principal on bonds that are funded primarily through taxes.

**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.

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**Proprietary Fund Types:**

**Internal Service Funds.** These funds account for fleet management, workers' compensation, unemployment compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, purchasing, 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.

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.

**E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with 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. Cash overdrafts, if any, are reported as to due to other funds along with the applicable due from other funds.

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**F. Funds on Deposit with Fiscal Agent**

Funds on deposit with fiscal agent in the capital projects funds and enterprise fund are the unexpended portion of certificates of participation 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.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these 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. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

**H. Receivables**

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience.

**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. 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



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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. 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 all land, buildings (over \$100,000), equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The State defines equipment acquisitions as capital assets when the initial, individual cost (value, if donated, forfeited or seized) is more than \$5,000 (amount not rounded) and the estimated useful life is more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. 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 utilized in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements. Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' estimated useful life.

Capital assets of the primary government are depreciated over the following estimated useful lives:

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Assets	Years
Buildings	20-50
Land improvements	20
Infrastructure	30
Leasehold improvements	Term of Lease
Leasehold land improvements	Term of Lease
Building renovations	10-20
Trailers	10
Furniture and equipment	3-10
Computer systems	5
Motor vehicles	3-10

**M. Bonds Payable**

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs in the governmental activities are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums 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 discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

**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 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 7(D)).

**O. Accrued Liabilities**

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

**P. 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

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obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities.

**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. Changes in Presentation**

The R.I. General Laws were amended giving the R.I. Underground Storage Tank Financial Responsibility Fund separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Corporation early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund.

**Note 2. Budgeting and Budgetary Control**

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 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.

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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 branch and the Justice Link program.

**Note 3. Cash, Cash Equivalents and Investments**

**Cash**

Primary Government

At June 30, 2003, the carrying amount of the State's cash deposits was \$50,222,000 and the bank balance was \$36,926,000. Of the bank balance, \$437,500 was covered by federal depository insurance. The remaining amount, \$36,488,500 was uninsured and uncollateralized. The carrying amount and bank balance include \$8,184,000 of certificates of deposit.

Fiduciary Trust Funds

At June 30, 2003, the carrying amount of the fiduciary trust funds' cash deposits was \$2,518,000 and the bank balance was \$2,278,000. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$1,500,000 of certificates of deposit.

Component Units

At June 30, 2003, the carrying amount of the component units' cash deposits was \$383,533,000 and the bank balance was \$387,302,000. Of the bank balance, \$14,956,000 was covered by federal depository insurance and \$70,850,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$301,496,000 was uninsured and uncollateralized.

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 was required to be collateralized at June 30, 2003.

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**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 component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2003.

Category 1: Insured or registered, or securities held by the State or its agent in the State's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and and U.S. government agency securities	\$ 53,753	\$ 0	\$ 0	\$ 53,753
Money Market	0	0	0	0
Commercial Paper	81,501	0	0	81,501
Repurchase Agreements	76,228	0	1,716	77,944
Corporate Notes	602	0	0	602
Municipal Bonds	0	0	17,174	17,174
	<u>\$ 212,084</u>	<u>\$ 0</u>	<u>\$ 18,890</u>	<u>230,974</u>
Money Market Mutual Funds				203,071
Investment Agreements				0
Other				8,184
				<u>442,229</u>
Less amounts classified as cash equivalents				323,695
Investments				<u>\$ 118,534</u>

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Fiduciary Funds	Category			Fair Value
	1	2	3	
U.S. Government and agency securities				
Not on security loan	\$ 318,535			\$ 318,535
On loan for securities collateral	2,433			2,433
Repurchase Agreements	938			938
Corporate Bonds	715,529	106		715,635
Equity Securities		1,252		1,252
Not on security loan	958,187			958,187
On loan for securities collateral	35			35
Foreign Securities				
Not on security loan	875,889			875,889
On loan for securities collateral	1,007			1,007
	<u>\$ 2,872,553</u>	<u>\$ 1,358</u>	<u>\$</u>	<u>2,873,911</u>
Money Market Mutual Funds				172,474
Real Estate and Venture Capital Limited Partnerships				310,924
Investments held by broker-dealers under securities loans with cash collateral				562,091
Securities lending short-term collateral investment pool				582,424
Investments of Statutory Deposits Held in Trust				84,041
Other				1,470,059
				<u>6,055,924</u>
Less amounts classified as cash equivalents				19,605
Investments				<u>\$ 6,036,319</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 229,590	\$ 170,600	\$ 71,881	\$ 472,071
Money Market	11,159	0	52,404	63,563
Commercial Paper	0	0	0	0
Repurchase Agreements	40,064	3,041	20,178	63,283
Corporate Bonds	1,663	0	2,602	4,265
Corporate Notes	0	0	0	0
Equity Securities	0	1,405	6,255	7,660
Investment Agreements	5,220	0	0	5,220
Other	200	0	0	200
	<u>\$ 287,896</u>	<u>\$ 175,046</u>	<u>\$ 153,320</u>	<u>616,262</u>
Money Market Mutual Funds				32,907
Investment Agreements				688,862
Other				4,659
				<u>1,342,690</u>
Less amounts classified as cash equivalents				367,946
Investments				<u>\$ 974,744</u>

**Derivatives and Other Similar Investments**

**Primary Government**

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. Through the commingled funds, the System also indirectly holds derivative type instruments. Information

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on the extent of the use, and holdings of derivative securities by the commingled funds is not readily available.

**Forward Foreign Currency Contracts** – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 50% 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 System may use 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 System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System 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.

**Mortgage-Backed Securities** – The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. 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 System 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.

**Short Sales** – The commingled funds 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 commingled funds when the price of a security underlying the short sale increases and the commingled funds is subject to a higher cost to purchase the security in order to cover the position.

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**Securities Lending**

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System 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 for an average duration of 64 days and a weighted average maturity of 252 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2003, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$565,565,715 (fair value), and the collateral received for those securities on loan was \$586,117,017 (fair value).

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**Note 4. Receivables**

Receivables at June 30, 2003 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
<b>Governmental Activities:</b>						
General	\$ 228,255	\$ 86,604	\$	\$ 2,700	\$ (104,374)	\$ 213,185
Intermodal Surface Transportation	12,695				(323)	12,372
R.I. Temporary Disability	50,465	904			(2,283)	49,086
Other Governmental		9				9
Internal Service		7,165		668		7,833
<b>Total - governmental activities</b>	<b>\$ 291,415</b>	<b>\$ 94,682</b>	<b>\$</b>	<b>\$ 3,368</b>	<b>\$ (106,980)</b>	<b>\$ 282,485</b>
<b>Amounts not expected to be collected in the subsequent year and recorded as deferred revenue</b>						
General	\$ 5,250	\$ 8,327				
Intermodal Surface Transportation		15,140				
<b>Business-type activities:</b>						
State Lottery	\$	\$ 6,601	\$	\$	\$ (333)	\$ 6,268
Convention Center		2,337	130		(134)	2,333
Employment Security	33,757	12,390			(9,858)	36,289
<b>Total - business-type activities</b>	<b>\$ 33,757</b>	<b>\$ 21,328</b>	<b>\$ 130</b>	<b>\$</b>	<b>\$ (10,325)</b>	<b>\$ 44,890</b>
<b>Component Units</b>	<b>\$</b>	<b>\$ 126,895</b>	<b>\$ 29,695</b>	<b>\$ 2,136,037</b>	<b>\$ (49,477)</b>	<b>\$ 2,243,150</b>

**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.

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**Note 5. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables, as of June 30, 2003, 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
<b>Governmental Funds</b>		
<b>Major Funds</b>		
General Fund	\$ 65,000	\$ 20,519
Intermodal Surface Transportation Fund	10,586	7,146
RI Temporary Disability Insurance	2	1,320
Bond Capital	7,955	20,437
<b>Other</b>		
Tobacco Settlement Finance Corporation		601
Tobacco Settle Trust Fund		28,500
Debt Service Fund		282
Cops	3	1,432
<b>Total Governmental</b>	<b>83,546</b>	<b>80,237</b>
<b>Proprietary Funds</b>		
<b>Enterprise</b>		
RI Lottery		940
RI Convention Center Authority		2,928
Employment Security Trust Fund	19	1,036
<b>Total Enterprise</b>	<b>19</b>	<b>4,904</b>
<b>Internal Service</b>		
Assessed Fringe Benefits		519
Central Utilities	295	37
Energy Revolving	158	189
Information Processing	769	652
Central Mail	2	7
Centrex	4	9
Howard Communications		2
Central Pharmacy	766	19
Central Laundry	81	29
Automotive Maintenance		96
Central Distribution Center	385	33
Correctional Industries	782	57
Records Center		17
<b>Total Internal Service</b>	<b>3,242</b>	<b>1,666</b>
<b>Totals</b>	<b>\$ 86,807</b>	<b>\$ 86,807</b>

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**Note 6. 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	\$ 373,186	\$ 11,343	\$ (1,950)	\$ 382,579
Construction in progress	52,193	57,345	(6,657)	102,881
Total capital assets not being depreciated	<u>425,379</u>	<u>68,688</u>	<u>(8,607)</u>	<u>485,460</u>
Capital assets being depreciated:				
Land improvements	3,209	392		3,601
Buildings	369,453	4,674		374,127
Building Improvements	195,860	2,589		198,449
Furniture and equipment	137,163	13,089	(1,328)	148,924
Infrastructure	118,311	106,179		224,490
Total capital assets being depreciated	<u>823,996</u>	<u>126,923</u>	<u>(1,328)</u>	<u>949,591</u>
Less accumulated depreciation for:				
Land improvements	1,808	170		1,978
Buildings	123,085	7,177		130,262
Building Improvements	89,803	9,846		99,649
Furniture and equipment	96,310	13,875	(1,264)	108,921
Infrastructure	1,972	5,713		7,685
Total accumulated depreciation	<u>312,978</u>	<u>36,781</u>	<u>(1,264)</u>	<u>348,495</u>
Total capital assets being depreciated, net	<u>511,018</u>	<u>90,142</u>	<u>(64)</u>	<u>601,096</u>
Governmental activities capital assets, net	<u>\$ 936,397</u>	<u>\$ 158,830</u>	<u>\$ (8,671)</u>	<u>\$ 1,086,556</u>

Certain beginning balances were restated due to errors and/or omissions. The amounts reported above for infrastructure are only the additions for the fiscal year ended June 30, 2002 and subsequent fiscal years. As provided for in GASB Statement No. 34, the State opted to take advantage of the transition period and retroactively report its major general infrastructure assets in the fiscal year ended June 30, 2006.

The current period depreciation was charged to the governmental functions on the Statement of Activities as follows:

General government	\$ 4,943
Human services	11,328
Education	2,325
Public safety	8,692
Natural resources	1,795
Transportation	7,700
Total depreciation expense - governmental activities	<u>\$ 36,783</u>

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**Business-Type Activities**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$ (1,336)	\$ 38,032
Construction in progress	1,336		(1,336)	
Total capital assets not being depreciated	<u>39,368</u>		<u>(1,336)</u>	<u>38,032</u>
Capital assets being depreciated:				
Buildings	227,336	2,412		229,748
Machinery and equipment	18,466	8,774	(3,669)	23,571
Total capital assets being depreciated	<u>245,802</u>	<u>11,186</u>	<u>(3,669)</u>	<u>253,319</u>
Less accumulated depreciation	76,148	10,594	(3,664)	83,078
Total capital assets being depreciated, net	<u>169,654</u>	<u>592</u>	<u>(5)</u>	<u>170,241</u>
Business-type activities capital assets, net	<u>\$ 209,022</u>	<u>\$ 592</u>	<u>\$ (1,341)</u>	<u>\$ 208,273</u>

**Discretely Presented Component Units**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 74,024	\$ 21,517	\$ (10,576)	\$ 84,965
Construction in progress	208,373	91,795	(109,916)	190,252
Total capital assets not being depreciated	<u>282,397</u>	<u>113,312</u>	<u>(120,492)</u>	<u>275,217</u>
Capital assets being depreciated:				
Land improvements	828,581	112,527	(1,435)	939,673
Buildings	75,653	25,674	(1,554)	99,773
Machinery and equipment	211,477	16,969	(9,780)	218,666
Infrastructure	255,966	22,728		278,694
Total capital assets being depreciated	<u>1,371,677</u>	<u>177,898</u>	<u>(12,769)</u>	<u>1,536,806</u>
Less accumulated depreciation for:				
Buildings	281,143	29,399	(53)	310,489
Land improvements	42,150	10,987		53,137
Machinery and equipment	112,340	21,005	(9,415)	123,930
Infrastructure	77,202	5,400		82,602
Total accumulated depreciation	<u>512,835</u>	<u>66,791</u>	<u>(9,468)</u>	<u>570,158</u>
Total capital assets being depreciated, net	<u>858,842</u>	<u>111,107</u>	<u>(3,301)</u>	<u>966,648</u>
Total capital assets, net	<u>\$ 1,141,239</u>	<u>\$ 224,419</u>	<u>\$ (123,793)</u>	<u>\$ 1,241,865</u>

**Note 7. Long-Term Obligations**

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

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**A. Bonds Payable**

At June 30, 2003, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Proprietary Type		Principal	Interest
	Principal	Interest	Principal	Interest		
2004	\$ 52,822	\$ 82,070	\$ 7,685	\$ 14,393	\$ 210,466	\$ 118,583
2005	55,221	79,503	9,380	14,159	151,568	109,399
2006	54,848	76,649	9,825	13,719	240,799	102,020
2007	54,532	73,924	10,290	13,259	77,965	95,603
2008	50,102	71,122	10,775	12,776	77,815	90,848
2009-2013	286,928	315,959	62,175	55,716	366,209	404,292
2014-2018	203,535	244,657	77,080	39,216	424,205	312,707
2019-2023	182,470	207,111	98,255	19,259	406,696	214,471
2024-2028		167,686	24,540	2,456	334,844	119,354
2029-2033	168,260	157,380			396,165	49,387
2034-2038		116,156			427,700	15,531
2039-2043	371,700	92,925				
	<u>\$ 1,480,418</u>	<u>\$ 1,685,142</u>	<u>\$ 310,005</u>	<u>\$ 184,953</u>	<u>\$ 3,114,432</u>	<u>\$ 1,632,195</u>

**Primary Government**

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 from 2006 to 2009 with all interest payable at maturity.

Included in the current interest bonds is \$27,965,000 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 July 2004. 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.

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 effect 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.

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (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. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; 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 or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds 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 no taxing power.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual Reports (CAFRs) with GASB Statement No. 14, *The Financial Reporting Entity* as the only guidance to a rather unique situation. Therefore, there was a lack of comparability amongst the CAFRs. GASB issued Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, which, amongst other things, made it clear that the TSFC should be blended rather than discretely presented.

Revenue bonds of the R.I. Convention Center Authority (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 and (f) pay costs of issuance. 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.

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2003 is shown below.

**State of Rhode Island and Providence Plantations  
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	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan - 1986	\$ 5	\$	\$	\$ 5	\$
Capital Development Plan - 1988	465		465		
Capital Development Plan - 1989	3,506		570		2,936
Capital Development Plan - 1990	13,320		4,820		8,500
Capital Development Plan - 1994	8,115		6,765		1,350
Capital Development Plan - 1996	24,063		6,565		17,498
Capital Development Plan - 1998	18,475		3,500		14,975
Capital Development Plan - 2000	92,985		52,235		40,750
Capital Development Plan - 2002		132,500			132,500
R.I. Economic Development Fund	5			5	
Narragansett Bay Water Quality Management District Commission Fund	790				790
Clean Water Act Environmental Trust Fund	3,840		465		3,375
Open Space and Recreational Area Fund	203				203
Drinking Water Protection Fund	3,415				3,415
Clean Water Finance Agency - Water Pollution Revolving Loan Fund	13,960		1,755		12,205
General Obligation Bonds Supported by Taxes	183,147	132,500	77,140	10	238,497
R. I. Industrial-Recreational Building Authority	80,000				80,000
Total	<u>\$ 263,147</u>	<u>\$ 132,500</u>	<u>\$ 77,140</u>	<u>\$ 10</u>	<u>\$ 318,497</u>

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.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$17,233,551 at June 30, 2003 (See Note 21). The insured mortgages are guaranteed by the State.

See Note 13 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) (a proprietary component unit) 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.

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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).

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 Narragansett Bay Commission (NBC) represent the NBC's portion of the State's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the State.

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.

**B. Notes Payable**

Notes payable (expressed in thousands) at June 30, 2003 are as follows:



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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.	\$ 2,167
R.I. Housing and Mortgage Finance Corporation bank notes, 1.39% to 5.46% interest, payable through 2006.	74,000
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	171
R.I. Resource Recovery Corporation notes payable through 2004 with interest at 4.5%	1,865
	<u>78,203</u>
	<u>(74,052)</u>
Less: current payable	<u>\$ 4,151</u>

**C. Loans Payable**

**Component Units**

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$137,313,922). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding loan from the Rhode Island State Energy Office for \$251,341 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$237,054 from the Energy Revolving Loan Fund (an internal service fund). In addition, CCRI entered into an agreement with the Quonset Point Facility and is liable for a loan in the amount of \$306,543 to pay for leasehold improvements.

**D. Obligations Under Capital Leases**

**Primary Government**

The State has entered into capital lease agreements 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, 2003 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.

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, 2003.

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Fiscal Year Ending June 30	COPS	Other	Total
2004	\$ 14,027	\$ 1,922	\$ 15,949
2005	12,874	1,922	14,796
2006	10,858	1,922	12,780
2007	11,772		11,772
2008	11,820		11,820
2009 - 2013	48,400		48,400
2014 - 2018	32,499		32,499
2019 - 2023	6,766		6,766
2024 - 2028			0
Total future minimum lease payments	<u>149,016</u>	<u>5,766</u>	<u>154,782</u>
Amount representing interest	<u>(40,511)</u>	<u>(825)</u>	<u>(41,336)</u>
Present value of future minimum lease payments	<u>\$ 108,505</u>	<u>\$ 4,941</u>	<u>\$ 113,446</u>

**Component Units**

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the State equal to the principal and interest for airport related general obligation bonds issued by the State.

The following is a summary of the 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, 2003.

Fiscal Year Ending June 30	URI	RIC	CCRI	RIEDC	RIPTCA	NBC
2004	\$ 1,827	\$ 64	\$ 156	\$ 4,592	\$ 998	\$ 178
2005	1,737	64	156	4,170	683	148
2006	1,569	64	156	3,848	505	78
2007	1,457	64	156	3,635	863	52
2008	1,446	63	156	2,633	976	35
2009 - 2013	6,356	42	782	11,624	756	
2014 - 2018	6,319		782	3,552		
2019 - 2023	2,517		782	78		
2024 - 2028			156			
Total future minimum lease payments	<u>23,228</u>	<u>361</u>	<u>3,282</u>	<u>34,132</u>	<u>4,781</u>	<u>491</u>
Amount representing interest	<u>(6,981)</u>	<u>(86)</u>	<u>(1,419)</u>	<u>(8,036)</u>	<u>(615)</u>	<u>(56)</u>
Present value of future minimum lease payments	<u>\$ 16,247</u>	<u>\$ 275</u>	<u>\$ 1,863</u>	<u>\$ 26,096</u>	<u>\$ 4,166</u>	<u>\$ 435</u>

**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

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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.

**F. Other Long-Term Liabilities**

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in long-term debt. These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims is included in long-term debt. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

**G. Changes in Long-Term Debt**

During the fiscal year ended June 30, 2003, 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
<b>Governmental activities</b>						
General obligation bonds payable:						
Current interest bonds	\$ 682,434	\$ 139,905	\$ (100,050)	\$ 722,289	\$ 36,847	\$ 685,442
Capital appreciation bonds	610			610		610
Accreted interest on capital appreciation bonds	4,411	1,334		5,745		5,745
Deferred costs	3,121	7,502	(167)	10,456		10,456
	<u>690,576</u>	<u>148,741</u>	<u>(100,217)</u>	<u>739,100</u>	<u>36,847</u>	<u>702,253</u>
Revenue bonds - RIRBA	133,105	67,625	(100,025)	100,705	15,975	84,730
Deferred costs		7,346	(343)	7,003		7,003
Tobacco Settlement Asset-Backed Bonds	685,390			685,390		685,390
Deferred costs	<u>(34,393)</u>	<u>(275)</u>	<u>839</u>	<u>(33,829)</u>		<u>(33,829)</u>
Bonds payable	<u>1,474,678</u>	<u>223,437</u>	<u>(199,746)</u>	<u>1,498,369</u>	<u>52,822</u>	<u>1,445,547</u>
Certificates of Participation (COP)	112,665	3,890	(8,050)	108,505	8,970	99,535
Other capital leases	6,480		(1,539)	4,941	1,591	3,350
Obligations under capital leases	119,145	3,890	(9,589)	113,446	10,581	102,885
Compensated absences	54,647	48,952	(45,097)	58,502	42,898	15,604
Other long-term liabilities	40,008	5,966	(9,064)	36,910	6,423	30,487
	<u>\$ 1,688,478</u>	<u>\$ 282,245</u>	<u>\$ (263,496)</u>	<u>\$ 1,707,227</u>	<u>\$ 112,704</u>	<u>\$ 1,594,523</u>
<b>Business type activities</b>						
Revenue bonds	\$ 319,435	\$ 58,285	\$ (67,715)	\$ 310,005	\$ 7,685	\$ 302,320
Add: bond premium		4,566		4,566		4,566
Less: deferred amounts						
Issuance discounts	6,191		(509)	5,682		5,682
On refunding	20,559	280	(2,079)	18,760		18,760
Bonds payable	<u>292,685</u>	<u>62,571</u>	<u>(65,127)</u>	<u>290,129</u>	<u>7,685</u>	<u>282,444</u>
Other long-term liabilities	1,153		(1,000)	153	153	
	<u>\$ 293,838</u>	<u>\$ 62,571</u>	<u>\$ (66,127)</u>	<u>\$ 290,282</u>	<u>\$ 7,838</u>	<u>\$ 282,444</u>

Certain beginning balances were restated because of errors, omissions and/or changes in the presentation of the basic financial statements.

**H. Defeased Debt**

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2003, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(includes \$155,000 of NBC)	\$ 327,879
Certificates of Participation	3,565
Component Units:	
R.I. Clean Water Finance Agency	5,725
R.I. Depositors Economic Protection Corporation	350,435
R.I. Economic Development Corporation	28,820
R.I. Turnpike And Bridge Authority	37,550

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In December 2002, the state issued \$62,765,000 Consolidated Capital Development Loan of 2002, Refunding Series C, with interest rates ranging from 1.60% to 3.92%, maturing from 2003 through 2014. The proceeds were used to advance refund \$66,370,000 of 1993 and 1994 Series A Bonds. 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 decreased total debt service payments over the next 11 years by \$4,200,300 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$4,107,978.

On May 1, 2003, Rhode Island Refunding Bond Authority (RIRBA), a blended component unit, issued \$67,625,000 in revenue bonds dated April 1, 2003 with the interest rates ranging from 3.0% to 5.0% as part of the advance refunding of \$84,910,000 of outstanding 1993 Series A bonds with interest rates ranging from 5.0% to 5.25%. The net proceeds of \$71.7 million (including issuance premiums and after payment of \$700 thousand for underwriting fees, insurance and other costs of issuance) plus an additional \$16.4 million available from the Debt Service Reserve Fund established for the 1993 Series A bonds were used to purchase U.S. Government Securities. These securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the 1993 Series A bonds including a call premium of 102%. As a result, the Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,610,613. RIRBA completed the advance refunding to reduce its total debt service payments by \$2,811,239 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$2,862,523.

On June 5, 2003 the 1993 Series A bonds were called and redeemed with the proceeds of the securities placed in the irrevocable trust.

**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

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related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2003 was \$85,000,000, \$1,304,676,331 and \$352,605,000 respectively. Certain issues of conduit debt are moral obligations of the State and the cumulative amounts outstanding are disclosed in Note 13.

**Note 8. Net Assets**

**Government-Wide Unrestricted Net Assets**

	Governmental Funds	
Deficit	\$ (1,053,961)	
General Revenue	42,634	Unrestricted balance
Appropriations carried forward:		
General Revenues	7,347	General revenues carried forward for original purpose
Restricted Revenues	27,727	Restricted revenues carried forward for original purpose
Other	10,484	Principally capital accounts carried forward for original purpose
Special Revenue	25,403	ISTEA, Tobacco Settlement Trust, R.I. DTI Fund
		RI Economic Policy Council
Capital Projects Fund	70,153	Committed for capital projects
Permanent Fund	837	Permanent School
Internal Service Funds	9,066	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (860,310)</u>	

**Changes in General Fund Reserved Fund Balances**

The State maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

	Reserved Fund Balance July 1,	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 82,024	\$ 55,905	\$ (54,281)	\$ 83,648
Appropriations carried forward				
General revenue	7,812	7,347	(7,812)	7,347
Departmental restricted revenue	36,280	27,727	(36,186)	27,821
Operating transfers in	6,645	10,484	(6,411)	10,718
Total	<u>\$ 132,761</u>	<u>\$ 101,463</u>	<u>\$ (104,690)</u>	<u>\$ 129,534</u>

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. 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.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

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**Note 9. 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 the uncollectible amount 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 is presented below (expressed in thousands):

	<u>Taxes</u>
General Fund	
Personal Income Tax	\$ 816,175
General Business Taxes:	
Business Corporation Tax	56,506
Non-resident Contractor Tax	81
Franchise Tax	6,402
Gross Earnings Tax-Public Utilities	76,178
Income Tax-Financial Institutions	9,804
Tax on Insurance Companies	51,358
Tax on Deposits-Banking Institutions	1,698
Health Care Provider Assessment	8,462
Nursing Facilities Provider Assessments	20,014
Sub-total - General Business Taxes	<u>230,503</u>
Sales and Use Taxes:	
Sales and Use Tax	767,663
Providence Place Sales Tax	11,391
Motor Vehicle Tax	44,563
Rental Vehicle Surcharge	2,696
Fuel Use Tax on Motor Carriers	1,042
Cigarette Tax	92,635
Smokeless Tobacco Tax	1,775
Alcoholic Beverage Import Fees	10,030
Tax on Mfg. of Beers, Liquors, etc.	29
Sub-total - Sales and Use Taxes	<u>931,824</u>
Other Taxes:	
Inheritance Tax	24,401
Simulcast Wagering	3,086
Jai Alai - Pari-mutuel Betting	38
Jai Alai - Tax on Breakage	2
Dog Racing - Pari-mutuel Betting	1,786
Dog Racing - Tax on Breakage	27
Realty Transfer Tax	9,770
Mobile Home Conveyance Tax	12
Sub-total - Other Taxes	<u>39,122</u>
Total - General Fund	<u>2,017,624</u>
R.I. Temporary Disability Fund	178,247
Intermodal Surface Transportation Fund	
Gasoline	139,458
Total Taxes	<u>\$ 2,335,329</u>

Exhibit A-42

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**Note 10. Operating Transfers**

Operating transfers for the fiscal year ended June 30, 2003 are presented below (expressed in thousands):

Fund Financial Statements

	<u>Transfers</u>	<u>Description</u>
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 58,308	Debt service
Bond Capital	44,079	Debt service
Temporary Disability	1,225	Operating assistance
Nonmajor Funds		
Tobacco Settlement Financing Corp	52,749	Operating assistance
Tobacco Settlement Trust Fund	113,500	Operating assistance
Debt Service	241	Debt service
Business-Type Activities		
Lottery	249,124	Net income
Convention Center	2,928	Excess debt service
Employment Security	1,985	Net income
ISTEA Fund		
Bond Capital	44,130	Infrastructure
Bond Capital		
General Fund	54,141	Debt service or capital projects
Nonmajor Fund		
Economic Policy Council		
General Fund	<u>2,675</u>	Operating assistance
Total Governmental Activities	625,085	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	1,622	Operating assistance
Convention Center		
General Fund	<u>17,351</u>	Debt service
Total operating transfers	<u>\$ 644,058</u>	

**Note 11. Operating Lease Commitments**

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$13,660,000 for the fiscal year ended June 30, 2003

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.

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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, 2003:

Fiscal Year Ending June 30		
2004	\$	13,770
2005		12,827
2006		9,868
2007		6,327
2008		4,780
2009 - 2013		15,913
2014 - 2018		9,038
2019 - 2023		2,006
Total	\$	<u>74,529</u>

The minimum payments shown above have not been reduced by any sublease receipts.

**Note 12. Commitments**

Encumbrances outstanding for the governmental funds were not available at fiscal year end.

The R.I. Economic Development Corporation (RIEDC) 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.

The Employees' Retirement System of Rhode Island has contracted with a systems integration firm to design and build a new pension administration system. The total cost to the System is estimated at \$17.8 million, of which \$17.2 million has been recorded in Property and Equipment. The remaining cost is estimated at \$.6 million. Full implementation is expected by the fourth quarter of fiscal 2004. This will be financed in the same manner as other administrative expenses of the System.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

During May 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

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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.

**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 \$5,138,000 which is expected to be funded from current available resources and future operations.

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 \$200,775,000 at June 30, 2003.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases I, II, III, and IV. The capacity of Phase I was reached in May 1993. The capacity of Phases II and III was reached in December 2002.

Phase IV consists of four eleven-acre cells of which two cells began accepting refuse in September 2000. To date, \$30,933,781 has been expended on permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook. Costs incurred in connection with the acquisition and development of Phase V total \$1,401,589 at June 30, 2003.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II, III and IV will be approximately \$43,035,000. The liability at June 30, 2003 is approximately \$38,270,000, with \$4,765,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 66% of capacity of Phase IV has been used to date, and it is expected that full capacity will be reached in September 2004. Amounts provided for closure and postclosure 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 and regulations. RIRRC has designated investments in the amount of \$16,822,257 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the

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RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2003, the market value of the trust was \$26,969,876. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$21,866,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs incurred for this project are approximately \$6,200,000. As of June 30, 2003, the project was substantially complete and awaiting DEM approval.

RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$46,446,000 under various loan programs at June 30, 2003.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2003 remaining commitments on these contracts approximated \$1,100,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$7,012,877 at June 30, 2003.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as its share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments due on September 1, 2002, 2006 and 2007, respectively. The first installment was paid on August 30, 2002. As of June 30, 2003, the amount outstanding is \$736,637 and recorded in the Federal Fund.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

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The R.I. Children's Crusade has estimated its cost of scholarships for currently enrolled students to be \$25,600,000 of which \$13,200,000 will be funded by investments and \$12,400,000 to be funded by pledged scholarships.

**Note 13. Contingencies**

**Primary Government**

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

In June 2002, the Tobacco Settlement Financing Corporation (Corporation), a blended component unit, issued revenue bonds that are the sole obligation of the Corporation. The bonds are asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The Corporation's rights to receive TSR's are expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, which include:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, 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. In addition, 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.

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**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. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**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, 2003 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$209,862,722 and \$68,421,242 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 \$1,000,000 of the debt on the related economic development revenue bonds in fiscal year 2004.

**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 RISLA also maintained a standby letter of credit in the original stated amount of \$30,000,000 on its March 2000 issue. The 2000 series bonds were refunded in 2003. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 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, 2003

**R.I. Children's Crusade for Higher Education**

The R.I. Children's Crusade for Higher Education has a \$500,000 line of credit agreement that expires on December 31, 2003. Interest is payable monthly at the prime rate. The outstanding balance as of June 30, 2003 was \$400,000. Subsequent to June 30, 2003, the line of credit agreement was modified to increase the credit available to \$850,000.

**Note 14. Employer Pension Plans**

**Plan Descriptions**

The State, through the Employees' Retirement System (System), 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 System 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, which is subject to amendment by the general assembly, is established by the General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

**Summary of Significant Accounting Policies**

**Basics of Accounting**

The financial statements of the System 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 due. 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. The gains or losses on foreign

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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. Investment transactions are recorded on a trade date basis.

**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 and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Commingled funds consist primarily of institutional equity index funds. 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.

**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. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	7.68%	27.48%	33.42%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	4.63% and 5.04%		
Annual pension cost	\$93,566	\$2,257	\$1,657
Contributions made - state employees	\$45,323	\$2,257	\$1,657
Contributions made - teachers	\$38,243		
Actuarial valuation date	June 30, 2000	June 30, 2000	June 30, 2000
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	29 years	29 years	29 years
Asset valuation method	5 Year Smoothed Market	5Year Smoothed Market	5Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.25% to 14.25%	5% to 15.00%	5.50%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement, compounding varies
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10-1, 8-8-2-7 and 28-30-18.1

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Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/01	\$ 79,906	100%	\$ 0
	6/30/02	62,565	100%	0
	6/30/03	83,566	100%	0
State Police Retirement Benefits Trust	6/30/01	1,820	100%	0
	6/30/02	2,465	100%	0
	6/30/03	2,257	100%	0
Judicial Retirement Benefits Trust	6/30/01	1,164	100%	0
	6/30/02	1,458	100%	0
	6/30/03	1,657	100%	0

**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 with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$11,987,537 during the year ended June 30, 2003.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2003 was \$3,966,633. At January 1, 2003, the most recent valuation date, the total pension benefit obligation was \$42,044,519 and net assets available for benefits were \$20,179,970.

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 15. Postemployment Benefits**

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the active premium. This subsidy cost approximately \$4.3 million in FY 2003. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2003, the State contributed 1.07% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2003 were \$6,003,011 net of retirees' contributions for the 4,031 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$957,504 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$1,046 for each of the 915 retirees covered by the plans).



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The above plans are financed on a pay-as-you-go basis.

**Note 16. 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 financial statements.

**Note 17. Restatement of Net Assets and Fund Balance**

Certain beginning balances were restated as listed below (expressed in thousands).

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
<b>Entity-wide</b>			
<b>Governmental Activities</b>			
RIUSTFR	\$ 1,096	\$ (1,096)	\$
TSFC		108,074	108,074
Restated debt		(663,547)	(663,547)
Errors and omissions		2,027	2,027
Other	443,000		443,000
	<u>\$ 444,096</u>	<u>\$ (554,542)</u>	<u>\$ (110,446)</u>
<b>Component Units</b>			
RIEDC	\$ 228,054	\$ 2,556	\$ 230,610
RIUSTFR		846	846
RIWRBC	(1,526)	356	(1,170)
TSFC	1,312	(1,312)	
Other	1,168,660		1,168,660
	<u>\$ 1,396,500</u>	<u>\$ 2,446</u>	<u>\$ 1,398,946</u>
	<u>Beginning</u>	<u>Changes</u>	<u>Beginning</u>
	<u>Fund Balance</u>		<u>Fund Balance</u>
<b>Governmental Funds</b>			
RIUSTFR	\$ 1,096	\$ (1,096)	\$
TSFC		108,074	108,074
Other	512,968		512,968
	<u>\$ 514,064</u>	<u>\$ 106,978</u>	<u>\$ 621,042</u>

The R.I. General Laws were amended giving the RI Underground Storage Tank Financial Responsibility Fund (RIUSTFR) separate legal status; therefore, the fund was reclassified from a special revenue fund to a discretely presented component unit.

The Tobacco Settlement Financing Cooperation (TSFC) early implemented the GASB Technical Bulletin, *Tobacco Settlement Recognition and Financial Entity Issues*. This bulletin made it clear that the corporation should be a blended component unit; therefore the corporation was reclassified from a discretely presented component unit to a special revenue fund. The difference in net assets and fund balance for the TSFC occurs because the component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The RIEDC and RIWRBC corrected prior year transactions.

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**Note 18. Condensed Financial Statement Information**

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

	RHMFC	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 2,049,891	\$ 966,819	\$ 38,221	\$ 191,619	\$ 1,301	\$ 46,676
Capital assets - nondepreciable			5,391	76,908		138,399
Capital assets - depreciable (net)		490	56,024	259,858	66	191,196
Due from primary government				678	48	217
Long term debt	1,563,634	883,563	37,314	272,740		150,830
Other liabilities	236,697	24,070	3,202	20,475	483	18,883
Due to primary government				24		
Net assets:						
Invested in capital assets, net of related debt	17,850	490	24,101	142,492	66	178,411
Restricted	166,732	56,791	5,653	74,039	835	71
Unrestricted	64,978	2,395	29,366	19,293	31	28,293
Operating expenses	97,588	32,465	4,186	43,455	4,458	24,122
Depreciation, depletion, and amortization	5,584	913	979	15,196	3	5,981
Program revenue	82,749	36,460	11,800	58,730	4,527	44,952
Net program (expense) revenue	(20,423)	3,082	6,635	79	66	14,849
Interest revenue	29,326	1,937	2,374	5,708	15	260
Gain (loss) on sale of assets			42	(493)	4	
Net increase in fair value of investments		(4)				
Miscellaneous			(1,856)	(14,506)		(4,296)
Capital contributions				4,756		1,665
Transfers from primary government				11,563		(1,893)
Transfers (to) primary government				(1,893)		
Change in net assets	8,903	5,015	7,195	5,214	85	12,478
Beginning net assets	240,657	54,961	51,925	230,610	847	194,297
Ending net assets	249,560	59,676	59,120	235,824	932	206,775

	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIFC
Other assets	\$ 10,830	\$ 92,410	\$	\$ 19,250	\$ 10,434	\$ 1,273
Capital assets - nondepreciable		15,626		194	12,940	
Capital assets - depreciable (net)	123	53,673		1,436	80,570	
Due from primary government					2,389	
Long term debt		20,835				
Other liabilities	102	67,785		1,508	15,856	676
Due to primary government		3,000			647	
Net assets:						
Invested in capital assets, net of related debt	123	50,329		1,630	93,411	
Restricted		(14,667)		14,808		
Unrestricted	10,728	34,427		2,934	(3,681)	597
Operating expenses	1,011	44,458	249	13,046	67,285	27
Depreciation, depletion, and amortization	15	16,361		212	7,677	
Program revenue	1,369	54,603	914	11,657	37,254	
Net program (expense) revenue	343	(6,216)	665	(1,601)	(37,708)	(27)
Interest revenue	125	2,854	14	485	68	7
Gain (loss) on sale of assets		(316)			(10)	
Net increase in fair value of investments					(12)	
Miscellaneous		(965)			6,013	
Capital contributions					29,055	
Transfers from primary government				6,018	(409)	
Transfers (to) primary government		(6,000)	(9,319)		(3,003)	(20)
Change in net assets	468	(10,643)	(8,640)	4,902	(3,003)	617
Beginning net assets	10,383	80,732	8,640	14,470	92,733	617
Ending net assets	10,851	70,089		19,372	89,730	597

	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 543,785	\$ 4,672	\$ 25,704	\$ 2,094	\$ 24,366
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	53	425		3,492	66
Due from primary government			8		
Long term debt	289,665		24,831	4,386	
Other liabilities	7,319	2,858	1,425	1,295	27,669
Due to primary government				295	
Net assets:					
Invested in capital assets, net of related debt	53	606		(941)	66
Restricted	240,609		(1,062)		
Unrestricted	6,192	1,814	518	1,372	(3,303)
Operating expenses	14,445	85	53	3,304	7,489
Depreciation, depletion, and amortization	145	14	125	650	46
Program revenue	43,716	207	1,562	2,271	9,297
Net program (expense) revenue	29,126	108	1,384	(1,683)	1,762
Interest revenue		46	289	7	307
Gain (loss) on sale of assets				(6)	
Net increase in fair value of investments				(1,041)	(239)
Miscellaneous					
Capital contributions					
Transfers from primary government	2,675				1,939
Transfers (to) primary government					
Change in net assets	31,801	154	626	24	2,069
Beginning net assets	215,053	2,266	(1,170)	407	(5,306)
Ending net assets	246,854	2,420	(544)	431	(3,237)

	URI	RIC	CCRI	CFSO	Totals
Other assets	\$ 81,284	\$ 24,547	\$ 9,136	\$ 5,142	\$ 4,149,454
Capital assets - nondepreciable	12,381	6,947	5,479	50	275,217
Capital assets - depreciable (net)	237,776	46,369	32,415	2,616	966,648
Due from primary government				900	4,240
Long term debt	129,484	20,768	11,605	1,886	3,411,541
Other liabilities	45,296	16,000	4,778	2,980	499,357
Due to primary government			1,069		5,035
Net assets:					
Invested in capital assets, net of related debt	137,310	38,059	31,839	2,665	718,560
Restricted	18,326	7,723	3,220	493	573,571
Unrestricted	1,023	(4,687)	(5,481)	684	187,493
Operating expenses	298,432	92,950	77,929	43,025	870,062
Depreciation, depletion, and amortization	12,123	5,255	2,458	104	73,841
Program revenue	224,787	49,879	37,921	8,216	722,871
Net program (expense) revenue	(85,768)	(48,326)	(42,466)	(34,913)	(221,032)
Interest revenue				73	43,895
Gain (loss) on sale of assets					(815)
Net increase in fair value of investments	797	548	128		1,505
Miscellaneous	(5,703)	(827)	(298)		(29,743)
Capital contributions	29,834	7,355	4,108		53,731
Transfers from primary government	81,990	43,469	39,601	34,448	250,758
Transfers (to) primary government					(17,621)
Change in net assets	21,150	2,219	1,073	(392)	80,678
Beginning net assets	135,509	38,876	28,505	4,234	1,398,946
Ending net assets	156,659	41,095	29,578	3,842	1,479,624

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Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ (6,017)	Operating assistance
R.I. Economic Development Corporation	(11,564)	Operating assistance
University of Rhode Island	(82,916)	Educational assistance
Rhode Island College	(42,362)	Educational assistance
Community College of Rhode Island	(39,601)	Educational assistance
Central Falls School District	(34,430)	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	(34,107)	Operating assistance
Capital Projects		
University of Rhode Island	(21,391)	Construction, improvement or purchase of assets
Rhode Island College	(6,850)	Construction, improvement or purchase of assets
<b>Total Governmental Activities</b>	<b>\$ (279,238)</b>	

**Note 19. 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. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

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.

There are no funds reserved for pending claims or incurred but not reported liabilities.

**Note 20. Special Item**

Funds available in the Rhode Island Refunding Bond Authority's (RIRBA), a blended component unit, Debt Service Reserve Fund were used to defease RIRBA 1993 Series A Bonds. RIRBA had previously entered into an agreement with the financial institution to restructure its Debt Service Fund assets. The agreement provided for (1) an "upfront" payment to the RIRBA, (2) a liquidity facility, and (3) the purchase of specific investments at the maturity of original Debt Service Reserve Fund investments. This agreement was

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terminated by mutual consent in connection with the refunding transaction. As a result of the early termination of the agreement, RIRBA received \$1,250,497 in satisfaction and release of the agreement. RIRBA, also recognized investment income of \$259,009 which represents the balance of the "upfront" payment which had been previously deferred. Early termination of the investment agreement also created an arbitrage rebate liability on the 1993 Series A Bonds in the amount of \$1,199,404.

**Note 21. Related Party Transactions**

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2003 amounted to \$71,075,898. Distributions of \$10,837,820 during the fiscal year ended June 30, 2003 are included in private and capital gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2003 amounted to approximately \$8,400,000. Distributions of \$428,000 during the fiscal year ended June 30, 2003 are included in private and capital gift revenue of the university.

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 providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

**Note 22. Subsequent Events**

**Primary Government – Governmental Activities**

In April 2004, Moody's downgraded the ratings assigned to the debt obligations of the Tobacco Settlement Financing Corporation, a blended component unit, along with all other tobacco securitization debts of other jurisdictions. This action by the Moody's reflects the potential result of heightened litigation risks facing cigarette manufacturers, increasing

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competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

In December 2003, the State issued \$200,000,000 of tax anticipation notes. The interest rates ranging from 1.75% to 2.00% with maturity in June 2004. Repayment was made in June 2004.

In February 2004, the State issued \$65,830,000 of refunding bonds with interest rates ranging from 1.50% to 5.00%. Maturity dates are from August 2004 to August 2015. The proceeds of the refunding bonds were used to advance refund \$65,935,000 of the State's general obligation bonds.

In February 2004, the State issued \$79,770,000 of general obligation bonds with interest rates ranging from 2.00% to 5.00% with maturity dates of February 2005 through February 2023.

In August 2004, the State issued \$58,910,000 of lease participation certificates with interest rates ranging from 2.00% to 5.00%. Maturity dates are from October 2005 to October 2023.

**Primary Government - Business-Type Activities**

**Component Units**

In July 2003, the R.I. Turnpike and Bridge Authority issued taxable refunding revenue bonds in the amount of \$35,765,000 to refund Series 1997 revenue bonds.

In July 2003, the R.I. Health and Education Building Corporation issued \$33,950,000 in Higher Education Revenue Refunding Bonds on behalf the Board of Governors for Higher Education.

In August 2003, the R.I. Housing and Mortgage Finance Corporation issued \$33,460,000 in Housing Bonds.

In September 2003, the R.I. Housing and Mortgage Finance Corporation issued \$53,890,000 in Housing Bonds.

In October 2003, Narragansett Bay Commission issued \$40,000,000 in Revenue Bond Anticipation Notes which were repaid in May 2004.

In November 2003, the R.I. Housing and Mortgage Finance Corporation issued \$75,000,000 in Housing Bonds.

In November 2003, the R.I. Economic Development Corporation issued \$216,805,000 in Grant Anticipation Bonds and \$53,030,000 in Motor Fuel Revenue Bonds.

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In November 2003, the R.I. Clean Water Finance Agency issued \$67,965,000 in Revenue Bonds.

In December 2003, the R.I. Clean Water Finance Agency issued \$26,995,000 in Revenue Bonds.

In December 2003, the R.I. Economic Development Corporation issued \$3,400,000 in Revenue Bonds.

In December 2003, the R.I. Housing and Mortgage Finance Corporation issued \$20,970,000 in Housing Bonds.

In January 2004, the R.I. Student Loan Authority issued \$100,000,000 in Revenue Bonds.

In March 2004, the R.I. Housing and Mortgage Finance Corporation issued \$78,145,000 in Housing Bonds.

In March 2004, the R.I. Clean Water Finance Agency issued \$40,170,000 in Revenue Bonds.

In March 2004, the R.I. Water Resource Board Corporation refunded \$7,847,700 in Revenue Bonds.

In March 2004, the R.I. Clean Water Finance Agency issued bond anticipation notes on behalf of a local community for \$7,719,000.

In April 2004, the Narragansett Bay Commission issued \$70,000,000 in multi-modal Revenue Bonds.

In June 2004, the R.I. Housing Mortgage Finance Corporation issued \$25,460,000 in housing bonds.

In August 2004, the R.I. Housing Mortgage Finance Corporation issued \$66,130,000 in housing bonds.

In March 2004, the R.I. Student Loan Authority sold approximately \$175,000,000 of federal student loans, all rights associated with the Authority's student loan originator business, and the Authority's fixed assets along with the assumption of certain operating liabilities. The proceeds of the sale were used to pay off \$175,000,000 in bond indebtedness.

Since June 30, 2003, the R.I. Health and Educational Building Corporation, The R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations, which are not obligations of the respective corporations or the State.

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General Fund  
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Schedule of Expenditures and Other Financing Uses  
Budget and Actual  
General Fund  
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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Expenditures:</b>				
<b>Department of Administration</b>				
Central Management				
General Revenue Total	\$ 1,827	\$ 2,074	\$ 2,081	\$ (7)
Federal Funds Total	222	284	84	200
Total - Central Management	2,048	2,358	2,165	193
Accounts & Control				
General Revenue	8,607	8,420	8,294	126
RI e-Government Fund-RI-SAIL	556	566	518	48
Total-Accounts & Control	9,163	8,986	8,812	174
Budgeting				
General Revenue Total	2,128	2,128	2,052	76
Total-Budgeting	2,128	2,128	2,052	76
Municipal Affairs				
General Revenue Total	1,197	1,237	1,229	8
Federal Funds Total	4,788	6,748	6,628	120
Total-Municipal Affairs	5,985	7,984	7,857	127
Purchasing				
General Revenue Total	1,964	1,964	1,907	57
Total-Purchasing	1,964	1,964	1,907	57
Auditing				
General Revenue Total	1,586	1,656	1,649	7
Total-Auditing	1,586	1,656	1,649	7
Human Resources				
Bridge Project-State Share			1	(1)
General Revenue Total	6,862	7,177	7,054	123
Federal Funds Total		62	9	53
Total-Human Resources	6,862	7,239	7,063	176
Personnel Appeal Board				
General Revenue Total	116	116	100	16
Total-Personnel Appeal Board	116	116	100	16
Taxation				
Motor Fuel Tax Evasion Program	9	56	14	42
Temporary Disability Insurance	613	532	681	(149)
General Revenue Total	16,250	17,074	16,643	431
Federal Funds Total	1,249	740	1,017	(277)
Restricted Receipts Total	509	1,294	1,228	66
Total-Taxation	18,630	19,696	19,583	113

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Registry of Motor Vehicles				
Auto Emission CMAQ	1	55	45	10
General Revenue Total	13,830	14,454	14,207	247
RI e-Government Fund-OLIS Support-RMV System	195	195	195	
RI e-Government Fund-Digital License System	592	592	467	125
Federal Funds Total		908	278	630
Restricted Receipts Total	15	15	14	1
Total-Registry of Motor Vehicles	14,633	16,220	15,206	1,014
Child Support				
General Revenue Total	3,341	3,405	3,408	(3)
Federal Funds Total	7,281	6,937	6,646	291
Total-Child Support	10,622	10,343	10,055	288
Central Services				
Lighting Conservation	661	661	46	615
General Revenue Totals	11,570	11,534	12,024	(490)
Energy Office Grants	890	933	1,270	(337)
Renewable Energy Grant		2,500	606	1,894
Federal Funds Totals	19,729	19,762	15,692	4,070
Restricted Receipts Total	1,132	1,088	562	526
Total-Central Services	33,982	36,479	30,199	6,280
Office of Library & Information Service				
Federal Highway-PL Systems Planning	1,061	1,022	1,161	(139)
Federal Highway-T2 Systems Planning	128	128	147	(19)
Air Quality Modeling	20	20	19	1
General Revenue Total	2,387	2,586	2,547	39
Federal Funds Total	1,300	1,276	907	369
Restricted Receipts Total	5	5	3	2
Total-Office of Library & Information Service	4,900	5,037	4,785	252

State of Rhode Island and Providence Plantations  
 Schedule of Expenditures and Other Financing Uses  
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General Fund

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(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
General				
RICAP-State House Renovations (Phase I)	155	41	41	
RICAP-State House Skylights and Roof Repairs	584	347	273	74
RICAP-State House Terrace/South Stairs	1,019	1,019	624	395
RICAP-Chapin Health Laboratory	144	144		144
RICAP-Cranston Street Armory	103	103	63	40
RICAP-Cannon Building	149	54		54
RICAP-Second State House Elevator	12	12	7	5
RICAP - Ladd Center-Infrastructure	874		36	(36)
RICAP-Old State House	100	100		100
RICAP-State Office Building	247	247	15	232
RICAP-Veterans Office Building	250	250	14	236
RICAP-Old Colony House	215	215	67	148
RICAP-Court Building-HVAC	250			
RICAP-Asset Inventor	167	167	136	31
RICAP-Washington County Government Center	124	124	42	82
RICAP-State House Security		541	471	70
RICAP-State House Renovations - Phase II	171	9	6	3
RICAP-Board of Elections Building	48	48		48
RICAP-Environmental Compliance	1,185	1,185	233	952
RICAP-Fox Point Hurricane Barrier	50	50	50	
RICAP - Facility Renovation ADA	250			
General Revenue Total	9,546	11,270	10,805	465
Contingency Fund	2,922	1,312	793	519
Economic Development	6,477	6,477	6,463	14
Centers of Excellence	2,500	2,500	2,500	
Housing Resources Commission	3,605	3,605	3,607	(2)
Race and Police Community Relations Commission	276	277	215	62
Motor Vehicle Excise Tax Payment	101,248	100,207	101,269	(1,062)
Property Valuation	1,223	1,754	1,322	432
General Revenue Sharing Program	48,288	48,288	48,288	
Payment in Lieu of Tax Exempt Properties	18,152	18,152	18,152	
Distressed Communities Relief Program	7,600	7,467	8,142	(675)
Resource Sharing and State Library Aid	6,633	6,633	6,608	25
Library Construction Aid	2,333	2,162	2,163	(1)
Restricted Receipts Total	1,266	1,215	387	828
Total-General	218,163	215,970	212,793	3,177

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(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Debt Service Payments				
DEM - Narragansett Bay Commission	5,067	3,236	3,236	
DEM - Wastewater Treatment	4,369	4,394	4,394	
DEM -Hazardous Waste		1,961	1,961	
DEM - Debt Service Economic Development		1,277	1,277	
DEM - Debt Service-Recreation	4,500	7,426	7,426	
RIPTA Debt Service	921	409	409	
MHRH Com Services	6,466	4,759	4,759	
MHRH Comm. Mental Health	2,769	1,351	1,351	
Transportation Debt Service	41,266	26,959	26,805	154
RIRBA-Third Rail Project - Quonset Point	764	455	455	
RIRBA - DLT Temporary Disability Insurance	60	46	46	
COPS - DLT Building - Other	383	421	437	(16)
COPS - Center General - Furniture - TDI	2	75	35	40
COPS - Pastore Center Telecomm - TDI	19	22	23	(1)
Debt - URI Education and General	963	1,089	1,116	(27)
Debt - URI housing Loan Funds	1,846	1,752	1,881	(129)
Debt - URI Dining Services	265	267	266	1
Debt - URI Health Services	125	126	126	
Debt - W. Alton Jones Service	111	113	112	1
Debt - URI Memorial Union	98	98	98	
Debt - URI Sponsored Research (Indirect Cost)	101	101	100	1
Debt - RIC Education and General	297	297	470	(173)
Debt - RIC Housing	568	568	563	5
Debt - RIC Student Center and Dining	178	178	178	
Debt - RIC Student Union	255	217	221	(4)
Debt - CCRI Bookstore	177	177		177
RICAP-DEM Debt Service CWFA	4,364	2,240	2,240	
Debt Service Payments	60,322	68,666	67,606	1,060
Federal Funds	1,545	1,259	1,241	18
Restricted Receipts Total	5,661	6,470	7,481	(1,011)
Debt Service Special Account			1,123	(1,123)
Total - Debt Service Payments	143,464	136,411	137,437	(1,026)
Sheriffs				
General Revenue Total	13,038	13,659	13,222	437
Total Sheriffs	13,038	13,659	13,222	437
<b>Total-Department of Administration</b>	<b>487,285</b>	<b>486,246</b>	<b>474,884</b>	<b>11,362</b>

State of Rhode Island and Providence Plantations  
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Schedule of Expenditures and Other Financing Uses  
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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Department of Business Regulation</b>				
Central Management				
General Revenue Total	1,490	1,555	1,556	(1)
Total-Central Management	1,490	1,555	1,556	(1)
Banking Regulation				
General Revenue Total	1,481	1,569	1,583	(14)
Total-Banking Regulation	1,481	1,569	1,583	(14)
Security Regulation				
General Revenue Total	648	741	730	11
Total-Securities Regulation	648	741	730	11
Commercial Licensing and Regulation				
General Revenue Total	943	1,081	1,075	6
Restricted Revenue Total	100	100	11	89
Total-Commercial Licensing and Regulation	1,043	1,181	1,087	94
Racing and Athletics				
General Revenue Total	593	645	631	14
Total-Racing and Athletics	593	645	631	14
Insurance Regulation				
General Revenue Total	3,753	3,771	3,485	286
Restricted Receipts Total	492	492	392	100
Total-Insurance Regulation	4,245	4,262	3,877	385
Board of Accountancy				
General Revenue Total	121	136	124	12
Total-Board of Accountancy	121	136	124	12
<b>Total-Department of Business Regulation</b>	<b>9,622</b>	<b>10,089</b>	<b>9,589</b>	<b>500</b>
<b>Department of Labor and Training</b>				
Central Management				
General Revenue Total	404	343	345	(2)
Director of Workers' Compensation	822	793	645	148
Total-Central Management	1,225	1,136	990	146
Workforce Development Services				
Reed Act-Rapid Job Development	1,700	1,702	1,589	113
Reed Act - Workforce Development		901	409	492
Federal Funds Total	19,961	22,188	18,348	3,840
ES-Reemployment Program	1,041	465	953	(488)
Human Resource Investment Council	12,307	9,069	7,859	1,210
Job Development Fund DET Admin.	40	63	73	(10)
HRIC-Support Work/Rapid Job Entry		355		355
Total-Workforce Development Services	35,049	34,742	29,231	5,511
Workforce Regulation and Safety				
General Revenue Total	3,243	3,236	3,273	(37)
Total-Workforce Regulation and Safety	3,243	3,236	3,273	(37)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Income Support				
General Revenue Total	2,765	2,848	2,849	(1)
Federal Funds Total	18,087	18,265	16,052	2,213
Restricted Receipt Total	1,091	1,560	1,466	94
Total-Income Support	21,943	22,674	20,367	2,307
Injured Workers Services				
Restricted Receipts Total	9,291	9,995	9,394	601
Total-Injured Workers Services	9,291	9,995	9,394	601
Labor Relations Board				
General Revenue Total	374	374	376	(2)
Total-Labor Relations Board	374	374	376	(2)
<b>Total-Department of Labor and Training</b>	<b>71,125</b>	<b>72,157</b>	<b>63,631</b>	<b>8,526</b>
<b>General Assembly</b>				
General Assembly				
General Revenue Fund Total	28,407	28,407	27,422	985
Restricted Receipts Fund Total	810	810	1,257	(447)
<b>Total-General Assembly</b>	<b>29,216</b>	<b>29,217</b>	<b>28,678</b>	<b>539</b>
<b>Office of the Lieutenant Governor</b>				
General Revenue Total	806	806	795	11
<b>Total-Office of the Lieutenant Governor</b>	<b>806</b>	<b>806</b>	<b>795</b>	<b>11</b>
<b>Department of State</b>				
Administration				
General Revenue Total	1,162	1,175	1,253	(78)
Total-Administration	1,162	1,175	1,253	(78)
Corporations				
General Revenue Total	1,536	1,627	1,598	29
RI e-Gov Fund-UCC Automated System	154	158	153	5
Total-Corporations	1,690	1,785	1,751	34
State Archives				
General Revenue Total	285	295	299	(4)
Federal Funds Total			(2)	2
Restricted Receipts total	198	233	415	(182)
Total-State Archives	483	528	713	(185)
Elections				
General Revenue Total	1,567	1,522	1,508	14
Federal Funds Total		75	30	45
Total-Elections	1,567	1,597	1,538	59
State Library				
General Revenue Total	712	711	717	(6)
Total-State Library	712	711	717	(6)

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(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Office of Public Information				
General Revenue Total	498	489	447	42
Total-Office of Public Information	498	489	447	42
<b>Total-Department of State</b>	<b>6,113</b>	<b>6,285</b>	<b>6,418</b>	<b>(133)</b>
<b>Treasury Department</b>				
Treasury				
General Revenue Total	2,720	2,759	2,761	(2)
Federal Funds Total	231	236	241	(5)
Restricted Receipts Total	13	8	8	8
Total-Treasury	2,964	3,003	3,003	
State Retirement System				
Administrative Expenses-State Retirement System	9,260	8,664	6,955	1,709
Retirement-Treasury Investment Operations	576	589	534	55
Total-State Retirement System	9,836	9,253	7,489	1,764
Unclaimed Property				
Restricted Receipts Total	9,039	14,174	14,775	(601)
Total-Unclaimed Property	9,039	14,174	14,775	(601)
RI Refunding Bond Authority				
General Revenue Total	86	86	54	32
Total-RI Refunding Bond Authority	86	86	54	32
Crime Victim Compensation Program				
General Revenue Total	712	673	683	(10)
Federal Funds Total	1,337	1,947	88	1,859
Restricted Receipts Total	1,757	1,600	1,703	(103)
Total-Crime Victim Compensation Program	3,805	4,219	2,474	1,745
<b>Total-Treasury Department</b>	<b>25,730</b>	<b>30,736</b>	<b>27,795</b>	<b>2,941</b>
<b>Boards for Design Professionals-PL</b>				
Boards For Professional Design				
General Revenue Total	379	424	440	(16)
<b>Total-Boards for Design Professionals-PL</b>	<b>379</b>	<b>424</b>	<b>440</b>	<b>(16)</b>
<b>Board of Elections</b>				
General Revenue Total	2,149	2,246	2,247	(1)
RI e-Government Fund-Electronic Campaign Finance	3,260	858	871	(13)
<b>Total-Board Of Elections</b>	<b>5,409</b>	<b>3,104</b>	<b>3,118</b>	<b>(14)</b>
<b>Rhode Island Ethics Commission</b>				
General Revenue Total	926	902	881	21
<b>Total-Rhode Island Ethics Commission</b>	<b>926</b>	<b>902</b>	<b>881</b>	<b>21</b>

State of Rhode Island and Providence Plantations  
 Schedule of Expenditures and Other Financing Uses  
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For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Office of the Governor</b>				
General Revenue Total	6,163	6,363	6,206	157
<b>Total-Office Of Governor</b>	<b>6,163</b>	<b>6,363</b>	<b>6,206</b>	<b>157</b>
<b>Public Utilities Commission</b>				
General Revenue Total	706	693	658	35
Federal Funds Total	67	67	64	3
Restricted Receipts Total	4,874	4,874	3,828	1,046
<b>Total-Public Utilities Commission</b>	<b>5,646</b>	<b>5,633</b>	<b>4,550</b>	<b>1,083</b>
<b>Rhode Island Commission on Women</b>				
General Revenue Total	143	143	128	15
<b>Total-Rhode Island Commission on Women</b>	<b>143</b>	<b>143</b>	<b>128</b>	<b>15</b>
<b>Department of Children, Youth, and Families</b>				
Central Management				
General Revenue Total	7,586	7,876	8,213	(337)
Federal Funds Total	4,849	4,780	4,675	105
Total-Central Management	12,435	12,656	12,887	(231)
Children's Behavioral Health Services				
RICAP-Spurwink/RI	114	114	81	33
General Revenue Total	23,294	22,357	23,204	(847)
Federal Funds Total	23,984	25,870	22,092	3,778
Total-Children's Behavioral Health Services	47,392	48,341	45,377	2,964
Juvenile Correctional Services				
RICAP-RI Training School Bathroom Renovation	99	99	52	47
General Revenue Total	25,381	25,828	26,104	(276)
Federal Funds Total	3,342	3,130	3,095	35
Restricted Receipts Total	780	1,208	999	209
Total-Juvenile Correctional Services	29,602	30,264	30,250	14
Child Welfare				
Children's Trust Fund	56	56	55	1
Harmony Hill				
General Revenues	83,009	84,074	84,723	(649)
Federal Funds Total	60,198	61,686	62,182	(496)
Restricted Receipts Total	680	1,237	1,496	(259)
Total-Child Welfare	143,943	147,053	148,456	(1,403)
Higher Education Incentive Grant				
General Revenue Total	206	208	208	
Total-Higher Education Incentive Grants	206	208	208	
<b>Total-Department of Children, Youth and Families</b>	<b>233,578</b>	<b>238,522</b>	<b>237,180</b>	<b>1,342</b>



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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Department of Elderly Affairs</b>				
Intermodel Surface Transportation Fund	4,700	4,670	4,956	(286)
General Revenues Total	13,489	13,727	13,856	(129)
Safety and Care of the Elderly	1	1		1
RIPAE	13,343	13,107	13,478	(371)
Federal Funds Total	9,179	11,370	10,325	1,045
<b>Total-Department of Elderly Affairs</b>	<b>40,712</b>	<b>42,875</b>	<b>42,615</b>	<b>260</b>
<b>Department of Health</b>				
Central Management				
Trauma Registry	112	22	27	(5)
General Revenues Total	2,616	2,616	2,771	(155)
Federal Funds Total	2,297	5,331	4,233	1,098
Restricted Receipts Total	1,923	2,384	2,632	(248)
Total-Central Management	6,947	10,353	9,663	690
State Medical Examiner				
General Revenue Total	1,747	1,788	1,705	83
Total-State Medical Examiners	1,747	1,788	1,705	83
Family Health				
General Revenues Total	8,248	9,099	9,244	(145)
Poison Control Center	250	248	259	(11)
Federal Funds Total	29,901	35,608	33,700	1,908
Restricted Receipts Total	3,632	5,707	3,761	1,946
Total-Family Health	42,031	50,662	46,964	3,698
Health Services Regulation				
General Revenues Total	4,466	4,466	4,582	(116)
Hospital Care Consultant Report	1			
Federal Funds Total	2,250	2,861	2,811	50
Restricted Receipts Total	541	423	385	38
Total-Health Services Regulation	7,257	7,750	7,778	(28)
Environmental Health				
General Revenue Total	4,168	4,164	4,170	(6)
Federal Funds Total	8,079	3,564	2,869	695
Restricted Receipts Total	1,195	1,570	1,153	417
Total-Environmental Health	13,442	9,298	8,191	1,107
Health Laboratories				
General Revenue Total	6,183	6,217	6,086	131
Federal Funds Total	947	1,843	1,461	382
Total-Health Laboratories	7,130	8,060	7,547	513

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Disease Prevention and Control				
General Revenue Total	4,833	5,008	5,282	(274)
Smoking Cessation	950	835	716	119
Federal Funds Total	12,442	14,315	13,660	655
Restricted Receipts Total	876	884	697	187
Child Safety Program	20	72	57	15
Walkable Communities Initiative	80	80		80
Total-Disease Prevention and Control	19,201	21,195	20,411	784
<b>Total-Department of Health</b>	<b>97,756</b>	<b>109,107</b>	<b>102,259</b>	<b>6,848</b>
<b>Department of Human Services</b>				
Central Management				
General Revenue Total	6,639	6,494	5,989	505
Federal Funds Total	3,890	4,221	3,811	410
Restricted Receipts Total	2,107	2,204	2,368	(164)
Total-Central Management	12,635	12,919	12,168	751
Individual and Family Support				
RICAP Forand Building Exterior Window Panels	154			
RICAP-Veterans Home Roof	140	140	140	
General Revenue Total	20,219	19,860	20,212	(352)
Federal Funds Total	52,601	52,157	48,157	4,000
Restricted Receipts Total	68	68	44	24
Total-Individual and Family Support	73,182	72,226	68,553	3,673
Veterans' Affairs				
General Revenue Total	15,286	15,401	15,536	(135)
Federal Funds Total	5,142	7,144	5,302	1,842
Restricted Receipts Total	1,378	2,652	845	1,807
Total-Veterans' Affairs	21,806	25,197	21,683	3,514
Health Care Quality, Financing and Purchases				
General Revenue Total	23,227	23,100	23,147	(47)
Federal Funds Total	33,034	38,840	36,604	2,236
Restricted Receipts Total	478	893	213	680
Total-Health Care Quality, Financing & Purchase	56,739	62,833	59,965	2,868
Medical Benefits				
General Revenue				
Managed Care	146,720	122,340	123,203	(863)
Hospital	90,179	97,241	90,568	6,673
Other	70,809	94,982	97,281	(2,299)
Special Education	14,372	16,415	15,434	981
Nursing Facilities	119,756	117,461	114,835	2,626
General Revenue Total	441,837	448,439	441,322	7,117

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(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds				
Managed Care	180,381	156,682	159,418	(2,736)
Hospitals	109,436	115,759	111,603	4,156
Nursing Facilities	144,044	145,918	145,965	(47)
Other	85,038	118,717	122,778	(4,061)
Special Education	17,328	20,585	19,708	877
Federal Funds Total	536,227	557,661	559,471	(1,810)
Restricted Receipts Total	15	15	4	11
Total-Medical Benefits	978,079	1,006,115	1,000,797	5,318
Supplemental Security Income Program				
General Revenue Total	28,296	26,954	27,157	(203)
Total-Supplemental Security Income Program	28,296	26,954	27,157	(203)
Family Independence Program				
TANF/Families Independence Program	13,340	14,044	14,043	1
Child Care	56,176	51,516	51,516	
Federal Funds Total	83,976	91,837	91,342	495
Total-Family Independence Program	153,491	157,397	156,901	496
State Funded Programs				
General Public Assistance	2,309	2,805	2,845	(40)
Food Stamp Replacement for Legal Immigrants	1,346	1,341	1,340	1
Weatherization One-Time Payment			(7)	7
Citizen Participation Program	50	50	50	
Federal Funds Total	66,888	65,864	67,038	(1,174)
Total-State Funded Programs	70,593	70,060	71,266	(1,206)
<b>Total-Department of Human Services</b>	<b>1,394,821</b>	<b>1,433,699</b>	<b>1,418,490</b>	<b>15,209</b>
<b>Department of Mental Health, Retardation and Hospitals</b>				
Central Management				
General Revenue Total	2,073	2,125	2,074	51
Total-Central Management	2,073	2,125	2,074	51
Hospital & Community System Support				
RICAP-Utilities Upgrade	270	270	270	
RICAP-Medical Center Rehabilitation	491	699	699	
RICAP-Utilities Systems Water Tanks and Pipes		145	145	
RICAP-Central Power Plant Rehabilitation	459			
General Revenue Total	19,334	20,033	21,615	(1,582)
Total-Hospital & Community System Support	20,553	21,147	22,729	(1,582)
Service for the Developmentally Disabled				
General Revenue Total	99,005	97,521	96,001	1,520
Pirovano Trust	148	148	96	52
Federal Funds Total	118,662	119,213	117,568	1,645
Total-Service for the Developmentally Disabled	217,815	216,882	213,664	3,218

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Integrated Mental Health Services				
General Revenue Total	31,626	33,272	34,586	(1,314)
Federal Funds Total	30,520	32,128	32,933	(805)
Total-Integrated Mental Health Services	62,146	65,400	67,519	(2,119)
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	97	97	58	39
General Revenue Total	51,569	50,136	52,053	(1,917)
Federal Funds Total	57,862	57,269	55,493	1,776
Total-Hospital & Community Rehabilitation Svcs	109,529	107,502	107,604	(102)
Substance Abuse				
RICAP-Asset Protection	100	100	78	22
General Revenues Total	15,226	15,254	14,393	861
Federal Funds Total	13,396	13,582	11,173	2,409
Restricted Receipts Total	65	75	44	31
Total-Substance Abuse	28,787	29,012	25,688	3,324
<b>Total-Department of Mental Health, Retardation and Hospitals</b>	<b>440,903</b>	<b>442,067</b>	<b>439,279</b>	<b>2,788</b>
<b>Office of the Child Advocate</b>				
General Revenue Total	495	493	535	(42)
Federal Funds Total	359	361	372	(11)
Restricted Receipts Total		18	18	
<b>Total-Office of the Child Advocate</b>	<b>854</b>	<b>872</b>	<b>906</b>	<b>(34)</b>
<b>Rhode Island Commission on Deaf and Hard of Hearing</b>				
Commission On Deaf and Hard Of Hearing				
General Revenue Total	261	261	216	45
<b>Total-Rhode Island Commission on Deaf and Hard of Hearing</b>	<b>261</b>	<b>261</b>	<b>216</b>	<b>45</b>
<b>State Council on Developmental Disabilities</b>				
Federal Funds Total	421	546	499	47
<b>Total-State Council on Developmental Disabilities</b>	<b>421</b>	<b>546</b>	<b>499</b>	<b>47</b>
<b>Governor's Commission on Disabilities</b>				
General Revenue Total	321	482	518	(36)
Federal Funds Total	32	36	1	35
Restricted Receipts Total	71	57	9	48
<b>Total-Governor's Commission on Disabilities</b>	<b>423</b>	<b>575</b>	<b>529</b>	<b>46</b>
<b>Rhode Island Commission For Human Rights</b>				
General Revenue Total	770	805	814	(9)
Federal Funds Total	409	388	347	41
<b>Total-Rhode Island Commission For Human Rights</b>	<b>1,178</b>	<b>1,192</b>	<b>1,161</b>	<b>31</b>

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<b>Office of Mental Health Advocate</b>				
Office of Mental Health Advocate				
General Revenue Total	297	297	310	(13)
<b>Total-Office of Mental Health Advocate</b>	297	297	310	(13)
<b>Department of Elementary and Secondary Education</b>				
State Aid				
State Support Local School Operations	636,713	636,474	636,445	29
Federal Funds Total	2,013	3,299	2,757	542
Total-State Aid	638,726	639,772	639,202	570
School Housing Aid				
General Revenue Total	33,422	38,232	38,232	
Total-School Housing Aid	33,422	38,232	38,232	
Teachers' Retirement				
General Revenue Total	38,439	38,072	38,243	(171)
Total-Teachers' Retirement	38,439	38,072	38,243	(171)
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	284	284	284	
General Revenue Total	5,550	5,533	5,234	299
Federal Funds Total	1,221	1,300	936	364
Restricted Receipts Total		1	1	
Total-RI School for the Deaf	7,054	7,119	6,170	949
Davies Career and Technical School				
RICAP - Davies Roof Repair	225	225	8	217
General Revenue Total	10,714	10,714	10,343	371
Federal Funds Total	813	1,114	864	250
Restricted Receipts Total	165	174	104	70
Total-Davies Career and Technical School	11,918	12,227	11,319	908
Program Operations				
RICAP-Woonsocket Vocational HVAC	7			
RICAP-East Providence Vocational HVAC	55	55	1	54
RICAP-Hanley-HVAC	64	64	63	1
RICAP-State Owned Schools-Fire Alarm Systems	93			
RICAP-Hazardous Materials Storage/Dust				
General Revenue Total	14,573	14,498	14,238	260
Federal Funds Total	129,973	161,564	123,638	37,926
Restricted Receipts Total	1,089	1,153	1,116	37
Total-Program Operations	145,856	177,334	139,056	38,278
<b>Total-Department of Elementary and Secondary Education</b>	875,415	912,758	872,223	40,535
<b>Board Of Governors for Higher Education</b>				
General Revenue Fund Total	169,438	169,616	169,454	162
Federal Fund Total	2,362	3,349	2,829	520

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Total-Board Of Governors for Higher Education</b>	171,800	172,965	172,283	682
<b>Rhode Island State Council On The Arts</b>				
Operating Support	363	363	371	(8)
Grants	1,937	1,937	1,312	625
Federal Funds Total	616	609	576	33
Restricted Receipts Total	200	255	(43)	298
<b>Total-Rhode Island State Council On The Arts</b>	3,116	3,165	2,216	949
<b>Rhode Island Atomic Energy Commission</b>				
URI Sponsored Research	145	144	145	(1)
RICAP-Roof Replacement-North Bunker	3			
General Revenue Total	640	672	669	3
Federal Funds Total	826	295	(3)	298
<b>Total-Rhode Island Atomic Energy Commission</b>	1,613	1,111	811	300
<b>Rhode Island Higher Education Assistance Authority</b>				
Needs Based Grant and Work Opportunities	4,933	4,933	4,920	13
Authority Operations and Other Grants	1,084	1,084	1,097	(13)
<b>Total-Rhode Island Higher Education Assistance Authority</b>	6,017	6,017	6,017	
<b>Historical Preservation and Heritage Commission</b>				
General Revenue Total	879	1,041	1,024	17
Federal Funds Total	535	535	545	(10)
Restricted Receipts Total	336	207	51	156
<b>Total-Historical Preservation and Heritage Commission</b>	1,750	1,782	1,620	162
<b>Rhode Island Public Telecommunications Authority</b>				
General Revenue Total	1,292	1,292	1,121	171
<b>Total-Rhode Island Public Telecommunications Authority</b>	1,292	1,292	1,121	171
<b>Department of Attorney General</b>				
Criminal				
General Revenue Total	10,058	10,059	9,881	178
Federal Funds Total	1,557	1,610	1,469	141
Restricted Receipts Total	179	190	164	26
Total-Criminal	11,795	11,859	11,513	346
Civil				
General Revenue Total	3,526	3,595	3,365	230
Federal Funds Total	76	61	61	
Restricted Receipts Total	452	449	418	31
Total-Civil	4,054	4,105	3,844	261

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Bureau of Criminal Identification				
General Revenue Total	655	773	718	55
Federal Funds Total	15	515	119	396
Total-Bureau of Criminal Identification	670	1,288	836	452
General				
General Revenue Total	1,586	1,635	1,636	(1)
Total-General	1,586	1,635	1,636	(1)
<b>Total-Department of Attorney General</b>	<b>18,104</b>	<b>18,887</b>	<b>17,829</b>	<b>1,058</b>
<b>Department of Corrections</b>				
Central Management				
General Revenue Total	9,054	9,081	8,770	311
Federal Funds Total	324	324	28	296
Total-Central Management	9,378	9,405	8,799	606
Parole Board				
General Revenue Total	892	920	925	(5)
Total-Parole Board	892	920	925	(5)
Institutional Corrections				
RICAP-Fire Code Safety Improvements	649	649	443	206
RICAP-Security Camera Installation	113	113	61	52
RICAP-HVAC Renovations-Maximum	19	20	20	
RICAP-Window Replacement-Women's	473	473	410	63
RICAP-Dix Expansion-Phase II	19		1	(1)
RICAP-Reintegration Center State Match	507	153	153	
RICAP-Dix Expansion-State Match	42		22	(22)
RICAP-General Renovations-Maximum	626	626	6	620
RICAP-Roof/Masonry Renovations-Women's	328	328		328
RICAP-High Security Fire Alarm HVAC	31	31		31
RICAP-Aquidneck & Prudence Cellblock Roofs	61			
RICAP-Perimeter/Security Upgrades	132	132	18	114
RICAP - Women's Bath Renovation	160	195		195
RICAP - Dix Expansion Consolidation		61		61
General Revenue Total	108,452	115,068	116,330	(1,262)
Federal Funds Total	10,079	7,521	2,944	4,577
Restricted Receipts Total	5,454	2,607	2,456	151
Total-Institutional Corrections	127,144	127,976	122,865	5,111
Community Corrections				
General Revenue Total	10,909	11,131	11,072	59
Federal Funds Total	190	736	155	581
Total-Community Corrections	11,099	11,867	11,227	640
<b>Total-Department of Corrections</b>	<b>148,512</b>	<b>150,168</b>	<b>143,816</b>	<b>6,352</b>

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	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Judicial Department</b>				
Supreme Court				
RICAP-Garrahy Judicial Complex Renovation	4	4		4
RICAP-Garrahy Complex Roof Repair	1			
RICAP-Licht Exterior/Interior Refurbishment				
RICAP - Murray Judicial Complex - Interior Refurbishn	165	165	3	162
RICAP-Fogarty Judicial Annex	60	60	71	(11)
General Revenue Total	19,587	19,989	19,577	412
Defense of Indigents	1,550	1,650	2,041	(391)
Federal Funds Total	137	172	58	114
Restricted Receipts Total	840	832	772	60
Total-Supreme Court	22,345	22,872	22,522	350
Superior Court				
Federal Funds Total	164	164	9	155
General Revenue Total	15,922	16,115	16,235	(120)
Total-Superior Court	16,087	16,279	16,243	36
Family Court				
General Revenue Total	11,934	11,956	11,514	442
Federal Funds Total	2,019	2,789	2,957	(168)
Restricted Receipts Total	258	148	132	16
Total-Family Court	14,211	14,893	14,602	291
District Court				
General Revenue Total	7,490	7,716	7,737	(21)
Federal Funds Total		49	48	1
Restricted Receipts Total		64	64	
Total-District Court	7,490	7,830	7,849	(19)
Traffic Tribunal				
General Revenue Total	5,885	5,959	5,923	36
Total-Traffic Tribunal	5,885	5,959	5,923	36
Worker's Compensation Court				
Restricted Receipts Total	5,646	5,638	5,592	46
Total-Worker's Compensation Court	5,646	5,638	5,592	46
Justice Link				
General Revenue Total	1,475	417	812	(395)
Federal Funds	500	914	197	717
Total-Justice Link	1,975	1,332	1,009	323
<b>Total-Judicial Department</b>	<b>73,639</b>	<b>74,804</b>	<b>73,741</b>	<b>1,063</b>

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<b>Militia of the State</b>				
National Guard				
RICAP-Bristol Armory Rehabilitation	200	200	10	190
RICAP-Benefit St. Arsenal Rehabilitation	193	63	1	62
RICAP-Schofield Armory Rehabilitation	168	100		100
RICAP-US Property and Finance Office-HVAC			3	(3)
RICAP-Warren Armory	170	170	43	127
RICAP - Warwick Armory Boiler		25		25
RICAP-Vehicle Exhaust Vent System	1	1		1
RICAP - North Smithfield Armory	5	5		5
General Revenue Total	1,736	1,749	1,646	103
RI e-Government Fnd-Distributed Tech Training	18	18	17	1
Federal Funds Total	7,714	7,895	6,085	1,810
Total-National Guard	10,204	10,226	7,805	2,421
Emergency Management				
General Revenue Total	455	607	541	66
Federal Funds Total	6,294	6,726	4,772	1,954
Restricted Receipts Total	123	183	114	69
Total-Emergency Management	6,872	7,515	5,428	2,087
<b>Total-Militia of the State</b>	17,076	17,741	13,233	4,508
<b>E-911 Uniform Emergency Telephone System</b>				
General Revenue Total	3,513	3,639	3,592	47
RI e-Government Fund-GIS Database Development	500	385	374	11
<b>Total-E-911 Uniform Emergency Telephone System</b>	4,013	4,024	3,966	58
<b>Fire Safety Code Board of Appeal &amp; Review</b>				
Fire Code Commission				
General Revenue Total	225	234	242	(8)
<b>Total-Fire Safety Code Board of Appeal &amp; Review</b>	225	234	242	(8)
<b>Division of Fire Safety</b>				
Fire Safety & Training Academy				
General Revenue Total	1,465	1,415	1,353	62
Federal Funds Total	101	354	152	202
<b>Total-Division of Fire Safety</b>	1,566	1,769	1,504	265
<b>Commission on Judicial Tenure &amp; Discipline</b>				
General Revenue Total	109	144	112	32
<b>Total-Commission on Judicial Tenure &amp; Discipline</b>	109	144	112	32

State of Rhode Island and Providence Plantations  
 Schedule of Expenditures and Other Financing Uses  
 Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Rhode Island Governor's Justice Commission</b>				
General Revenue Total	172	172	166	6
Federal Funds Total	5,037	5,579	4,798	781
Restricted Receipts Total	90	90	12	78
<b>Total-Rhode Island Governor's Justice Commission</b>	5,299	5,841	4,976	865
<b>Municipal Police Training School</b>				
General Revenue Total	351	351	344	7
Federal Funds Total		65	19	46
<b>Total-Municipal Police Training Academy</b>	351	416	363	53
<b>Rhode Island State Police</b>				
RICAP - Barracks & Training Headquarters'	100	100		100
RICAP-Headquarters Repair/Renovation	126	19	19	
Traffic Enforcement-Municipal Training	217	217	159	58
Lottery Commission Assistance	112	121	110	11
Road Construction Reimbursement	2,175	1,830	1,739	91
General Revenue Total	37,835	38,588	38,383	205
Federal Funds Total	2,780	2,219	1,769	450
Restricted Receipts Total	147	335	193	142
<b>Total-Rhode Island State Police</b>	43,492	43,428	42,371	1,057
<b>Office of Public Defenders</b>				
General Revenue Total	5,845	6,013	5,935	78
Federal Funds Total	356	483	376	107
<b>Total-Office of Public Defenders</b>	6,202	6,496	6,312	184
<b>Department of Environmental Management</b>				
Policy and Administration				
DOT Recreational Projects	26	26	92	(66)
Blackstone Bikepath Design	1,303	1,303	498	805
RICAP-Dam Repair	335	335	87	248
General Revenue Total	8,044	8,138	8,221	(83)
Permanent Streamlining				
Federal Funds Total	2,932	2,432	230	2,202
Restricted Receipts Total	8,215	3,038	3,275	(237)
Total-Policy and Administration	20,856	15,273	12,403	2,870

State of Rhode Island and Providence Plantations  
 Schedule of Expenditures and Other Financing Uses  
 Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

State of Rhode Island and Providence Plantations  
 Schedule of Expenditures and Other Financing Uses  
 Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Natural Resources				
RICAP-Westerly Boat Ramp	1	1		1
RICAP-Fort Adams Rehabilitation	250	250	250	
RICAP-Recreational Facilities Improvement	63	63	26	37
RICAP-Galilee Piers	352	352		352
RICAP-Newport Piers	493	493	492	1
RICAP-Boyd's Marsh Habitat Restoration	70	70		70
General Revenue Total	14,926	15,016	15,080	(64)
Federal Funds Total	12,872	11,488	8,055	3,433
Restricted Receipts Total	3,122	3,189	2,671	518
Total-Natural Resources	32,150	30,923	26,575	4,348
Environmental Protection				
Aquafund				
General Revenue Total	8,573	8,722	8,808	(86)
Rose Hill	1,020	500	202	298
Federal Funds Total	8,388	9,195	6,601	2,594
Restricted Receipts Total	2,963	3,313	3,264	49
Total-Environmental Protection	20,944	21,730	18,875	2,855
<b>Total-Department of Environmental Management</b>	<b>73,950</b>	<b>67,926</b>	<b>57,853</b>	<b>10,073</b>
<b>Coastal Resources Management Council</b>				
RICAP - South Coast Restoration Project	145	145	145	
RICAP -Allens Cove	172	172		172
General Revenue Total	1,695	1,580	1,464	116
Federal Funds Total	1,191	2,402	1,654	748
Restricted Total	250	4,750	3,353	1,397
<b>Total-Coastal Resources Management Council</b>	<b>3,453</b>	<b>9,049</b>	<b>6,616</b>	<b>2,433</b>
<b>Water Resources Board</b>				
RICAP-Big River Management Area	74	74	49	25
RICAP-Water Allocation Plan	167	167	97	70
RICAP-Supplemental Water Supplies Development	39	39		39
General Revenue Total	991	1,057	1,037	20
Federal Total	500	500	173	327
Restricted Receipts Total	754	754	597	157
<b>Total-Water Resources Board</b>	<b>2,525</b>	<b>2,592</b>	<b>1,953</b>	<b>639</b>
<b>Total expenditures</b>	<b>4,319,286</b>	<b>4,424,727</b>	<b>4,301,736</b>	<b>122,991</b>

Other financing uses:

Transfers to other funds

Total expenditures and other  
financing uses

General revenue funds total

Federal grants funds total

Restricted funds total

Other funds total

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Transfers to other funds		54,697	54,141	556
Total expenditures and other financing uses	\$ 4,319,286	\$ 4,479,424	\$ 4,355,877	\$ 123,547
General revenue funds total	\$ 2,672,345	\$ 2,699,033	\$ 2,690,324	\$ 8,709
Federal grants funds total	1,438,271	1,528,619	1,433,410	95,209
Restricted funds total	94,555	101,441	91,403	10,038
Other funds total	114,117	95,633	86,599	9,034
	\$ 4,319,288	\$ 4,424,726	\$ 4,301,736	\$ 122,990

State of Rhode Island and Providence Plantations  
 Schedule of Revenues, Other Financing Sources, Expenditures, and Other Financing Uses  
 Budget and Actual

State of Rhode Island and Providence Plantations

Schedule of General Revenue  
 Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2003

(Expressed in Thousand)

	Original Budget	Final Budget	Actual	Variance	Percent Variance
<b>PERSONAL INCOME TAX</b>	\$ 826,419	\$ 808,900	\$ 813,341	\$ 4,441	0.55%
<b>GENERAL BUSINESS TAXES:</b>					
Business Corporations	46,100	64,000	56,416	(7,584)	-11.85%
Franchise	8,700	0	6,402	6,402	
Public Utilities Gross Earnings	94,800	74,000	76,134	2,134	2.88%
Financial Institutions	8,700	1,400	9,804	8,404	600.29%
Insurance Companies	35,500	49,500	51,288	1,788	3.61%
Bank Deposits	1,200	1,400	1,698	298	21.29%
Health Care Provider Assessment	29,000	28,919	28,141	(778)	-2.69%
<b>SALES AND USE TAXES:</b>					
Sales and Use	778,210	778,200	777,365	(835)	-0.11%
Motor Vehicle	45,810	46,800	47,251	451	0.96%
Motor Fuel	1,150	600	1,022	422	70.33%
Cigarettes	98,900	96,500	94,379	(2,121)	-2.20%
Alcohol	10,000	10,000	10,059	59	0.59%
Controlled Substances			0	0	
<b>OTHER TAXES:</b>					
Inheritance and Gift	22,000	30,000	24,352	(5,648)	-18.83%
Racing and Athletics	5,450	5,000	4,939	(61)	-1.22%
Realty Transfer Tax	8,100	8,800	9,781	981	11.15%
<b>Total Taxes</b>	<u>2,020,039</u>	<u>2,004,019</u>	<u>2,012,372</u>	<u>8,353</u>	<u>0.42%</u>
<b>DEPARTMENTAL RECEIPTS</b>					
Licenses and Fees	155,235	0	159,140		
Fines and Penalties	30,500	0	33,629		
Sales and Services	26,700	0	31,408		
Miscellaneous	58,551	0	66,078		
<b>Total Departmental Receipts</b>	<u>270,986</u>	<u>288,693</u>	<u>290,255</u>	<u>1,562</u>	<u>0.54%</u>
<b>Total Taxes and Departmentals</b>	<u>2,291,025</u>	<u>2,292,712</u>	<u>2,302,627</u>	<u>9,915</u>	<u>0.43%</u>
<b>OTHER SOURCES</b>					
Gas Tax Transfer	10,575	24,814	25,506	692	2.79%
Other Miscellaneous	159,773	184,839	184,087	(752)	-0.41%
Lottery	237,700	238,500	236,540	(1,960)	-0.82%
Unclaimed Property	7,900	8,800	8,458	(342)	-3.89%
<b>Total Other Sources</b>	<u>415,948</u>	<u>456,953</u>	<u>454,591</u>	<u>(2,362)</u>	<u>-0.52%</u>
<b>Total General Revenues</b>	<u>\$ 2,706,973</u>	<u>\$ 2,749,665</u>	<u>\$ 2,757,218</u>	<u>\$ 7,553</u>	<u>0.27%</u>

Intermodal Surface Transportaion Fund

For the Year Ended June 30, 2003

(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 141,000	\$ 141,000	\$ 139,458	\$ (1,542)
Departmental restricted revenue	43,506	18,935	2,400	(16,535)
Federal grants	192,779	192,806	153,197	(39,609)
Other revenues	8,003	5,000	5,199	199
<b>Total revenues</b>	<u>385,288</u>	<u>357,741</u>	<u>300,254</u>	<u>(57,487)</u>
<b>Other financing sources:</b>				
Operating transfers in	0	0	44,130	44,130
<b>Total revenues and other financing sources</b>	<u>385,288</u>	<u>357,741</u>	<u>344,384</u>	<u>(13,357)</u>
<b>Expenditures:</b>				
<b>Central Management</b>				
Gasoline Tax	3,150	3,097	3,251	(154)
Federal Funds	4,326	4,353	4,328	25
<b>Total - Central Management</b>	<u>7,476</u>	<u>7,450</u>	<u>7,579</u>	<u>(129)</u>
<b>Management and Budget</b>				
Gasoline Tax	1,957	1,965	1,129	836
<b>Total - Management and Budget</b>	<u>1,957</u>	<u>1,965</u>	<u>1,129</u>	<u>836</u>
<b>Infrastructure - Engineering</b>				
Gasoline Tax	39,316	40,330	37,519	2,811
RICAP - RIPTA Land and Buildings	1,715	2,075	0	2,075
State Infrastructure Bank	1,000	1,000	0	1,000
State Match - Bond Funds	0	0	17,221	(17,221)
Land Sale Revenue	8,003	5,000	1,037	3,963
Federal Funds	188,453	188,453	159,793	28,660
Restricted Receipts	42,506	17,935	25,859	(7,924)
<b>Total - Infrastructure - Engineering</b>	<u>280,993</u>	<u>254,793</u>	<u>241,429</u>	<u>13,364</u>
<b>Infrastructure - Maintenance</b>				
Gasoline Tax	39,615	40,780	44,742	(3,962)
<b>Total - Infrastructure - Maintenance</b>	<u>39,615</u>	<u>40,780</u>	<u>44,742</u>	<u>(3,962)</u>
<b>Total Expenditures</b>	<u>330,041</u>	<u>304,988</u>	<u>294,879</u>	<u>10,109</u>
<b>Other financing uses:</b>				
Transfers to other funds	0	0	57,416	(57,416)
<b>Total expenditures and other financing uses</b>	<u>\$ 330,041</u>	<u>\$ 304,988</u>	<u>\$ 352,295</u>	<u>\$ (47,307)</u>

State of Rhode Island and Providence Plantations  
Schedule of Revenues and Expenditures  
Budget and Actual  
Rhode Island Temporary Disability Insurance Fund  
For the Year Ended June 30, 2003  
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget
<b>Revenues:</b>				
Taxes	\$ 162,666	\$ 162,595	\$ 178,247	\$ 15,652
Other revenues			983	983
Total revenues	162,666	162,595	179,230	16,635
<b>Expenditures:</b>				
Department of Labor and Training				
Income Support				
Temporary Disability Insurance Fund	162,415	162,351	158,980	3,371
Total - Income Support	162,415	162,351	158,980	3,371
Total - Department of Labor and Training	162,415	162,351	158,980	3,371
Treasury Department				
Temporary Disability Insurance Fund	251	244	158	86
Total - Treasury Department	251	244	158	86
Total Expenditures	\$ 162,666	\$ 162,595	\$ 159,138	\$ 3,457

State of Rhode Island and Providence Plantations  
Required Supplementary Information  
Schedules of Funding Progress  
June 30, 2003  
(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)
6/30/02	5,907,680	8,141,130	2,233,450	72.6%	1,378,905	162.0%
6/30/01	6,026,141	7,768,536	1,742,395	77.6%	1,287,476	135.3%
6/30/00	5,859,719	7,234,787	1,375,068	81.0%	1,220,833	112.6%

**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)
6/30/02	17,770	23,527	5,757	75.5%	10,933	52.7%
6/30/01	14,386	16,650	2,264	86.4%	9,139	24.8%
6/30/00	11,336	13,917	2,581	81.5%	8,917	28.9%

**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)
6/30/02	11,129	16,243	5,114	68.5%	4,738	107.9%
6/30/01	9,190	12,026	2,836	76.4%	4,092	69.3%
6/30/00	7,375	9,720	2,345	75.9%	3,533	66.4%



**State of Rhode Island and Providence Plantations**  
**Notes to Required Supplementary Information**  
**June 30, 2003**

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 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 branch and the Justice Link program.

The original budget includes the amounts in the applicable appropriation act, general revenue appropriations carried forward by the Governor, the unexpended balances in the R.I Capital Fund projects and any unexpended balances designated by the General Assembly.

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## **Exhibit B – State Economic Information**

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## **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 modest population increases between 1988 and 2003. The 2000 United States census count for Rhode Island was 1,050,664 or 4.4 percent more than the 1,005,995 counted in 1990. In contrast, the total United States population increased by 13.0 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has grown to 1,076,164 as of July 1, 2003.

**Personal Income and Poverty.** Per capita personal income levels in Rhode Island have been consistent with those in the United States since 1988. In 2003, Rhode Island per capita income was \$31,937 vs. U.S. per capita income of \$31,459. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2001 – 2003 period, Rhode Island's average poverty rate was 10.7 percent vs. a U.S. average poverty rate of 12.1 percent.

**Employment.** According to the U.S. Bureau of Labor Statistics, total Rhode Island non-farm employment grew at a rate of 0.2 percent in 2002, 1.0 percent in 2003 and 0.8 percent in 2004.

**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 21.3 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 May 2003 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 1989-90 academic year. For 2001-02 Rhode Island spent 27.7 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 past ten years, 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.

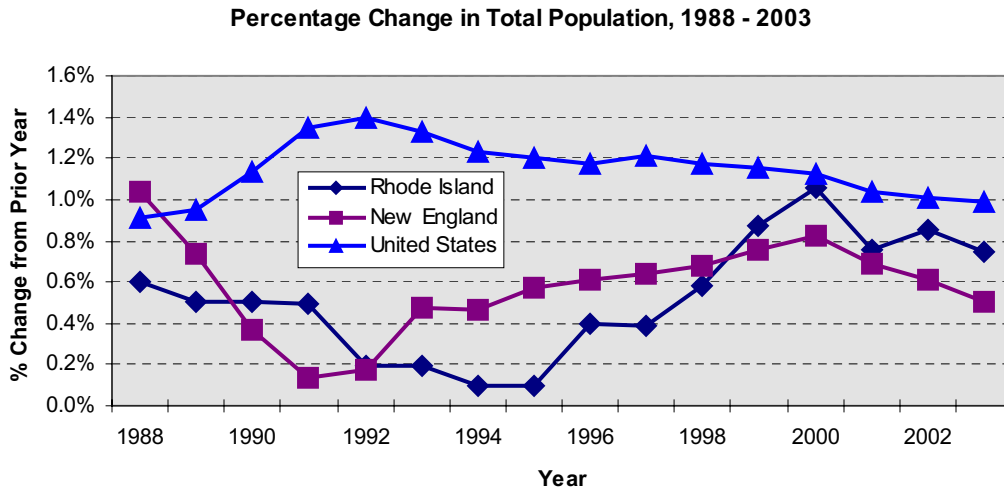
Between 1993 and 2003 Rhode Island's population increased by 6.0 percent, compared to a 6.5 percent increase for the New England region, and a 11.9 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1993 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.6 percent for that period compared to New England's growth rate of 3.0 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.5 percent compared to 2.7 percent for New England as a whole. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1993 to 2003 period, the United States' average annual population growth rate was 1.1 percent, nearly twice that of Rhode Island.

**Population, 1988 - 2003**  
(in thousands)

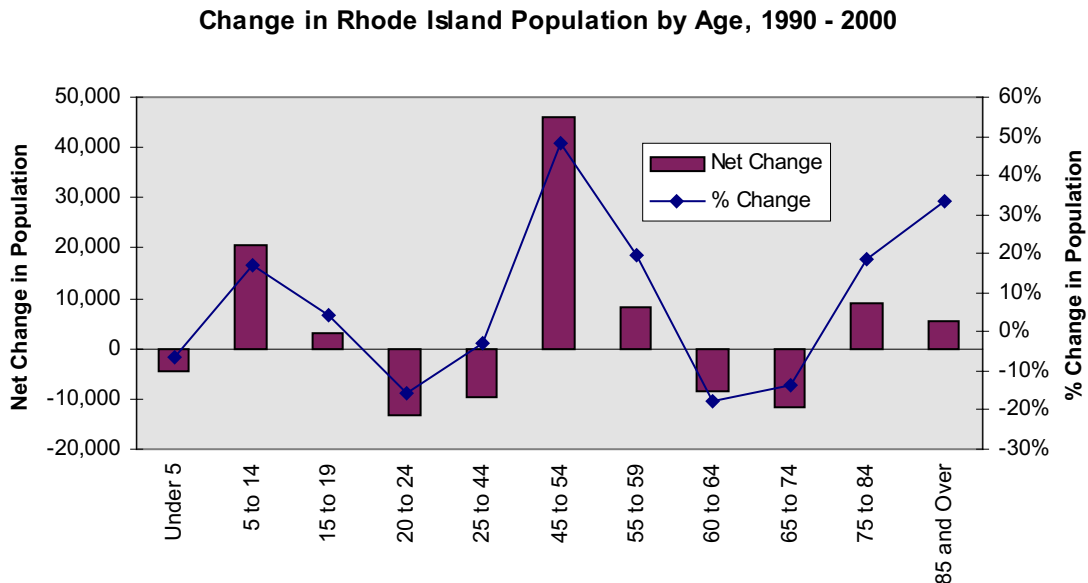
Year	Rhode Island		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1988	996	0.6%	13,085	1.0%	244,499	0.9%
1989	1,001	0.5%	13,182	0.7%	246,819	0.9%
1990	1,006	0.5%	13,230	0.4%	249,623	1.1%
1991	1,011	0.5%	13,248	0.1%	252,981	1.3%
1992	1,013	0.2%	13,271	0.2%	256,514	1.4%
1993	1,015	0.2%	13,334	0.5%	259,919	1.3%
1994	1,016	0.1%	13,396	0.5%	263,126	1.2%
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	1,051	1.1%	13,952	0.8%	282,178	1.1%
2001	1,059	0.8%	14,048	0.7%	285,094	1.0%
2002	1,068	0.8%	14,134	0.6%	287,974	1.0%
2003	1,076	0.7%	14,205	0.5%	290,810	1.0%

U.S. Department of Commerce. Bureau of Economic Analysis

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.



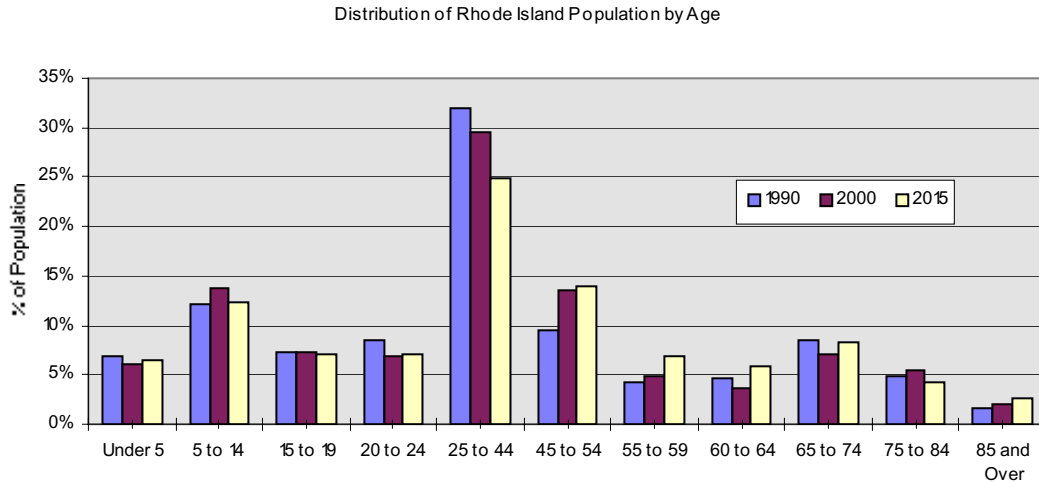
The following chart shows the net change in Rhode Island’s population between 1990 and 2000 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the “baby boom” generation. 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 the next fifteen years will bring about a considerable change in the age distribution of the Rhode Island population. 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 should rise further.



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 personal income has tracked that of the United States throughout the 1988 – 2003 period. In general, Rhode Island's per capita nominal personal income exceeded that of the United States from 1988 to 1997, with the exception of 1994 and 1996. Over this period, Rhode Island per capita nominal personal income averaged \$269 more than United States per capita nominal personal income. From 1998 to 2001 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of \$367. In 2002 and 2003, Rhode Island per capita nominal personal income again exceeded that of the U.S. as a whole by an average of \$207. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1988 – 2003 by an average \$4,373. 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 \$6,905 in 2000. In 2003, the gap had fallen 11.9 percent to \$6,081.

From 1988 to 1989, per capita real income levels in Rhode Island grew at an annual rate higher than that for the United States. This trend was reversed in 1990 – 1992 as Rhode Island slipped into a recession that was compounded by the banking crisis of 1990. From 1993 to 1998, the relationship between per capita real income growth in Rhode Island alternately exceeded and trailed that of the United States. In 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. In 2001 - 2003, this pattern again reversed itself as the national economy slid into recession. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. In fact, over the fifteen-year period from 1988 to 2003, Rhode Island per capita real income growth has exceeded that of New England as a whole on seven occasions, 1988 – 1989, 1993, 1995, and, most recently, 2001 – 2003.



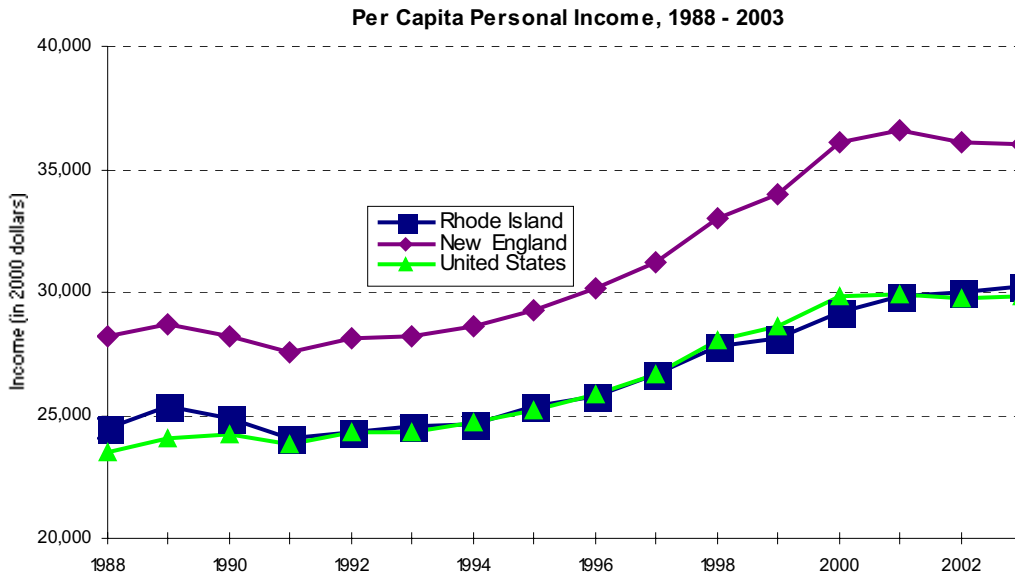
The chart below the table shows real per capita personal income in Rhode Island, New England and the United States since 1988. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States but consistently lags that of the New England region.

**Per Capita Personal Income, 1988 – 2003**

Year	Nominal Income (in current dollars)			2000 Deflator	Real Income (in 2000 dollars)			Percentage Change in Real Income		
	R.I.	N.E.	U.S.		R.I.	N.E.	U.S.	R.I.	N.E.	U.S.
1988	18,045	20,811	17,331	73.76%	24,466	28,216	23,498	5.3%	4.7%	2.7%
1989	19,546	22,083	18,520	76.97%	25,393	28,689	24,060	3.8%	1.7%	2.4%
1990	20,006	22,712	19,477	80.50%	24,853	28,215	24,196	-2.1%	-1.7%	0.6%
1991	20,049	22,969	19,892	83.42%	24,034	27,535	23,846	-3.3%	-2.4%	-1.4%
1992	20,867	24,172	20,854	85.82%	24,314	28,165	24,299	1.2%	2.3%	1.9%
1993	21,586	24,752	21,346	87.81%	24,584	28,190	24,311	1.1%	0.1%	0.0%
1994	22,097	25,687	22,172	89.65%	24,647	28,651	24,731	0.3%	1.6%	1.7%
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	29,216	36,121	29,847	100.00%	29,216	36,121	29,847	3.8%	6.4%	4.2%
2001	30,434	37,328	30,580	102.09%	29,810	36,562	29,953	2.0%	1.2%	0.4%
2002	31,035	37,420	30,795	103.55%	29,972	36,138	29,740	0.5%	-1.2%	-0.7%
2003	31,937	38,018	31,459	105.51%	30,269	36,033	29,816	1.0%	-0.3%	0.3%

U.S. Department of Commerce. Bureau of Economic Analysis

Note: The 2000 "Real Income" figures are based on national implicit price deflators for personal consumption expenditures.



U.S. Department of Commerce, Bureau of Economic Analysis

**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 until recently. In 1990, average annual pay in Rhode Island was 94.9 percent of the national average. By 2001, the ratio had fallen to 92.8 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. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

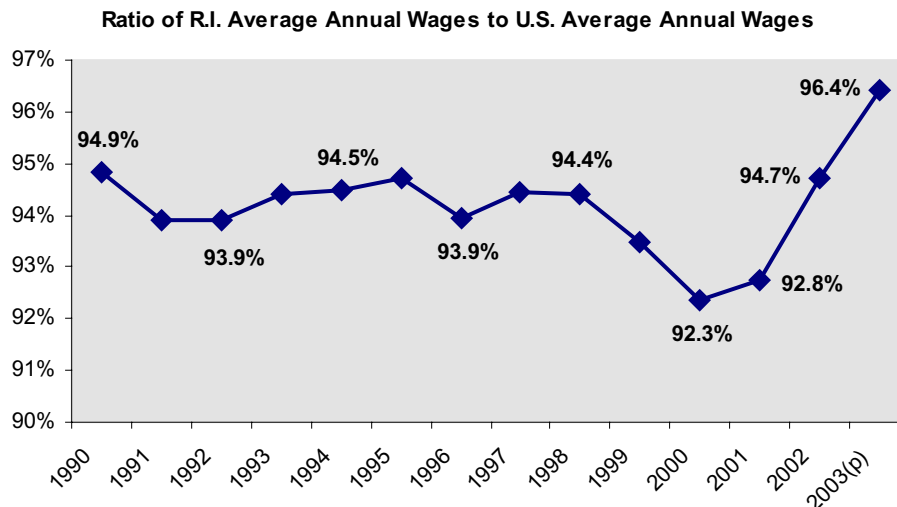
**Average Annual Pay, 1990 – 2003**  
(in current dollars)

Year	Annual Pay		Ratio R.I./U.S.	Percentage Change	
	R.I.	U.S.		R.I.	U.S.
1990	22,387	23,602	94.9%	-	-
1991	23,082	24,578	93.9%	3.1%	4.1%
1992	24,315	25,897	93.9%	5.3%	5.4%
1993	24,889	26,361	94.4%	2.4%	1.8%
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(p)	36,415	37,765	96.4%	4.6%	2.7%

U.S. Department of Labor. Bureau of Labor Statistics

(p) = preliminary

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1990 – 2003 period.



**Consumer Prices.** The following table presents consumer price index trends for the Northeast region and the United States for the period between 1988 and 2004. 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 1988 to 1992, the consumer price inflation in the Northeast consistently exceeded that for the United States by at least 0.3 percent. From 1993 to 2001, consumer price inflation rate in the Northeast has been, on average, slightly below that of the United States. During this period, consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1993 – 1996, 1998 – 1999, and 2001. In 2000, consumer price inflation in the Northeast region was equal to that of the United States. In 2002, 2003, and 2004, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, and 0.8 percent respectively.

**Consumer Price Index for All Urban Consumers (CPI-U), 1988 – 2004  
(1982 – 1984 = 100)**

Year	CPI-U		Ratio Northeast/U.S.	Pct. Change	
	Northeast	U.S.		Northeast	U.S.
1988	121.8	118.3	103.0%	5.0%	4.1%
1989	128.6	124.0	103.7%	5.6%	4.8%
1990	136.3	130.7	104.3%	6.0%	5.4%
1991	142.5	136.2	104.6%	4.5%	4.2%
1992	147.3	140.3	105.0%	3.4%	3.0%
1993	151.4	144.5	104.8%	2.8%	3.0%
1994	155.1	148.2	104.7%	2.4%	2.6%
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%

U.S. Department of Labor. Bureau of Labor Statistics

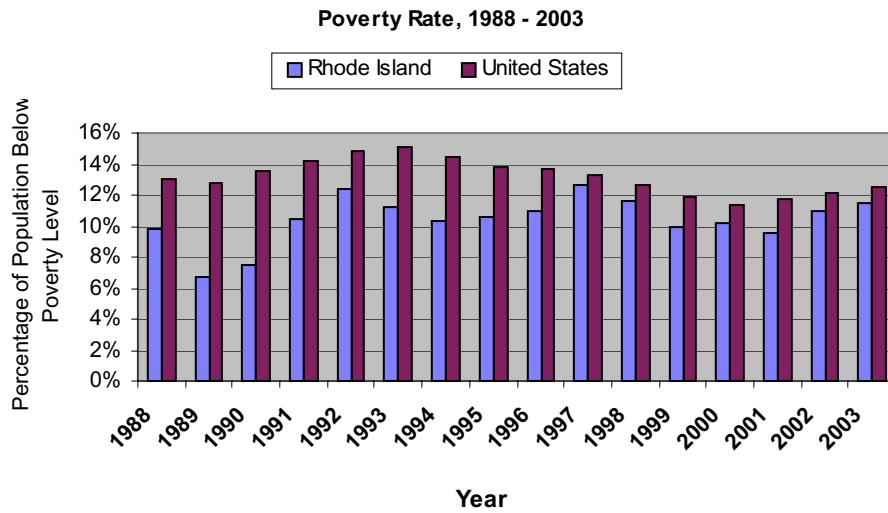
**Poverty.** In 2003, The Rhode Island poverty rate was once again below the poverty rate for the United States as a whole. Between 1988 and 2003, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 6.7 percent in 1989 to a high of 12.7 percent in 1997. During the same time, 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 period, 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 1988 through 2003.

### Poverty Rate, 1988 – 2003

Year	Ratio		Percentage Change		
	R.I.	U.S.	R.I./U.S.	R.I.	U.S.
1988	9.8	13.0	75.4%	21.0%	-3.0%
1989	6.7	12.8	52.3%	-31.6%	-1.5%
1990	7.5	13.5	55.6%	11.9%	5.5%
1991	10.4	14.2	73.2%	38.7%	5.2%
1992	12.4	14.8	83.8%	19.2%	4.2%
1993	11.2	15.1	74.2%	-9.7%	2.0%
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%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the jump in the base level of the poverty rate in Rhode Island between the 1980s and the 1990s. 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 1990 to 2004 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

### Rhode Island Non-farm Employment by Industry, 1990 – 2004

Year	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
	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
1990	18,700	-	95,100	-	77,500	-	79,500	-	66,200	-	51,900	-	62,500	-	451,200	-
1991	13,700	-26.7%	87,500	-8.0%	71,000	-8.4%	73,100	-8.1%	66,800	0.9%	48,600	-6.4%	60,900	-2.6%	421,500	-6.6%
1992	12,500	-8.8%	84,800	-3.1%	71,100	0.1%	72,300	-1.1%	72,100	7.9%	50,900	4.7%	61,200	0.5%	424,800	0.8%
1993	12,800	2.4%	83,600	-1.4%	71,200	0.1%	74,700	3.3%	74,200	2.9%	52,100	2.4%	61,400	0.3%	430,000	1.2%
1994	13,300	3.9%	82,600	-1.2%	72,400	1.7%	76,200	2.0%	75,000	1.1%	53,100	1.9%	61,700	0.5%	434,200	1.0%
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%

R.I. Department of Labor and Training. Labor Market Information

As is evident from the table, between 1990 and 1991, total nonfarm employment in Rhode Island declined 6.6 percent. During this time all sectors experienced declines, with the exception of Educational and Health Services, which increased by 0.9 percent. These decreases in employment were the result of the recession that gripped the State and the nation during this time. The economic recovery took hold in Rhode Island in 1992 with nonfarm employment growing by 0.8 percent. This growth in total employment was followed by strong gains in 1993, 1994 and 1995 of 1.2 percent, 1.0 percent and 1.4 percent respectively. Employment growth slowed again 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 and 2004 Rhode Island employment growth moved sharply upward to a rate of 1.0 percent and 0.8 percent respectively reflecting the strengthening national economy.

**Non-farm Employment by Industry.** The table below summarizes the changes in Rhode Island employment by sector from 1994 to 2004. Total nonfarm employment increased by 12.5 percent during this period, but the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 31.1 percent during this time period while average employment growth for all other sectors excluding government was 21.4 percent. The biggest gaining sector during this period was Construction, Natural Resources and Mining, which grew by 57.9 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1994 to 2004 period, transforming from a manufacturing based economy to service based economy.

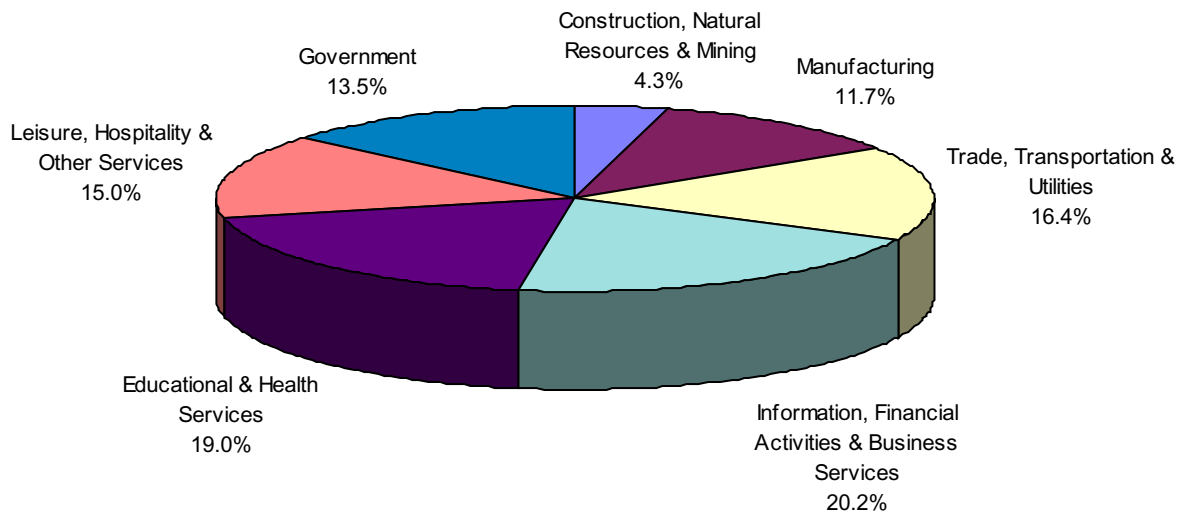
### Rhode Island Non-Farm Employment by Industry, 1994 & 2004

Employment Sector	1994	% of Total	2004	% of Total	% Change 1994-2004
Construction, Natural Resources & Mining	13,300	3.1%	21,000	4.3%	57.9%
Manufacturing	82,600	19.0%	56,900	11.7%	-31.1%
Trade, Transportation & Utilities	72,400	16.7%	80,000	16.4%	10.5%
Information, Financial Activities & Business Services	76,200	17.5%	98,700	20.2%	29.5%
Educational & Health Services	75,000	17.3%	92,900	19.0%	23.9%
Leisure, Hospitality & Other Services	53,100	12.2%	73,100	15.0%	37.7%
Government	61,700	14.2%	65,800	13.5%	6.6%
<b>Total Employment</b>	<b>434,200</b>	<b>100.0%</b>	<b>488,400</b>	<b>100.0%</b>	<b>12.5%</b>

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 Information, Financial Activities and Business Services sector, with 20.2 percent of the nonfarm work force in 2004, is the largest employment sector in the Rhode Island economy, followed by Educational and Health Services (19.0 percent), Trade, Transportation and Utilities (16.4 percent), and Leisure, Hospitality and Other Services employment (15.0 percent).

### Rhode Island Nonfarm Employment by Industry, 2004



**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 1990 and 2004, falling by 40.2 percent over this period. The rate of decline in manufacturing employment began to slow with the end of the recession and the beginning of recovery in 1992. For example, in 1991 manufacturing employment fell 8.0 percent and another 3.1 percent in 1992. By 2000, this rate of decline had slowed to 1.4 percent before ticking back up to 4.8 percent in 2001. The rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 5.8 percent in 2003 and 3.1 percent in 2004.

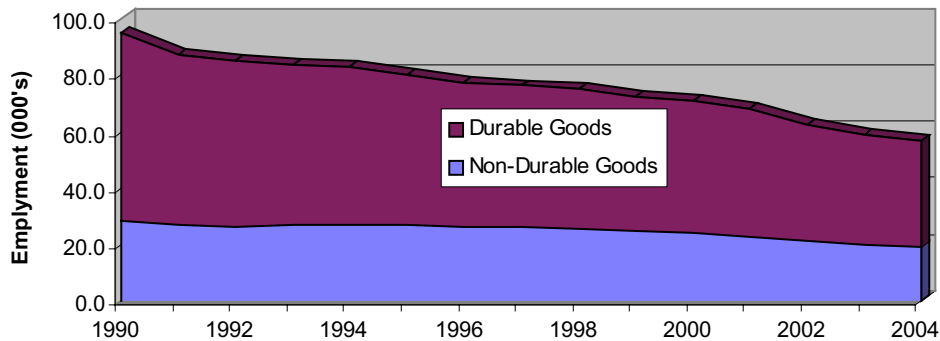
**Manufacturing Establishment Employment in Rhode Island, 1990 - 2004**  
(In Thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Non-Durable Goods</b>	28.6	27.1	26.6	26.9	26.9	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5
Percentage Change	-	-5.2%	-1.8%	1.1%	0.0%	-0.7%	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%
<b>Durable Goods</b>	66.6	60.4	58.2	56.7	55.7	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.4
Percentage Change	-	-9.3%	-3.6%	-2.6%	-1.8%	-3.6%	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.9%
<b>Total Manufacturing Employment</b>	95.1	87.5	84.8	83.6	82.6	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	56.9
Percentage Change	-	-8.0%	-3.1%	-1.4%	-1.2%	-2.8%	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-3.1%

R.I. Department of Labor and Training. Labor Market Information

Employment in the manufacture of non-durable goods, which had declined or remained even in every year since 1990, grew in 1993 and 1997 (at rates of 1.1 percent and 0.4 percent, respectively). 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.)

**Manufacturing Establishment Employment in Rhode Island, 1990 - 2004**



**Largest Employers in Rhode Island.** The following table lists, in descending order by employment, the largest employers in Rhode Island for 2004. Together, the top 100 employers employ 145,297 or over 29 percent of the total nonfarm wage and salary employment in Rhode Island.

<b>Rhode Island's Largest Employers</b>		
<b>Employed</b>	<b>Employer</b>	<b>Primary Business Activity</b>
15,259	State of Rhode Island	Government
11,110	Lifespan	Hospital
10,400	U.S. Government (excluding military)	Government
5,858	Care New England	Hospital
5,630	Diocese of Providence	Catholic Church
5,183	CVS Corporation	Pharmacies
4,984	Royal Bank of Scotland	Bank
4,555	Stop & Shop Supermarket Co. (Royal Ahold)	Grocery Stores
4,450	Brown University	University
3,636	Bank of America/Fleet	Bank
2,383	RIARC	Association for Retarded Citizens
2,260	Shaw's Super Market (J. Sainsbury plc)	Grocery Stores
2,150	Metropolitan Life Insurance Co.	Insurance
2,075	General Dynamics Corp.	Ship & Boat Building Mfg.
1,926	St. Joseph Health Services of Rhode Island	Hospital
1,875	WAL-Mart	Retail
1,840	The Jan Companies	Eating Places
1,749	Raytheon Company	Nautical Systems & Equipment Mfg.
1,685	McDonald's	Eating Places
1,653	Memorial Hospital of Rhode Island	Hospital
1,600	Fidelity Investments	Investment Services
1,581	Amica Mutual Insurance Co.	Insurance
1,435	Verizon	Communications
1,340	Roger Williams Medical Center	Hospital
1,300	American Power Conversion	Uninterruptible Power Supplies & Access.
1,300	Amgen	Biotechnology
1,270	Johnson & Wales University	University
1,250	Sovereign BankCorp	Bank
1,250	The Home Depot	Building Supplies
1,250	Brooks Pharmacy	Pharmacies
1,235	Cox Communications	Communications
1,198	Blue Cross & Blue Shield	Medical Insurance
1,180	Leviton Manufacturing Co., Inc.	Household Wiring Devices & Switches
1,175	Landmark Health System	Hospital
1,125	A.H. Belo Company	Publishing
1,120	GTECH Corporation	Lottery Systems
1,050	South County Hospital	Hospital
1,050	Securitas, AB	Security Services
1,025	Hasbro, Inc.	Toy Manufacturing
1,000	United Parcel Service	Package Delivery
946	Veterans' Administration Medical Center	Hospital
910	Chelo's	Eating Places
900	Rhode Island School of Design	College
873	RI Public Transit Authority	Public Transport Authority
865	Stanley Bostitch	Building Products
856	Gilbane Building Company	Construction
840	Homefront Health Care	Health Care
810	The May Department Stores	Department Stores
800	US Security Associates, Inc.	Security Services
797	Laidlaw Transit, Inc.	Transportation

R.I. Economic Development Corporation, Research Division.

Note: As of 2004, the Largest Employers list no longer includes Municipal Employment.



**Unemployment.** From 1988 to 1989, the Rhode Island unemployment rate was lower than the national unemployment rate. With the onset of recession in 1990, this pattern was reversed and remained that way 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 where it remained for 2003 and 2004. 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 1988 and 2004.

**Annual Average Civilian Labor Force and Unemployment, 1988 – 2004**  
(In Thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a % of U.S.
	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	R.I.	N.E.	U.S.	
<b>1988</b>	525	6,914	121,669	16	216	6,701	3.1%	3.1%	5.5%	56.4%
<b>1989</b>	525	6,998	123,869	21	269	6,528	4.1%	3.8%	5.3%	77.4%
<b>1990(c)</b>	520	7,153	125,840	35	409	7,047	6.8%	5.7%	5.6%	121.4%
<b>1991(c)</b>	518	7,104	126,346	45	570	8,628	8.6%	8.0%	6.8%	126.5%
<b>1992(c)</b>	531	7,091	128,105	48	571	9,613	9.0%	8.1%	7.5%	120.0%
<b>1993(c)</b>	525	7,074	129,200	41	482	8,940	7.8%	6.8%	6.9%	113.0%
<b>1994(c)</b>	515	7,020	131,056	36	415	7,996	7.1%	5.9%	6.1%	116.4%
<b>1995(c)</b>	506	7,040	132,304	35	378	7,404	7.0%	5.4%	5.6%	125.0%
<b>1996(c)</b>	518	7,108	133,943	27	341	7,236	5.1%	4.8%	5.4%	94.4%
<b>1997(c)</b>	532	7,248	136,297	28	320	6,739	5.3%	4.4%	4.9%	108.2%
<b>1998(c)</b>	531	7,256	137,673	26	255	6,210	4.9%	3.5%	4.5%	108.9%
<b>1999(c)</b>	542	7,329	139,368	22	241	5,880	4.1%	3.3%	4.2%	97.6%
<b>2000(b)</b>	543	7,355	142,583	22	203	5,692	4.1%	2.8%	4.0%	102.5%
<b>2001(b)</b>	546	7,420	143,734	26	272	6,801	4.7%	3.7%	4.7%	100.0%
<b>2002(b)</b>	553	7,548	144,863	28	366	8,378	5.1%	4.8%	5.8%	87.9%
<b>2003(b)</b>	573	7,554	146,510	30	409	8,774	5.3%	5.4%	6.0%	88.3%
<b>2004(p)</b>	567	7,543	147,401	30	356	8,149	5.2%	4.7%	5.5%	94.5%

U.S. Department of Labor. Bureau of Labor Statistics

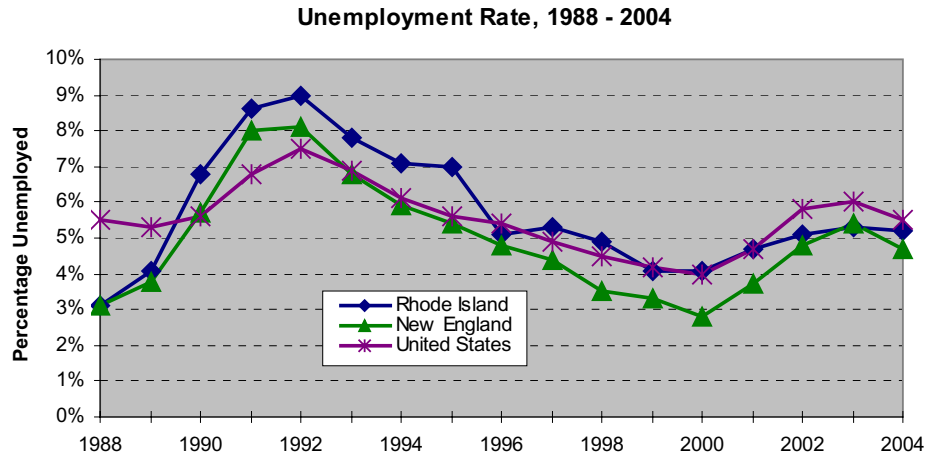
(b) Benchmarked ( R.I. & N.E. only )

(c) Adjusted to incorporate revised intercensal population controls for the 1990s ( R.I. & N.E. only )

(p) preliminary

Note: The U.S. figures are provisional from 2000 to 2004 due to changes in population controls.

The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1988-2004 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

In 1998 and 1999, growth in United States Gross State Product (GSP) was greater than GSP growth in Rhode Island and New England. For 2000 – 2003, Rhode Island GSP growth exceeded that of the United States. During the 2001 – 2003 period, Rhode Island GSP growth exceeded that of New England as well. The table below gives the Gross State Product and the annual growth rates for Rhode Island, New England, and the United States over the 1998 – 2003 period.

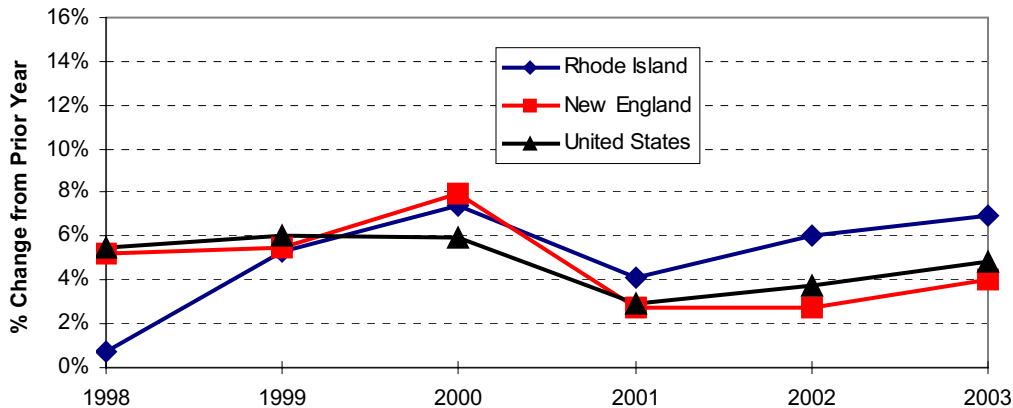
**Gross State Product, 1998 – 2003**  
(Millions of Current Dollars)

Year	Rhode Island		New England		United States	
	GSP	Change	GSP	Change	GSP	Change
1998	29,620	2.3%	495,753	5.0%	8,679,658	6.2%
1999	31,203	5.3%	523,099	5.5%	9,201,138	6.0%
2000	33,504	7.4%	564,534	7.9%	9,749,105	6.0%
2001	34,888	4.1%	579,858	2.7%	10,031,393	2.9%
2002	36,988	6.0%	595,910	2.8%	10,407,141	3.7%
2003	39,569	7.0%	619,967	4.0%	10,911,103	4.8%

U.S. Department of Commerce. Bureau of Economic Analysis

The graph below plots the percentage change in GSP for Rhode Island, New England, and the United States over the 1998-2003 period. Rhode Island Gross State Product surpassed that of the United States in 2000 and New England in 2001. In 2002 and 2003, Rhode Island's GSP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GSP 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.

**Percentage Change in Gross State Product 1998 - 2003**



**Economic Base and Performance -- Sector Detail.** The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island real Gross State Product (GSP) of several industrial and non-industrial sectors.

**Gross State Product by Industry in Rhode Island, 1998 – 2002**  
(Millions of Dollars)

Industrial Sector	1998	1999	2000	2001	2002	Growth
Finance, Insurance, and Real Estate	7,187	7,677	8,591	9,180	9,828	36.75%
Retail and Wholesale Trade	3,352	3,605	3,865	3,967	4,484	33.77%
Government	3,644	3,823	4,143	4,280	4,470	22.67%
Education and Health Services	3,353	3,449	3,548	3,768	4,150	23.77%
Manufacturing, Agriculture, and Mining	3,982	3,899	4,093	4,023	3,956	-0.65%
Other Services	3,430	3,615	3,800	4,003	4,187	22.07%
Construction	1,503	1,761	1,808	1,935	2,047	36.19%
Leisure and Hospitality	990	1,105	1,220	1,287	1,356	36.97%
Information	1,036	1,069	1,098	1,242	1,301	25.58%
Transportation and Utilities	1,142	1,198	1,340	1,202	1,208	5.78%
<b>Total GSP</b>	<b>29,619</b>	<b>31,201</b>	<b>33,506</b>	<b>34,887</b>	<b>36,987</b>	<b>24.88%</b>

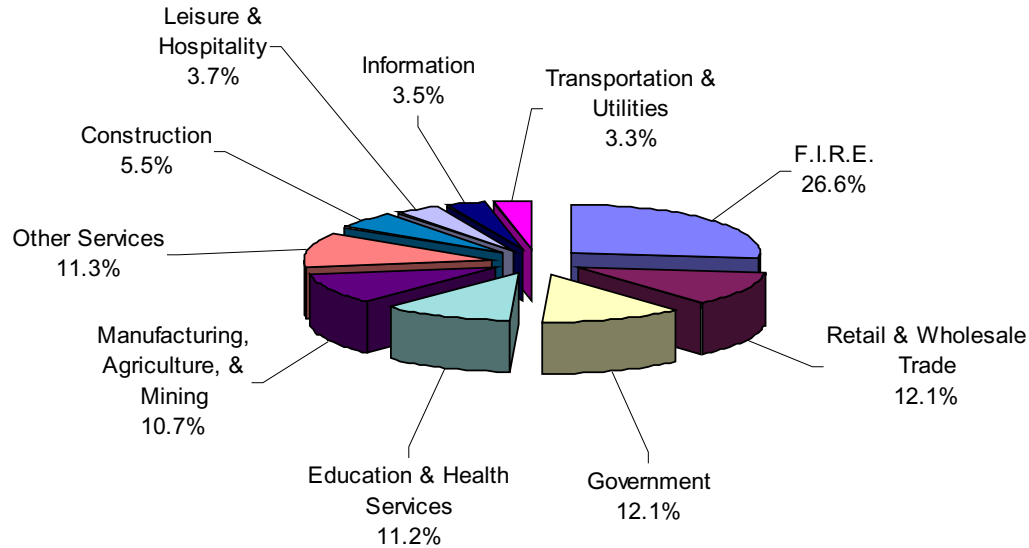
Bureau of Economic Analysis, U.S. Department of Commerce

As is apparent from the table, Rhode Island has experienced strong growth in all sectors except Manufacturing, Agriculture, and Mining and Transportation and Utilities. All but these two exceptions grew by over 20.0 percent from 1998 to 2002. The Finance, Insurance and Real Estate (FIRE) sector, Construction, and Leisure and Hospitality sectors grew the most markedly, all at over 36.0 percent during the 1998 – 2003 period. During this same period, the Manufacturing, Agriculture, and Mining sector has stagnated and Transportation and Utilities reached only 5.8% growth.

## Gross State Product by Industry in Rhode Island

The pie chart below shows the share of total Gross State Product in 2002 attributable to each of the industry sectors noted above.

### Gross State Product by Industry in Rhode Island 2002



**Finance, Insurance and Real Estate.** This is the largest sector in the economy of Rhode Island in terms of number of dollars. FIRE's contribution to total GSP has grown from 24.3 percent of GSP in 1998 to 26.6 percent of GSP in 2002. In 2002, F.I.R.E. accounted for \$9.8 billion of total gross state product of \$37.0 billion. For the period 1998 – 2002 this sector expanded by a respectable 36.8 percent.

**Retail and Wholesale Trade.** Wholesale and retail trade, in 2002, was the second largest sector in Rhode Island at \$4.5 billion, or 12.1 percent of the total Gross State Product. This sector increased by 33.8 percent from the 1998 level as well as increasing in percent contribution to GSP. In 1998, Retail and Wholesale Trade comprised a slightly smaller piece of GSP at 11.3 percent of total.

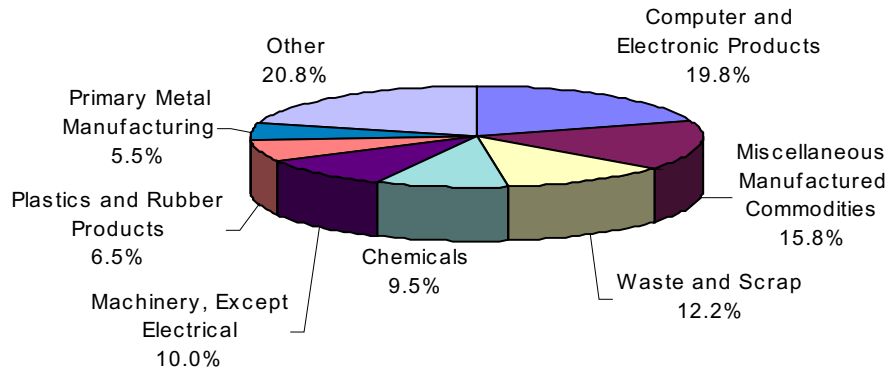
**Government.** At 12.1 percent of GSP in 2002, the Government sector has grown slowly and steadily since 1998. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes less as a percentage of GSP in 2002 than it did in 1998. In 1998, the Government sector accounted for 12.3 percent of GSP. The growth rate in 1999 was 4.9 percent, in 2000 it was 8.4 percent, in 2001 it was 3.3 percent, and in 2002 it was 4.4 percent. In 2002 Government sector contributed \$4.5 billion to total gross state product.

**Other Services.** Other Services consists of professional and technical services, management services, administrative and waste services, as well as other non-government services. Since 1998, Other Services have remained an integral sector accounting for 11.3 percent of Rhode Island's GSP in 2002. From 1998 to 2002, Other Services have grown by 22.1 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 2002 was \$1.1 billion. This represented 3.0 percent of

#### Composition of Rhode Island Exports by Industry Group 2004



Rhode Island Gross State Product of \$37.0 billion. In 2004, Rhode Island's exports increased to \$1.3 billion.

The most important exports, as shown in the pie chart above, were computer and electronic products (19.8 percent), miscellaneous manufactured commodities (15.8 percent), waste and scrap (12.2 percent), machinery, except electrical (10.0 percent) and chemicals (9.5 percent).

The table below provides greater detail of Rhode Island exports by industry for the 2001-2004 period.

**Rhode Island Exports by Industry, 2001 – 2004**  
(in thousands)

	2001	2002	2003	2004
<b>Total All Industries</b>	\$ 1,268,612	\$ 1,121,005	\$ 1,177,475	\$1,286,324
Computer and Electronic Products	264,960	205,962	258,505	254,324
Miscellaneous Manufactured Commodities	163,733	141,823	153,774	203,171
Waste and Scrap	141,148	144,788	127,122	157,435
Chemicals	88,708	126,029	123,247	122,716
Machinery, Except Electrical	236,207	107,672	122,495	128,390
Plastics and Rubber Products	61,175	75,055	90,561	83,045
Primary Metal Manufacturing	82,420	89,841	61,791	70,252
Electrical Equipment, Appliances and Component	38,075	40,686	56,904	51,387
Fabricated Metal Products, NESOI	34,050	34,200	40,391	52,316
Textiles and Fabrics	27,495	31,929	32,108	31,162
Paper	24,950	23,090	20,130	17,243
Fish - Fresh, Chilled or Frozen & Other Marine Products	13,236	16,772	18,349	17,653
Transportation Equipment	25,791	20,624	18,073	30,687
Nonmetallic Mineral Products	21,334	13,997	11,102	10,567
Textile Mill Products	8,405	7,451	10,151	9,019
Special Classification Provisions, NESOI	9,738	9,129	6,938	7,619
Printing, Publishing and Similar Products	5,661	6,965	5,073	8,159
Food and Kindred Products	4,285	8,831	4,892	11,096
Furniture and Fixtures	3,124	3,217	4,368	7,254
Apparel and Accessories	3,062	2,819	2,214	3,005
Leather and Allied Products	2,368	2,624	2,115	2,060
Goods Returned to Canada (Exports Only); U.S. Goods	3,732	2,397	2,017	1,416
Petroleum and Coal Products	228	466	1,180	1,264
Wood Products	1,171	716	1,108	863
Minerals and Ores	271	356	1,024	1,235
Forestry Products, NESOI	607	973	670	1,035
Used or Second-Hand Merchandise	1,270	1,706	631	1,312
Agricultural Products	558	805	406	304
Livestock and Livestock Products	552	82	94	170
Prepackaged Software	0	0	36	165
Beverages and Tobacco Products	298	0	6	-

(WISER) - World Institute for Strategic Economic Research  
U.S. Census Bureau, Foreign Trade Division

## Retail Sales

According to the Economy.com, nominal retail sales for Rhode Island, New England, and the United States have increased each year. The table below shows the annual retail sales activity from 1985 – 2004. Note that Rhode Island's retail sales were stronger than those of New England and the United States in 2002 and 2003 although preliminary numbers reflect lower growth in 2004.

### Retail Sales, 1984 – 2004 (Millions of Current Dollars, SAAR)

Year	Rhode Island		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1990	6,224	6.4%	107,391	1.4%	1,947,515	5.2%
1991	6,279	0.9%	108,970	1.5%	1,978,481	1.6%
1992	6,502	3.6%	111,407	2.2%	2,047,868	3.5%
1993	6,933	6.6%	113,723	2.1%	2,192,068	7.0%
1994	7,651	10.4%	128,722	13.2%	2,380,000	8.6%
1995	7,911	3.4%	135,229	5.1%	2,504,900	5.2%
1996	8,122	2.7%	144,281	6.7%	2,648,700	5.7%
1997	8,660	6.6%	151,670	5.1%	2,781,000	5.0%
1998	9,066	4.7%	159,756	5.3%	2,917,900	4.9%
1999	9,943	9.7%	173,524	8.6%	3,162,400	8.4%
2000	11,245	13.1%	190,661	9.9%	3,372,400	6.6%
2001	10,802	-3.9%	188,613	-1.1%	3,475,900	3.1%
2002	11,548	6.9%	194,381	3.1%	3,564,400	2.5%
2003	13,391	16.0%	212,861	9.5%	3,754,800	5.3%
2004(p)	14,302	6.8%	229,174	7.7%	4,029,500	7.3%

Economy.com estimates including Food Services. Estimates based on U.S. Census Bureau Data.

(p)=preliminary

## Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. From 1988 to 1991 the number of housing permits authorized in Rhode Island declined by 55.3 percent. In 2004, the number of housing permits authorized increased by 3.8 percent in Rhode Island, compared to an increase of 16.7 percent for New England and an increase of 5.6 percent for the United States.

### Housing Permits Authorized, 1988 - 2004 (Seasonally Adjusted)

Year	Rhode Island		New England		United States	
	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1988	5,717	-13.5%	82,768	-18.5%	1,453,000	-5.7%
1989	4,205	-26.4%	54,129	-34.6%	1,351,000	-7.0%
1990	3,177	-24.4%	38,148	-29.5%	1,124,000	-16.8%
1991	2,557	-19.5%	30,396	-20.3%	946,000	-15.8%
1992	2,644	3.4%	37,000	21.7%	1,099,000	16.2%
1993	2,618	-1.0%	39,765	7.5%	1,208,000	9.9%
1994	2,516	-3.9%	39,976	0.5%	1,367,000	13.2%
1995	2,287	-9.1%	37,356	-6.6%	1,337,000	-2.2%
1996	2,363	3.3%	39,984	7.0%	1,420,000	6.2%
1997	2,725	15.3%	42,308	5.8%	1,442,000	1.5%
1998	2,657	-2.5%	47,847	13.1%	1,619,000	12.3%
1999	3,237	21.8%	47,346	-1.0%	1,662,000	2.7%
2000	2,663	-17.7%	43,730	-7.6%	1,600,000	-3.7%
2001	2,412	-9.4%	42,875	-2.0%	1,639,000	2.4%
2002	2,579	6.9%	47,307	10.3%	1,750,000	6.8%
2003	2,456	-4.8%	48,503	2.5%	1,890,000	8.0%
2004	2,549	3.8%	56,583	16.7%	1,996,000	5.6%

U.S. Department of Commerce. Construction Statistics Division  
Federal Reserve Bank of Boston

Perhaps the strongest sector of the state's economy has been housing. Significant declines in existing home sales in Rhode Island in 1990 and 1991 (of -13.4 percent and -5.2 percent, respectively) were followed by rapid sales growth for 1992 and 1993, when existing home sales in Rhode Island increased at yearly rates higher than the national average. The current boom in housing in Rhode Island commenced in 1996 and was sustained up to 2000. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 8.2 percent. In 1998 alone, they shot up 19.5 percent. Following this period of rapid growth, existing home sales moderated decreasing by 5.8 percent in 2000, increasing 2.6 percent in 2001 before recording another decrease of 1.5 percent in 2002. In 2002, existing home sales again resumed their upward trend growing by 2.5 percent in 2003 and 8.4 percent in 2004.



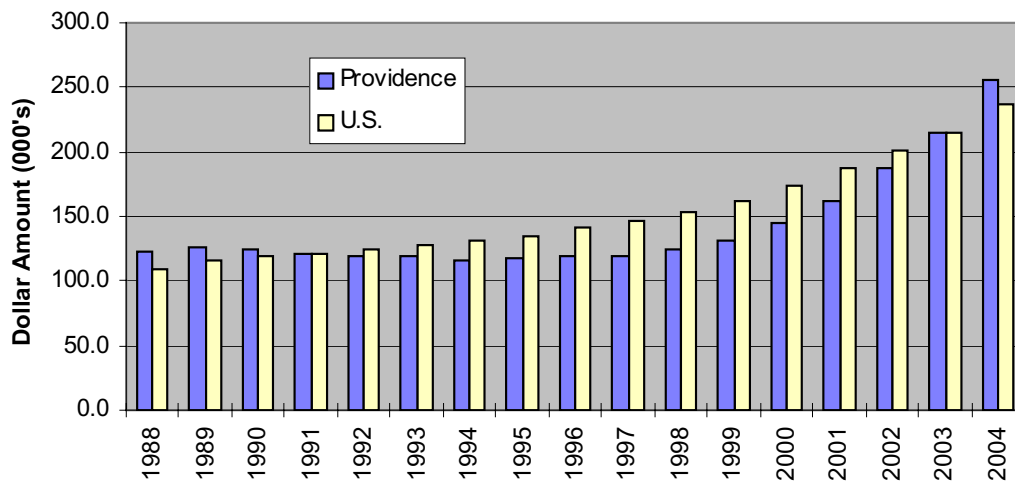
**Existing Home Sales, 1988 - 2004**  
(In Thousands, SAAR)

Year	Rhode Island		New England		United States	
	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1988	11.0	4.8%	178.5	2.3%	3,882.5	3.1%
1989	11.2	1.8%	163.0	-8.7%	3,672.0	-5.4%
1990	9.7	-13.4%	134.0	-17.8%	3,603.5	-1.9%
1991	9.2	-5.2%	140.5	4.9%	3,533.3	-1.9%
1992	11.9	29.3%	170.6	21.4%	3,889.5	10.1%
1993	13.0	9.2%	193.8	13.6%	4,220.3	8.5%
1994	13.1	0.8%	200.3	3.4%	4,409.8	4.5%
1995	13.5	3.1%	185.7	-7.3%	4,342.3	-1.5%
1996	14.7	8.9%	200.7	8.1%	4,705.3	8.4%
1997	15.9	8.2%	219.4	9.3%	4,908.8	4.3%
1998	19.0	19.5%	248.3	13.2%	5,585.3	13.8%
1999	20.7	8.9%	253.3	2.0%	5,922.8	6.0%
2000	19.5	-5.8%	242.0	-4.5%	5,831.8	-1.5%
2001	20.0	2.6%	239.6	-1.0%	6,026.3	3.3%
2002	19.7	-1.5%	244.5	2.0%	6,421.3	6.6%
2003	20.2	2.5%	275.6	12.7%	6,994.8	8.9%
2004	21.9	8.4%	269.9	-2.1%	7,593.8	8.6%

National Association of Realtors  
Federal Reserve Bank of Boston

On a seasonally adjusted annual rate basis, existing home sales for Rhode Island, New England, and the United States appear in the table above. Note that Rhode Island's housing market has tended to move in-step with the New England housing market, at least until recently. In 2001 and 2002, Rhode Island's housing market moved inversely with that of New England. In 2003, it fell in line once more with the New England housing market but at a less robust level, inverting again in 2004.

**Average Annual Home Prices, 1988 - 2004**



Fannie Mae and Freddie Mac; Federal Reserve Bank of Boston

Single-family home prices for the Providence Metropolitan area (not seasonally adjusted) appear in the above chart. While Providence housing prices were 112.1 percent of the US average in 1988, by 1999 they had fallen to 80.7 percent of the U.S. average. Since 1999, the Providence Metropolitan area home prices

have climbed relative to the U.S. average, attaining parity in 2003 and rising to 107.9 percent of the U.S. average in 2004.

### **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 \$489 million, up 34.0 percent from the previous year. 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 2004. Since 1990, Rhode Island’s share of New England contract awards has decreased from 3.9 percent to 2.8 percent of such awards in 2003.

**Department of Defense Contract Awards, 1990 – 2003**  
(In Millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
<b>1990</b>	554	14,271	121,254	3.9%	0.5%
<b>1991</b>	413	13,889	124,119	3.0%	0.3%
<b>1992</b>	455	11,033	112,285	4.1%	0.4%
<b>1993</b>	390	10,789	114,145	3.6%	0.3%
<b>1994</b>	422	9,329	110,316	4.5%	0.4%
<b>1995</b>	388	9,374	109,004	4.1%	0.4%
<b>1996</b>	334	9,237	109,408	3.6%	0.3%
<b>1997</b>	275	9,152	106,561	3.0%	0.3%
<b>1998</b>	217	9,284	109,386	2.3%	0.2%
<b>1999</b>	312	9,456	114,875	3.3%	0.3%
<b>2000</b>	418	8,745	123,295	4.8%	0.3%
<b>2001</b>	283	11,094	135,225	2.6%	0.2%
<b>2002</b>	365	13,029	158,737	2.8%	0.2%
<b>2003</b>	489	17,544	191,222	2.8%	0.3%

Department of Defense

### **Travel and Tourism**

According to the May 2004 Rhode Island Travel and Tourism Research Report from the University of Rhode Island and the Rhode Island Economic Development Corporation, travel and tourism revenue broke the four billion-dollar mark, at \$4.6 billion in 2003. This generated 57,800 jobs (9.8 percent of the State total) and \$1.1 billion in employee compensation (4.7 percent of the State total).

In 2003 an estimated 16 million travelers visited Rhode Island for business, conventions or leisure. Of these, 10.6 million spent the day in the State. Of these 10.6 million visitors, 5.4 million stayed overnight. An additional 23 million travelers “passed through” the state en route to other destinations.

The highest daily expenditures in 2003 were by overnight convention visitors (\$226.61 per day), overnight business visitors (\$224.55 per day), and leisure visitors who stayed in hotels and motels (\$153.52).

Visitor indicators for 2003 were down, with one exception. The Newport Bridge Traffic was up 1.8 percent. Lodgings Tax revenues decreased by 2.8 percent. Visits to the Preservation Society of Newport County were down 8.5 percent, commercial air passengers arriving and departing through T.F. Green Airport were down 4.0 percent and the I-95 Welcome Center Visitors declined by 8.5 percent.

Sales revenues in the travel and tourism industry increased by 2.0 percent in 2003. The transportation sector had the largest percentage increase in 2003 with a 3.6 percent increase in sales revenues. The retail trade sector receipts increased by 1.9 percent and the services sector receipts increased by 1.0 percent. The equivalent number of firms in the tourism industry grew by 0.6 percent in 2003, while wages increased by 1.7 percent and the number of employees increased by 0.2 percent.

## 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 1989. The ratio of Rhode Island spending to the national average has varied from 120.6 percent in 1990–1991 to a high of 130.5 percent in 1999–2000. For the 2001–2002 academic year Rhode Island spent 27.7 percent more on public elementary and secondary education than the United States average: \$10,552 per student compared to a national average of \$8,261

per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1989-90 academic year.

**Per Pupil Expenditure in Public Elementary and Secondary Schools**  
**Academic Years 1989-90 – 2001-02**  
 (Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
<b>1989-90</b>	6,368	4,980	127.9%
<b>1990-91</b>	6,343	5,258	120.6%
<b>1991-92</b>	6,546	5,421	120.8%
<b>1992-93</b>	6,938	5,584	124.2%
<b>1993-94</b>	7,333	5,767	127.2%
<b>1994-95</b>	7,715	5,989	128.8%
<b>1995-96</b>	7,936	6,147	129.1%
<b>1996-97</b>	8,307	6,393	129.9%
<b>1997-98</b>	8,627	6,676	129.2%
<b>1998-99</b>	9,049	7,013	129.0%
<b>1999-00</b>	9,646	7,394	130.5%
<b>2000-01</b>	10,116	7,904	128.0%
<b>2001-02</b>	10,552	8,261	127.7%

U.S. Department of Education, National Center for Education Statistics

For the 2001-02 academic year, Rhode Island per pupil expenditures was the sixth 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 2001-02**  
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	14,557	26	Hawaii	7,919
2	New York	12,343	27	Georgia	7,870
3	New Jersey	12,197	28	Montana	7,861
4	Connecticut	11,022	29	Iowa	7,714
5	Massachusetts	10,808	30	Missouri	7,699
<b>6</b>	<b>Rhode Island</b>	<b>10,552</b>	31	Washington	7,626
7	Alaska	10,419	32	South Carolina	7,549
8	Vermont	10,229	33	Kentucky	7,536
9	Delaware	9,959	34	California	7,439
10	Maine	9,517	35	Texas	7,302
11	Michigan	9,428	36	Colorado	7,284
12	Wyoming	9,321	37	North Dakota	7,112
13	Maryland	9,266	38	Louisiana	7,061
14	Wisconsin	9,237	39	North Carolina	6,976
15	Pennsylvania	9,196	40	South Dakota	6,890
16	Illinois	8,967	41	New Mexico	6,886
17	Ohio	8,928	42	Florida	6,679
18	Oregon	8,725	43	Arkansas	6,676
19	West Virginia	8,451	44	Oklahoma	6,672
20	Kansas	8,342	45	Arizona	6,594
21	Indiana	8,268	46	Tennessee	6,489
22	Nebraska	8,238	47	Nevada	6,477
23	New Hampshire	8,230	48	Idaho	6,391
24	Minnesota	8,050	49	Alabama	6,327
25	Virginia	7,928	50	Mississippi	5,719
			51	Utah	5,294

U.S. Department of Education, National Center for Education Statistics

According to the June 2003 report by the Rhode Island Office of Higher Education, in fall 2002, the total enrollment in Rhode Island institutions of higher education was 77,417 students, up from the 77,008 students reported in fall 2001. Enrollment decreased 0.7 percent in the public sector (-282 students) and increased in the independent sector (+691 students).

From July 1, 2003 to June 30, 2004, Rhode Island institutions of higher education conferred 16,778 degrees and certificates, an increase of 5.3 percent over the 15,937 awards of the previous year. In 2003-2004 public institutions of higher education conferred 5,567 or 33.2 percent of all awards, while independent institutions awarded 11,211 or 66.8 percent.

**APPENDIX B – Proposed Forms of Legal Opinions**

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## APPENDIX B-1- Proposed Form of Legal Opinion for the Series C Bonds

Date of Closing

State of Rhode Island and Providence Plantations  
State House  
Providence, Rhode Island

Re: \$87,095,000 State of Rhode Island and Providence Plantations  
General Obligation Bonds, Consolidated Capital Development  
Loan of 2005, Series C (the "Series C Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Series C Bonds, representing various loans authorized by various acts of the General Assembly of the State and consolidated for issuance pursuant to Section 35-8-21 of the General Laws of the State. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the General Treasurer including Approval of Governor and Acknowledgment of Approval by the Secretary of State adopted \_\_\_\_\_, 2005 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Series C Bonds are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Series C Bonds as the same shall come due.

2. The interest on the Series C Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series C Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Series C Bondholders. The scope of this paragraph of the opinion is limited to matters addressed above

and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Series C Bonds.

We call your attention to the fact that interest on the Series C Bonds may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Series C Bond proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Series C Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Series C Bonds to become includible in gross income.

3. The Series C Bonds are exempt from Rhode Island taxes, although the Series C Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Series C Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,



**APPENDIX B-2- Proposed Form of Legal Opinion for the Series D Bonds**

Date of Closing

State of Rhode Island and Providence Plantations  
State House  
Providence, Rhode Island

Re: \$56,315,000 State of Rhode Island and Providence Plantations  
General Obligation Bonds, Consolidated Capital Development  
Loan of 2005, Refunding Series D (the "Series D Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the State of Rhode Island and Providence Plantations (the "State") in connection with its issuance of the Series D Bonds, representing various loans authorized by various acts of the General Assembly of the State and consolidated for issuance pursuant to Section 35-8-21 of the General Laws of the State. In that capacity, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such records of the State, certificates of officials of the State and other documents and instruments, and have made such other investigation of facts and examination of Rhode Island and federal law, as we have deemed necessary or proper for the purpose of rendering this opinion. Capitalized terms used herein shall, unless otherwise specified, have the meanings set forth in the Certificate of Determination of the General Treasurer including Approval of Governor and Acknowledgment of Approval by the Secretary of State adopted \_\_\_\_\_, 2005 (the "Certificate of Determination").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are further of the opinion that, under existing law:

1. The Series D Bonds are valid and binding general obligations of the State and the full faith and credit of the State is pledged for the payment of the principal of and interest on the Series D Bonds as the same shall come due.

2. The interest on the Series D Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series D Bonds will, however, be included in the calculation of adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Series D Bondholders. The scope of this paragraph of the opinion is limited to matters addressed above

and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Series D Bonds.

We call your attention to the fact that interest on the Series D Bonds may become taxable retroactively to their date of issuance if the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the investment, expenditure and use of Series D Bond proceeds and certain other amounts and to payments to the United States, are not met. The State has covenanted to take all lawful action necessary under the Code to continue the exclusion of interest on the Series D Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Series D Bonds to become includible in gross income.

3. The Series D Bonds are exempt from Rhode Island taxes, although the Series D Bonds and the interest thereon may be included in the measure of Rhode Island estate and gift taxes and certain business and corporate taxes.

It is to be understood that the rights of the holders of the Series D Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

**APPENDIX C – Table of Loan Amortization Schedules**

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## Table of Loan Amortization Schedules

<u>Maturity</u>	State Capital Development Loan of 1989, <u>Series N</u>	State Capital Development Loan of 1990, <u>Series N</u>	State Capital Development Loan of 1994, <u>Series I</u>	State Capital Development Loan of 1996, <u>Series K</u>	State Capital Development Loan of 1998, <u>Series H</u>	State Capital Development Loan of 2000, <u>Series D</u>	State Capital Development Loan of 2002, <u>Series B</u>	State Capital Development Loan of 2004, <u>Series A</u>	<u>Total Issue</u>
February 15,									
2006	30,000	110,000	5,000	250,000	285,000	220,000	1,395,000	560,000	2,855,000
2007	30,000	115,000	5,000	265,000	300,000	230,000	1,460,000	585,000	2,990,000
2008	30,000	120,000	5,000	275,000	315,000	245,000	1,535,000	615,000	3,140,000
2009	35,000	125,000	5,000	290,000	330,000	255,000	1,610,000	650,000	3,300,000
2010	35,000	130,000	5,000	305,000	350,000	270,000	1,695,000	680,000	3,470,000
2011	40,000	140,000	5,000	320,000	365,000	280,000	1,780,000	715,000	3,645,000
2012	40,000	145,000	5,000	335,000	385,000	295,000	1,865,000	750,000	3,820,000
2013	40,000	155,000	5,000	350,000	400,000	310,000	1,960,000	785,000	4,005,000
2014	45,000	160,000	10,000	370,000	420,000	325,000	2,060,000	825,000	4,215,000
2015	45,000	170,000	10,000	390,000	445,000	345,000	2,160,000	870,000	4,435,000
2016	50,000	175,000	10,000	410,000	465,000	360,000	2,270,000	910,000	4,650,000
2017	50,000	185,000	10,000	430,000	490,000	380,000	2,380,000	955,000	4,880,000
2018	55,000	195,000	10,000	450,000	515,000	395,000	2,500,000	1,005,000	5,125,000
2019	55,000	205,000	10,000	470,000	540,000	415,000	2,625,000	1,055,000	5,375,000
2020	60,000	215,000	10,000	495,000	565,000	440,000	2,760,000	1,105,000	5,650,000
2021	60,000	225,000	10,000	520,000	595,000	460,000	2,895,000	1,165,000	5,930,000
2022	65,000	235,000	10,000	545,000	625,000	480,000	3,040,000	1,220,000	6,220,000
2023	65,000	250,000	10,000	575,000	655,000	505,000	3,190,000	1,280,000	6,530,000
2024	70,000	260,000	10,000	605,000	690,000	530,000	3,350,000	1,345,000	6,860,000
	<u>900,000</u>	<u>3,315,000</u>	<u>150,000</u>	<u>7,650,000</u>	<u>8,735,000</u>	<u>6,740,000</u>	<u>42,530,000</u>	<u>17,075,000</u>	<u>87,095,000</u>

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**APPENDIX D – Table of Refunded Bonds**

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SUMMARY OF BONDS REFUNDED

State of Rhode Island and Providence Plantations  
 Consolidated Capital Development Loan of 2005  
 Refunding Series D

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Consolidated Capital Development Loan of 1997, Series A					
SERIALS	08/01/2009	5.000%	4,310,000.00	08/01/2007	101.000
	08/01/2010	5.000%	<u>4,600,000.00</u>	08/01/2007	101.000
			8,910,000.00		
Consolidated Capital Development Loan of 1998, Series A					
SERIALS	09/01/2010	5.000%	2,425,000.00	09/01/2008	101.000
	09/01/2013	5.000%	2,790,000.00	09/01/2008	101.000
	09/01/2014	5.000%	2,930,000.00	09/01/2008	101.000
	09/01/2016	5.000%	<u>3,225,000.00</u>	09/01/2008	101.000
			11,370,000.00		
Consolidated Capital Development Loan of 1999, Series A					
SERIALS	09/01/2011	5.200%	2,965,000.00	09/01/2009	101.000
Consolidated Capital Development Loan of 2000, Series A					
SERIALS	07/15/2012	5.750%	3,050,000.00	07/15/2010	101.000
	07/15/2013	5.750%	<u>3,225,000.00</u>	07/15/2010	101.000
			6,275,000.00		
Consolidated Capital Development Loan of 2001, Refunding Series B					
SERIALS	06/01/2013	5.250%	3,600,000.00	06/01/2011	100.000
	06/01/2015	5.000%	3,800,000.00	06/01/2011	100.000
	06/01/2016	5.375%	6,400,000.00	06/01/2011	100.000
	06/01/2017	5.375%	7,700,000.00	06/01/2011	100.000
	06/01/2019	5.375%	<u>4,490,000.00</u>	06/01/2011	100.000
			25,990,000.00		
			55,510,000.00		

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**APPENDIX E – Specimen Municipal Bond Insurance Policy**

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# APPENDIX E



**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No.: -N

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security") for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



