NEW ISSUE/BOOK-ENTRY-ONLY

Ratings: Moody's: Aa3
Standard & Poor's: AA
Fitch: AA
See "RATINGS" herein

In the opinion of Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the State described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that interest on the Bonds is exempt from Rhode Island (the "State") personal income taxes; although the income therefrom may be included in the measure of State estate taxes and certain State corporate and business taxes. See "TAX STATUS" and "APPENDIX B -Proposed Form of Legal Opinion" herein.

$78,960,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2010, Refunding Series A

Dated: Date of Delivery **Due:** October 1, as shown below

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 The Bank of New York Mellon Trust Company, N.A., as Paying Agent. Interest on the Bonds is payable on October 1 and April 1, commencing October 1, 2010. 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 more fully described herein.

Maturity Schedule
Maturities, Amounts, Interest Rates, Yields and CUSIPs

Maturity	Amount	Interest Rate	Yield	CUSIP†
2011	$ 1,650,000	2.50%	0.720%	76222RGK2
2012	14,160,000	5.00	1.210	76222RGL0
2013	8,115,000	2.50	1.580	76222RGM8
2014	15,645,000	5.00	2.010	76222RGN6
2015	3,960,000	3.00	2.340	76222RGP1
2016	4,035,000	4.00	2.790	76222RGQ9
2017	140,000	3.00	3.100	76222RGU0
2018	9,955,000	4.00	3.340	76222RGR7
2019	10,375,000	5.00	3.540	76222RGS5
2020	3,950,000	3.50	3.690	76222RGT3
2020	6,975,000	5.00	3.690	76222RGV8

The Bonds are offered when, as and if issued by the State and delivered to the Underwriters, subject to the approval of legality by Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Adler Pollock & Sheehan P.C., Providence, Rhode Island. Certain matters will be passed upon for the Underwriters by their counsel, Moses & Afonso, Ltd., Providence, Rhode Island. Delivery of the Bonds to DTC is expected in New York, New York on or about April 28, 2010.

BofA Merrill Lynch **Janney Montgomery Scott**

Morgan Stanley **JPMorgan**
Oppenheimer & Co. Inc. **Ramirez & Co., Inc** **Roosevelt & Cross, Inc.**

April 7, 2010

† See inside cover

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.

FirstSouthwest, 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.

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. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The State does not plan to issue any updates or revisions to those forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

†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.

Table of Contents

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

CONSTITUTIONAL OFFICERS

Governor... ....Donald L. Carcieri
Lieutenant Governor.............................. ....Elizabeth H. Roberts
General Treasurer................................. ....Frank T. Caprio
Attorney General.................................. ....Patrick C. Lynch
Secretary of State .... A. Ralph Mollis

APPOINTED OFFICIALS

Director of Administration ....Rosemary Booth Gallogly
Budget Officer...................................... .... Thomas A. Mullaney
State Controller ....Marc A. Leonetti
Acting Auditor General......................... ....Dennis E. Hoyle

BOND COUNSEL

Hinckley, Allen & Snyder LLP, Providence, Rhode Island

DISCLOSURE COUNSEL

Adler Pollock & Sheehan P.C., Providence, Rhode Island

FINANCIAL ADVISOR

FirstSouthwest, Lincoln, Rhode Island

OFFICIAL STATEMENT

$78,960,000
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
General Obligation Bonds
Consolidated Capital Development Loan of 2010, Refunding Series A

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 $78,960,000 General Obligation Bonds Consolidated Capital Development Loan of 2010, Refunding Series A (the "Bonds") dated the date of original delivery thereof. Proceeds of the Bonds will be used to refund certain bonds of the State (the "Refunded Bonds") and to pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" and "APPENDIX C – Table of Refunded Bonds" herein.

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 Bonds.

Sources		
	Par Amount of Bonds	$78,960,000.00
	Net Original Issue Premium	6,358,800.25
	Total Sources	$85,318,800.25
Uses		
	Deposit to Refunding Escrow Fund	$84,768,726.79*
	Underwriter's Discount	383,436.12
	Cost of Issuance	165,000.00
	Additional Proceeds	1,637.34
	Total Uses	$85,318,800.25

* Includes cash deposit of $299,119.79 and SLGS purchases in amount of $84,469,607.00.

PLAN OF REFUNDING

The State, upon delivery of the Bonds, will enter into a refunding trust escrow agreement (the "Refunding Trust Agreement") with The Bank of New York Mellon Trust Company, N.A. as refunding trustee (the "Refunding Trustee") selected for the Refunded Bonds. The Refunding Trust Agreement will provide for the deposit of the net proceeds of the 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 Refunded Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS" the proceeds from the Bonds and investments and income therefrom are calculated to be sufficient to pay principal, interest and redemption premium, if any, on the Refunded Bonds. For a list of the outstanding series of bonds of the State to be refunded through the proceeds of the Bonds, see "APPENDIX C - Table of Refunded Bonds" herein.

DESCRIPTION OF THE BONDS

General

Pursuant to Section 35-8-21 of the Rhode Island General Laws, as amended (the "RIGL"), the Bonds will constitute the Consolidated Capital Development Loan of 2010, Refunding Series A.

The Bonds will be dated the date of original delivery thereof and will bear interest at the rates set forth on the cover page hereof. Interest on the Bonds will be payable on October 1, 2010 and semi-annually thereafter on April 1 and October 1 of each year. Purchasers of beneficial ownership interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their respective interests in the Bonds purchased. So long as Cede & Co., as nominee of The Depository Trust Company ("DTC"), is the Bondholder, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. The principal of, premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as Paying Agent. As long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to Cede & Co.

Redemption

Optional Redemption of the Bonds. The Bonds are not subject to redemption prior to maturity.

Book-Entry-Only System

The information under this heading has been furnished by DTC, New York, New York. Neither the State nor the Underwriters make any representations as to the completeness or the accuracy of such information or as to the absence of 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 will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State or the Paying Agent 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 and interest payments and redemption proceeds 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 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 nor its nominee, the State or Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Bonds are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificated Bonds will be printed and delivered to DTC.

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 UNDERWRITERS AND THE PAYING AGENT 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 BOND OWNERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Neither the State, the Underwriters, 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.

RATINGS

The Bonds have been assigned ratings by Moody's Investors Service ("Moody's"), Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard and Poor's") and Fitch Ratings ("Fitch") (collectively, the "Rating Agencies"). The ratings assigned by Moody's, Standard and Poor's and Fitch are Aa3, AA and AA respectively.

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 Hinckley, Allen & Snyder LLP, Providence, Rhode Island, Bond Counsel. A copy of the opinion of Bond Counsel in substantially the form to be delivered at closing is included herein as Appendix B. The State will be advised on certain legal matters by Adler Pollock & Sheehan P.C., Providence, Rhode Island, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Moses & Afonso, Ltd., Providence, Rhode Island.

TAX STATUS

In the opinion of Hinckley, Allen & Snyder LLP, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the State described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is further of the opinion that interest on the Bonds is exempt from Rhode Island personal income taxes; although the income therefrom may be included in the measure of State estate taxes and certain State corporate and business taxes.

Hinckley, Allen & Snyder LLP is also of the opinion that interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; however, such interest will be included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax.

The Code establishes certain requirements regarding the use, expenditure and investment of proceeds of the Bonds 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 interest on the Bonds to become includable in the gross income of the Beneficial Owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The State will covenant to take all lawful action necessary under the Code to ensure that the interest on the Bonds will remain excludable from gross income for federal income tax purposes and to refrain from taking any action that would cause interest on the Bonds to become includable in such gross income. The opinion of Hinckley, Allen & Snyder LLP is subject to the condition that the State 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 excluded from gross income for federal income tax purposes. Hinckley, Allen & Snyder LLP expresses no opinion regarding any other federal, state or local tax consequences with respect to the Bonds. Hinckley, Allen & Snyder LLP renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Hinckley, Allen & Snyder LLP expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under state or local tax law.

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, placement agents 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 Beneficial Owner 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.

Beneficial Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of OID for federal income tax purposes including various special rules relating thereto, and the state and local tax consequences of acquiring, holding and disposing of Discount Bonds.

Premium

Certain of the Bonds (the "Premium Bonds") may be offered and sold to the public at a purchase price that reflects a premium over the sum of all amounts payable on the Bond. In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the certificate premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the certificate premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the certificate premium allocable to that period. In the case of a tax-exempt Premium Bond, if the certificate premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of the Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Beneficial Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of certificate premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, corporations subject to the foreign branch profits tax, Subchapter S corporations, financial institutions, certain insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. In addition, taxpayers disposing of property, the acquisition of which is financed in whole or in part after 1990 with federally-subsidized indebtedness (qualified mortgage bonds or mortgage credit Certificates) must take receipts or accruals of interest on the Bonds into account in determining what portion, if any, of the federally-subsidized amount is subject to recapture. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

The foregoing is a general discussion of the anticipated material federal and state income tax consequences relating to the ownership of the Bonds. The discussion does not purport to address all federal and state income tax consequences that may be applicable to particular categories of investors, some of which may be subject to special rules. The authorities on which this discussion is based are subject to change or different interpretation, and any such change or interpretation could apply retroactively.

Prospective investors should consult their own tax advisors in determining the federal, state, local and any other tax consequences to them in connection with the purchase, ownership and disposition of Bonds.

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 FirstSouthwest (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 the Municipal Securities Rulemaking Board ("MSRB"): (a) on or before the end of each calendar year, commencing December 31, 2010, 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 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 the MSRB 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 the MSRB 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 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 financial information and operating data or notices of material events in accordance with the Rule within the past five years. Due to an administrative oversight, the State failed to cause the Rhode Island Refunding Bond Authority, a component unit of the State for financial reporting purposes, to file on a timely basis the audited financial statements of the Rhode Island Refunding Bond Authority for the fiscal year ending June 30, 2007 pursuant to certain undertakings of the State relating solely to the bonds of the Rhode Island Refunding Bond Authority. The State has implemented procedures to ensure 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 Thomas A. Mullaney, State Budget Officer, State Administration Building, One Capital Hill, Providence, Rhode Island 02908, Telephone (401) 222-6300.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP, independent certified public accountants, will verify the accuracy of (i) the mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the governmental obligations, together with other escrowed moneys, to be placed in the Refunding Escrow Fund to pay when due, pursuant to stated maturity or call for redemption, as the case may be, the principal of and interest on the Refunded Bonds and (ii) the mathematical computations of the yield on the government obligations purchased with a portion of the proceeds of the sale of the Bonds. Bond Counsel has relied upon such information set forth in the accountants' report in concluding that, subject to the condition that the State comply with certain covenants made to satisfy pertinent requirements of the Code under present law, interest on the Bonds is not includable in gross income of the Beneficial Owners for federal income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. See "TAX STATUS". Grant Thornton LLP will express no opinion on the assumptions provided to them, nor as of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

UNDERWRITING

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the Underwriters (the "Underwriters"). The aggregate offering price of the Bonds to the public is $85,318,800.25 and the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the State at a purchase price of $84,935,364.13 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.

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

Morgan Stanley, the parent company of Morgan Stanley & Co. Incorporated, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2010 A Bonds.

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 30, 2010 and the Basic Financial Statements of the State, as of and for the year ended June 30, 2008, both of which have been prepared and furnished by the State and which are included in Appendix A. It is currently anticipated that the audited financial statements of the State as of and for the fiscal year ended June 30, 2009 will be issued shortly after the date of this Official Statement and will promptly thereafter be filed with the Municipal Securities Rulemaking Board through the Electronic Municipal Access System.

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/ Frank T. Caprio
Frank T. Caprio
General Treasurer

Dated: April 7, 2010

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APPENDIX A

INFORMATION STATEMENT OF THE STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DATED: March 30, 2010

Appendix A
Table of Contents

Page

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, a Workers' Compensation Court, a State Traffic Tribunal, and certain municipal courts in various cities and towns in the State.

Municipalities

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

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

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

The Office of the Auditor General completed an initial review in 2007 of the fiscal health of the various locally-administered defined benefit pension plans covering Rhode Island municipal employees. An updated review was completed in March 2010, which also includes an assessment of the status of other post-employment benefit plans offered by municipalities. Twenty-four communities have created 36 pension plans, which they administer for their employees. The State Auditor General considered 23 locally administered pension plans to be at risk, seven were considered most at risk because the plans were significantly underfunded and annual contributions were significantly less than annual required amounts. The collective funded ratio of the plans decreased from 45 percent, as reported in July 2007, to 43 percent, currently. Total assets collectively held by these 36 pension plans were $1.4 billion (as reported in their fiscal 2009 audit reports). The collective unfunded actuarial liability for future benefits under these locally-administered plans was approximately $1.9 billion (as of the most recent actuarial valuation referenced in their June 30, 2009 financial statements).

The Office of the Auditor General's March 2010 report further summarized the status of other post-employment benefit (OPEB) plans administered by municipalities for their employees. The actuarial value of assets held by these plans was $18 million and the collective unfunded actuarial accrued liability for future benefits was nearly $2.4 billion (as of the most recent actuarial valuation referenced in their June 30, 2009 financial statements). The collective funded ratio of the locally-administered OPEB plans was less than 1%. The State Auditor General made a number of recommendations to improve the funded status of the locally-administered pension and OPEB plans.

In early calendar year 2010, the Division of Municipal Finance in the Department of Revenue completed a "Report to Measure the Fiscal Stress and Financial Condition of Rhode Island Municipalities." This report was prepared under the guidance of the Municipal Fiscal Stress Task Force created by an Executive Order of the Governor. Two of the indicators included in the report related to pension liabilities and success in paying the Annual Required Contribution (ARC). The report indicated that as of June 30, 2008, unfunded municipal pension liabilities totaled $1.76 billion dollars and that eleven of thirty-nine municipalities had failed to pay all of their ARC during the FY 2008 period, and two additional communities that were marginally deficient..

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 spanned ten years and progressively eliminated ten percent of the tax levy each year until it was totally phased-out as of fiscal year 2009. Local communities were reimbursed for lost revenues from the inventory tax through the State's General Revenue Sharing program, which was increased from 1.0 percent of tax revenues in FY 1998 to 4.7 percent in FY 2009. Expanded sharing of State revenue was delayed beginning in FY 2003 and all appropriations for general revenue sharing were eliminated for FY 2010. The planned phase-out was delayed by one year as part of the FY 2003 budget, and further delayed in subsequent budgets. Despite these delays and reductions in state aid, the local reduction in the levy on inventories continued on the original schedule and the tax has now been eliminated.

The other local property tax levy reduced is the local levy on motor vehicles and trailers. This tax was to be phased out subject to annual review and appropriation by the General Assembly by providing increasing exemptions against the assessed value of all motor vehicles. Local communities are reimbursed on the value of the exempted amounts and assumed cumulative growth in the tax rate equal to the Consumer Price Index (CPI). Beginning in FY 2004, however, there is no longer a CPI adjustment for an assumed growth in municipal tax rates. For FY 2008 and for FY 2009, the first $6,000 in value of a vehicle is exempted from taxation and municipalities are prohibited from applying an excise tax rate higher than the rate applied in 1998. Municipalities are being reimbursed for the lost revenue resulting from the exemption. Beginning in FY 2008, municipalities are being reimbursed for 98% of the tax value of the exemption. During the 2005 Session of the General Assembly, additional video lottery terminals were authorized which were expected to yield additional lottery revenues to the State, a portion of which was to be dedicated to local governments through the Motor Vehicle Excise Tax Reimbursement Program. In the FY 2010 supplemental budget proposed by the Governor, which has yet to be acted upon by the General Assembly, the Motor Vehicle Excise Tax Reimbursement Program is reduced by $66.5 million, approximately one-half the enacted FY 2010 budget amount. However, on the advice of counsel in response to lawsuits initiated by certain local governments on the matter to require the State to make such payments, the third quarterly payment was made in February 2010 to local governments in the aggregate amount of $32.6 million. For FY 2011, the Governor proposes in his recommended FY 2011 budget to eliminate all state appropriations to reimburse local governments for the $6,000 exemption, and includes permissive language to allow for taxation by local governments subject to the cap on property tax levy discussed above.

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 funding allocations in future years. Midway through FY 2009, the General Assembly enacted a $42.6 million reduction from the originally enacted budget of $691.4 million in school operations aid. This included a reduction of $38.3 million of general aid offset by $38.3 million of federal funds to be received by local governments through the "State Stabilization Fund" under the American Recovery and Reinvestment Act of 2009 ("ARRA"). It also included a $5.3 million reduction in Professional Development Funds, and a $4.3 million reduction associated with revenues generated from video lottery operations dedicated to the Permanent School Fund, a fund which is established by the Constitution to benefit schools but previously had relatively small annual resources. Local governments also received $16.2 million of Title I funds and $19.4 of IDEA funds through ARRA in FY 2009. In FY 2010, $37.2 million of State stabilization funding from ARRA for educational purposes will be provided to local governments. In FY 2010, local governments are expected to receive $17.2 million of Title I funds and $21.9 million of IDEA funds. The Governor's revised FY 2010 Budget includes $588.0 million in school operating aid.

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 and renovations. 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 2010 enacted Budget provides $61.5 million for this category of aid. A related program will provide approximately $2.8 million in FY 2010 to cities and towns to provide aid in the construction of libraries.

Other local aid programs include the motor vehicle excise tax reimbursement, general revenue sharing, payment-in-lieu of taxes (PILOT) program and distressed communities aid program. Beginning in 1987 a variety of general State aid programs were consolidated into one general revenue sharing program which incorporated a distribution formula based upon relative population, tax effort for municipal services and personal income of each city and town. The general revenue sharing program also incorporated additional funding to compensate municipalities for the phased loss of the inventory tax as described above. The FY 2009 Budget included $55.1 million for this program. Midway through FY 2009, the General Assembly enacted a reduction of $30.1 million from the $55.1 million enacted level and no funding was appropriated in FY 2010. The Motor Vehicle Excise Tax Reimbursement Program was funded at $135.6 million in the FY 2010 Enacted Budget. As noted above, the Governor proposed suspension of the final two quarterly payments in FY 2010 to save $66.5 million. However, the third quarterly payment of $32.6 million was made in February 2010, following failure of the General Assembly to act on the Governor's proposal, reducing potential state savings to $33.9 million. For FY 2011, the Governor proposes no funding to local governments for the Motor Vehicle Excise Tax Reimbursement and a suspension of the exemption.

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 facilities, and correctional facilities. The FY 2010 Enacted Budget includes $27.6 million for this program. Also, the State makes payments to communities identified as distressed based upon four different criteria. Appropriations of $10.4 million are included in the FY 2010 Enacted Budget to fund allocations for seven communities. Of these seven communities, Central Falls was determined to be especially distressed in 1991 and in FY 1993 the State assumed full responsibility for funding education in Central Falls. The State also provides funds to cities and towns which host airports, distributing a total of $1.0 million in FY 2009. Rhode Island also distributes to communities the proceeds of a statewide tax imposed on the tangible personal property of telephone, telegraph, cable, express and telecommunications companies. This aid is estimated at $10.2 million for FY 2010. Also, the State distributes a 1% (one percent) meals and beverage tax estimated at $18.8 million for FY 2010 according to the proportion of that tax collected in each community.

Principal Governmental Services

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

General Government

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

Department of Administration. The Department of Administration is generally responsible for all central staff and auxiliary services for the State including planning, budgeting, personnel management, purchasing, information processing, accounting, auditing, building maintenance, property management, and labor relations. The Department directs the accounting and fiscal control procedures and is responsible for the preparation of the State's annual fiscal plan and capital development program, administering the statewide planning program for the comprehensive development of the social, economic and physical resources of the State. The Department also includes the State Bureau of Audits which examines the books of account of all State departments and agencies, required by law to be completed at least once every two years. The Department is also responsible for programs relating to State aid, as well as building code administration. During the 2005 Session of the General Assembly, the State Lottery Commission was abolished and the Lottery became a division within the Department of Administration. In 2006, the Division of Lotteries was transferred to the new Department of Revenue.

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

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

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

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

Human Services

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

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

Department of Human Services. The Department of Human Services operates as the principal State agency for the administration and coordination of local, State and federal programs for cash and medical assistance and social services. The responsibilities of the Department include supervision of the following programs: Medical Assistant Programs (Medicaid), the State Children's Health Insurance Program (SCHIP), vocational rehabilitation, child support enforcement, 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 research 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. Board members are appointed by the Governor. 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 public higher education in the State, including a comprehensive capital development program. Board members are appointed by the Governor. 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 (collectively, the "State Colleges"). 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. The Board has had the Rhode Island Health and Education Building Corporation issue on its behalf from time to time revenue bonds to finance various capital improvements for the State Colleges, which revenue bonds are supported by certain revenues derived by the State Colleges and/or certain appropriations made by the State to the State Colleges. The outstanding balance for these revenue bonds as of June 30, 2009 totals $221,177,811. In addition, in connection with certain projects for FY 2010 and FY 2011, the General Assembly authorized the Board to (i) issue up to $42,695,000 of revenue bonds through the Rhode Island Health and Educational Building Corporation for the construction of a four-story residence hall for the University of Rhode Island, (ii) issue up to $11,310,000 of revenue bonds through the Rhode Island Health and Educational Corporation to renovate the recreation center at Rhode Island College, (iii) issue up to $15,200,000 of revenue bonds through the Rhode Island Health and Educational Corporation for the repavement and construction of roadways at various campuses of the University of Rhode Island, and (iv) incur debt up to an amount of $850,000 to acquire a fraternity house at the

University Rhode Island for its International Engineering Program by means of an installment purchase. A combined revenue bond issuance for items (ii) and (iii) above was completed on February 17, 2010 for $24,005,000. As of June 30, 2009 a balance of $800,000 is outstanding on a loan for the project contemplated by item (iv).

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 Public Safety, Department of Corrections, the Judicial Department, and the Attorney General's Office.

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

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

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

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

Natural Resources

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

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

Transportation

Transportation is comprised of the road construction, road maintenance, mass transit, and planning activities of the Department of Transportation. Beginning in FY 1994, the State established the Intermodal Surface Transportation Fund, in partial fulfillment of a plan to fund 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 32 cents per gallon motor fuel tax, which was raised 2 cents per gallon from 30 cents per gallon in connection with the FY 2010 Enacted Budget. In addition, the State charges $0.01 per gallon of motor fuel delivered to an underground storage tank (UST), In 2009, 0.5 cents of the UST fee was dedicated to the Rhode Island Public Transit Authority (RIPTA), prior to 2009, the 1.0 cent went to the Department of Environmental Management. Motor fuel tax receipts fund operating and debt service expenditures of the Department of Transportation, as well as specific portions of transportation-related expenditures of RIPTA and the Department of Human Services. As of FY 2010, the 32 cents per gallon motor fuel tax and the 1.0 cent UST fee are allocated as follows: 19.75 cents to the Department of Transportation; 2.0 cents to an indenture trustee to support debt service on motor fuel tax bonds; 9.75 cents to RIPTA, of which 9.25 cents are from motor fuel tax and 0.5 cent is from the UST fee; 1.0 cent to the Department of Human Services for its Elderly and Disabled Transportation Program, and the remaining 0.5 cent from the UST fee to the Department of Environmental Management's Underground Storage Tank Replacement Fund.

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

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

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

In the FY 2011 Budget proposed by the Governor, the Sakonnet Bridge would be tolled and operated by the Rhode Island Turnpike and Bridge Authority upon completion. The toll revenues would be shared with the Department of Transportation providing additional resources to address structurally deficient bridges in the State.

State Fund Structure – Accounting Basis

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

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

Budget Procedures

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

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

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

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

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

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

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

A budget reserve and cash stabilization account was created by statute in 1990. In 1992, the Rhode Island Constitution was amended specifying that the reserves created could only be called upon in an emergency involving the health, safety, or welfare of the State or in the event of an unanticipated deficit caused by a shortfall in general revenue receipts. Such reserve account is capped at 3 percent of General Fund revenues. The reserve account is funded by limiting annual appropriations to 98 percent of estimated revenues. When the Budget Reserve Account has reached its maximum, the excess contribution flows to the Rhode Island Capital Fund. The FY 2007 budget reserve account balance was approximately $78.6 million. This reflects an appropriation by the General Assembly of $19.4 million from the Budget Reserve Account to the General Fund surplus due to actual revenue collections for FY 2007 being less than enacted, potentially causing a deficit in the General Fund. The Budget Reserve Account is replenished through the funding formula provided for in the Constitution, and the general law requires that the repayment be made to the Rhode Island Capital Fund in the next fiscal year. The Governor's FY 2008 revised budget provided for an appropriation of $19.4 million to repay the transfer made in FY 2007 and the actual balance of the Budget Reserve Account at the end of FY 2008 was $103.1 million reflecting full funding. The State closed FY 2008 with a deficit of $42.9 million after the General Assembly declined the Governor's recommendation to transfer funds from the Reserve Account to the General Fund,. During the 2009 Session of the General Assembly, the Legislature appropriated $22.0 million from the Budget Reserve Account to fill a budget gap expected at the close of FY 2009. Even with this $22.0 million appropriation based upon the preliminary closing report of the State

Controller for FY 2009, the General Fund is expected to have a deficit between \$61.8 and \$62.4 million for FY 2009. The FY 2010 enacted budget included \$22.0 million of appropriations to repay the Rhode Island Capital Fund. However, the Governor's Supplemental FY 2010 budget and FY 2011 budget propose that repayment to the Rhode Island Capital Fund be made in FY 2012.

In November, 2006, the voters of the State approved an amendment to the Rhode Island Constitution that has restricted, as of July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Previously, the fund could be used for debt reduction, payment of debt service, and capital projects. Also, the constitutional amendment will, beginning on July 1, 2012, increase the Budget Reserve Account by limiting annual appropriations to ninety-seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) percent of estimated revenues. During the 2007 Session of the General Assembly, a statutory schedule was enacted to provide for incremental decreases of 0.2 percent to gradually move spending from 98 percent of revenues to 97 percent of revenues. Additionally, the Budget Reserve Account maximum balance would be gradually increased by 0.4 percent to gradually move from 3.0 percent to 5.0 percent of resources. In FY 2010, the spending is limited to 97.6 percent of revenues and the Budget Reserve Account is capped at 3.8 percent of resources.

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

Financial Controls

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

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

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

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

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

In 2008, the State's cash equivalent type investments included funds invested with The Reserve – U.S. Government Fund, which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. There were three State funds that were invested in The Reserve – U.S. Government Fund. The date redemptions were suspended, the Lottery had approximately $21.6 million invested, the Temporary Disability Insurance Fund had $34.1 million invested, and the General Fund had $6.8 million. All of the approximately $62.5 million of State funds invested with The Reserve – U.S. Government Fund have been recovered by the State, and there was no negative impact on the Lottery operations or the operations of any other State agency.

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

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

GENERAL FUND REVENUES AND EXPENDITURES

The State draws nearly all of its revenue from a series of non-property related taxes and excises, principally the personal income tax and the sales and use tax, from federal assistance payments and grants-in aid, and from earnings and receipts from certain State-operated programs and facilities. The State additionally derives revenue from a variety of special purpose fees and charges that must be used for specific purposes as required by State law. The amounts discussed as revenues for FY 2008 reflect audited revenues. The FY 2009 revenues reflect unaudited revenues as reported in the preliminary closing report of the State Controller. For a discussion of revenues for FY 2010, see "Revenue Estimates – Revised FY 2010 General Revenues".

Major Sources of State Revenue

Tax Revenues: In FY 2009, 65.8 percent of all taxes and departmental receipt revenues were derived from the Rhode Island personal income tax and the sales and use tax. These revenue sources constituted 57.8 percent of all general revenues.

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

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

In the 1997 Session, the General Assembly adopted a plan 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. 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. 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 of taxable income 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 on certain business tax liabilities of a taxpayer.

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

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

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

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

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

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

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

In the 2007 Session, the General Assembly extended a credit created in the 2006 Session for corporations' contributions to qualified scholarship organizations. Personal income tax payers may use this credit only as a pass-through from a subchapter S corporation, limited liability partnership, and limited liability corporation. This tax credit is discussed in more detail below under "Tax Revenues – Business Corporation Tax".

In the 2008 Session, the General Assembly enacted legislation that authorizes the Economic Development Corporation to issue up to $356.2 million in revenue bonds to provide a fund from which the general fund would be reimbursed for the State's historic tax credit liabilities paid out to taxpayers ("Historic Preservation Tax Credit Fund"). $150,000,000 of the Economic Development Corporation bonds were issued in June 2009, and they are secured by payment obligations of the State subject to annual appropriation by the General Assembly. The 2008 legislation also placed a moratorium on new projects eligible for the Historic Preservation Tax Credit program, lowered the effective credits for ongoing projects to 22.0 percent from 27.75 percent after processing fees, and authorized the State to enter into contracts with developers for the amount of credits that would be awarded upon completion of projects. Processing fees collected after June 30, 2008, in the amount of $3.8 million, were deposited in a restricted receipt account and were applied prior to June 30, 2009 to the reimbursement of the historic tax credits previously taken. Beginning in May 2009, the estimates of personal income tax collections adopted at the semi-annual Revenue Estimating Conference no longer reflect a reduction for historic structure tax credits as any credits redeemed are to be reimbursed from the funds authorized by the General Assembly.

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

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

In addition, in the 2009 Session, the General Assembly passed legislation that requires Rhode Island taxpayers to add back to federal adjusted gross income the recognition of income from the discharge of business indebtedness that has been deferred for federal tax purposes under ARRA. Furthermore, the Assembly changed the treatment of capital gains income for Rhode Island income tax purposes such that all realized net capital gains will be taxed at ordinary income tax rates of 3.75, 7.0, 7.75, 9.0, and 9.9 percent depending on a taxpayer's Rhode Island taxable income or the applicable flat tax rate, if elected. This change applies to assets sold on or after January 1, 2010. Increased revenues of $28.8 million are estimated for FY 2010 from this change.

Rhode Island personal income tax collections surpassed the billion dollar mark in a fiscal year for the first time in FY 2007. Personal income taxes totaled $940.5 million or 31.1 percent, of the State's FY 2009 total general revenues. FY 2009 personal income tax collections declined by $133.1 million from FY 2008 and also decreased in the share of total general revenues from FY 2008 levels.

Sales and Use Tax. The State assesses a tax on all retail sales, subject to certain exemptions, on hotel and other public accommodation rentals, and on the storage, use or other consumption of tangible personal property in the State. Major exemptions from the sales and use tax include: (a) food for human consumption off the premises of the retailer, excluding food sold by restaurants, drive-ins or other eating places; (b) clothing and most footwear; (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 was $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 the sale of aircraft or aircraft parts from the sales and use tax effective January 1, 2005.

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

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

In the 2009 session, the General Assembly enacted legislation to expand the definition of retailer subject to the state's sales and use tax. In particular, the General Assembly added as a category of retailer, "[E]very person making sales of tangible personal property through an independent contractor or other representative, if the retailer enters into an agreement" with a Rhode Island resident under which the Rhode Island resident receives "a commission or other consideration" for "directly or indirectly, whether by a link on an Internet website" or by other means referring potential customers to the retailer. Known as the "Amazon tax", this expanded definition of retailer took effect on July 1, 2009. No incremental revenue from the Amazon tax was estimated for FY 2010.

The sales and use tax accounted for approximately $808.1 million, or 26.7 percent, of the State's FY 2009 total general revenues. FY 2009 final sales and use tax collections decreased in dollar terms but increased in the share of total general revenues from FY 2008.

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 1996, the General Assembly enacted the Jobs Development Act (JDA). As subsequently amended, it provided for rate reductions of one-quarter of one percent (up to a maximum reduction of six percent) for each 50 new jobs created by eligible firms (each 10 new jobs created by a small business concern) for three years past the elected base year. A qualifying job is 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 the 2001 Session, the General Assembly passed the enabling legislation for the State's Historic Structures Tax Credit, which was amended by the 2008 Session of the General Assembly, all as discussed in more detail above under "Tax Revenues – Personal Income Tax". These tax credits can be used to offset the business corporations tax liability of a taxpayer.

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

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

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

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

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

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

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

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

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of business corporations tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a discussion of the bonds being issued to fund the Historic Preservation Tax Credit Fund.

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

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the JDA. The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition. No incremental revenue from the modification of the definition of "full-time equivalent active employee" was estimated.

The business corporation tax totaled $104.4 million, or 3.5 percent, of the State's FY 2009 total general revenues. FY 2009 preliminary business corporations tax collections decreased in both dollar terms and in the share of total general revenues from FY 2008.

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

The State also levies tax on the gross revenues of nursing homes. In 2003, the gross revenue tax on nursing homes was increased from 4.75 percent to 6.0 percent. In addition, a 1.50 percent tax on gross revenues from freestanding Medicaid facilities not associated with hospitals is levied. In 2008, the Governor recommended reducing the nursing homes labor costs principal payment by $5.0 million in FY 2009, which lowers their payments of the 5.5 percent provider tax. The Assembly adopted the Governor's recommendation to decrease total payments to nursing homes by $57.6 million further decreasing payments generated from the 5.5 percent provider tax. In 2009, the Governor recommended a series of expenditure reductions to nursing homes that will lower the State tax revenues. The 2009 General Assembly adopted the Governor's recommendations resulting in an estimated decline in revenue of $1,573,411 in FY 2010. As of July 1, 2009, due to the approval of the *Rhode Island Global Consumer Choice Compact Section 1115 Demonstration* ("Global Medicaid Waiver"), the State will no longer be able to assess the health care provider assessment on group homes effective July 1, 2009. This decline in general revenue is accounted for in the estimates adopted at the semi-annual Revenue Estimating Conference beginning in May 2009.

The health care provider assessment accounted for approximately $46.0 million, or 1.5 percent, of the State's FY 2009 total general revenues. The dollar amount decreased for the health care provider assessment between FY 2009 and FY 2008. The health care provider assessment also decreased in the share of total general revenues between the two fiscal years.

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

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

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

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

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

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of public service gross earnings tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the Jobs Development Act (JDA). The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition. No incremental revenue from the modification of the definition of "full-time equivalent active employee" was estimated.

The public service corporation gross earnings tax accounted for approximately $126.7 million, or 4.2 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased for the public utilities gross earnings tax between FY 2009 and FY 2008.

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

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

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

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

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

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

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

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

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

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

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of insurance companies gross premiums tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009 no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

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

The insurance companies' gross premiums tax accounted for approximately $78.0 million, or 2.6 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased between FY 2009 and FY 2008.

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.

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

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

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

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

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

Due to the 2008 General Assembly's passage of the enabling legislation that created the Historic Preservation Tax Credit Fund, estimates of the financial institutions tax collections adopted at the semi-annual Revenue Estimating Conference beginning in May 2009, no longer reflect a reduction for historic structure tax credits as any credits redeemed will be reimbursed from the funds authorized by the General Assembly.

In the 2009 Session, the General Assembly modified the definition of a "full-time equivalent active employee" under the Jobs Development Act (JDA). The JDA allows qualifying financial institutions to reduce their tax rate in exchange for hiring a specific number of eligible full-time equivalent active employees. The legislation passed by the General Assembly defines an eligible "full-time equivalent active employee" to be an employee that works at least 30 hours per week in the State, earns health insurance and retirement benefits, and earns no less than 250.0 percent of the minimum wage. This new definition reduces the number of potential employees on a go-forward basis that would meet the definition of "full-time equivalent active employee" versus the prior definition. No incremental revenue from the modification of the definition of "full-time equivalent active employee" was estimated.

The financial institutions tax accounted for approximately $2.9 million, or 0.1 percent, of the State's FY 2009 total general revenues. The dollar amount of collections increased and the share of total general revenues remained stable for the financial institutions excise tax between FY 2009 and FY 2008.

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

The bank deposits tax accounted for approximately $1.8 million, or 0.1 percent, of the State's FY 2009 total general revenues. The dollar amount of bank deposits taxes increased as did its share of total general revenues from FY 2009 versus FY 2008.

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

In the 2009 Session, the General Assembly passed legislation that increased the exemption amount for net taxable estates subject to the State's estate tax. In particular, the General Assembly increased the exemption amount to $850,000 for the net taxable estates of decedents whose death occurs on or after January 1, 2010. In addition, the General Assembly indexed this exemption amount beginning on January 1, 2011 to the Consumer Price Index for all Urban Consumers as of September 30 of the prior calendar year. The estimated revenue impact of the increased exemption amount is reduction in general revenues of $800,300 for FY 2010.

The estate tax accounted for approximately $28.1 million, or 0.9 percent, of the State's FY 2009 total general revenues. The dollar amount of estate taxes and the share of total general revenues decreased in FY 2009 from FY 2008.

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

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

In the 2009 Session, the General Assembly accepted the Governor's proposal to increase the cigarette stamp tax rate from $2.46 per pack of 20 cigarettes to $3.46 per pack. The effective date of the act was April 10, 2009.

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

In the 2009 Session, the General Assembly raised the tax on the wholesale price of other tobacco products from 40.0 percent to 80.0 percent effective April 10, 2009. This increase in the wholesale price tax did not affect the maximum tax on cigars or the minimum tax on snuff.

The cigarette tax accounted for approximately $130.5 million, or 4.3 percent, of the State's FY 2009 total general revenues. Both the dollar amount and the share of total general revenues increased for the cigarette tax between FY 2009 and FY 2008.

Motor Fuel Tax. The tax is due 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. Taxes paid in prior periods are subject to refund if it is later determined that such tax was not due and payable on the motor fuel purchased.

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

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

In the 2009 Session, the General Assembly concurred with the Governor's proposal to allow the $0.01 per gallon of the motor fuel tax that was transferred to the general fund to remain with the Department of Transportation. This proposal was estimated to reduce general revenues by $4,400,000 in FY 2010. In addition, the General Assembly increased the state's motor fuel tax by $0.02 per gallon to $0.32 per gallon. The additional revenue from the $0.02 per gallon increase in the motor fuel tax was dedicated for use by the Rhode Island Public Transit Authority (RIPTA). The tax increase has no impact on state general revenues. Further, the General Assembly passed legislation that exempts the biodiesel portion of certain gallons of blended petro-diesel motor fuel from the state's motor fuel tax. This legislation passed into law without the Governor's signature and has no impact on State general revenues. Finally, the Governor proposed and the General Assembly agreed to transfer to RIPTA one-half cent of the $0.01 per gallon surcharge on motor fuel that was designated for the Underground Storage Tank Review Board. This reallocation has no effect on state general revenues.

The transfer of the motor fuel tax to the General Fund accounted for approximately $4.3 million, or 0.1 percent, of the State's FY 2009 total general revenues. The dollar amount of the motor fuel tax transfer decreased while its share of total general revenues remained constant between FY 2009 and FY 2008.

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. State sales and use tax is applied to the final sale price of all beer, wine, and spirits sales in the State.

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

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

Other taxes accounted for approximately $69.3 million, or 2.3 percent, of the State's FY 2009 total general revenues. FY 2009 other tax collections decreased in dollar terms but increased in share of total general revenues from FY 2008.

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

The hospital licensing fee was first enacted in 1994. 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.

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

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

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

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

In the 2006 session, the General Assembly re-instituted the hospital licensing fee at a rate 3.56 percent applied to 2004 base year net patient revenues and delayed its receipt until July 2007. Normally, the hospital licensing fee was due in December of the fiscal year.

In the 2007 Session, the General Assembly decreased the hospital licensing fee to 3.48 percent of net patient revenues and advanced the base year to 2006 but maintained the July payable date.

In the 2008 Session, the General Assembly increased the hospital licensing fee to 4.78 percent and advanced the base year to 2007 while maintaining the July payment schedule.

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

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

In addition, the 2009 General Assembly increased the hospital licensing fee rate for FY 2009. Specifically, the General Assembly increased the hospital licensing fee rate for FY 2009 to 5.437 percent and applied it to the 2007 base year net patient revenues. This change increased FY 2009 hospital licensing fee receipts by $16.2 million to $111.4 million. For FY 2010, the General Assembly concurred with the Governor's proposal to re-instate the hospital licensing fee but decreased the rate to 5.237 percent and applied it to each hospital's fiscal 2008 net patient revenue. The total impact of these changes is to increase the amount collected from the hospital licensing fee to $128.8 million in FY 2010. The payment of the FY 2010 hospital licensing fee will occur in July 2010.

Further, the 2009 General Assembly increased several fees administered by the Coastal Resources Management Council, raised numerous professional license fees collected by the Department of Business Regulation, and instituted a fee to expunge criminal records. Each of these fee changes were effective July 1, 2009 and are anticipated to raise $185,000, $1.6 million, and $1.2 million respectively in additional departmental receipts in FY 2010.

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

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

Lastly, the miscellaneous departmental revenues category includes revenues from investment earnings on General Fund balances as well as Child Support payments. In the 2009 Session, the General Assembly concurred with the Governor's proposal to increase miscellaneous departmental revenues by including the revenue from the National Council on Aging's (NCA) Choices for Self-Care Challenge grant and from a grant by the American Cancer Society (ACS). The NCA grant will support a statewide chronic disease self-management program for adults 60 and over and the ACS grant will support women's cancer screening activities.

Departmental Receipts were approximately $319.4 million, or 10.6 percent, of the State's total general revenue in FY 2009. FY 2009 departmental receipts decreased on a nominal basis but increased as a share of total general revenues when compared to FY 2008.

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

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

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

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

In the 2005 Session, the General Assembly passed legislation that allowed the Director of State Lotteries to enter into long-term contracts with the owners of the State's two licensed video lottery retailers. These master contracts allow for the addition of 2,550 video lottery terminals between the two facilities (1,750 at Twin River (the former Lincoln Park) and 800 at Newport Grand), provided that the facilities invest $145.0 million in structural and operational upgrades and expansions within three years ($125.0 million at Twin River and $20.0 million at Newport Grand). The master contract for Twin River freezes the retailers share of NTI from existing terminals at 28.85 percent and from additional video lottery terminals at 26.0 percent (which rates are subject to certain adjustments based on the Consumer Price Index in the eleventh through fifteenth years of the contract term). The master contract for Newport Grand freezes the share of video lottery NTI that is allocated to the facility from existing and additional video lottery terminals at 26.0 percent.

In the 2008 session, the General Assembly passed legislation to allow the State's two gaming facilities, Twin River and Newport Grand, to operate 24 hours a day, three days a week on weekends (24/3) at each facility's discretion. The State's proceeds from 24/3 operations were deposited into the Permanent School Fund and dispersed to the cities and towns to support education. The provision for the distribution of revenue from 24/3 gaming to the Permanent School Fund expired on June 30, 2009.

During the 2009 Session, it was determined that the Division of Lottery could administratively set the hours of operation for Twin River and Newport Grand. To date, the Division of Lottery has implemented 24 hours a day, three days a week hours of operation for both Twin River and Newport Grand. Under current law, the State's share of the revenue from 24/3 is recorded as general revenues. For FY 2010, these additional revenues are estimated to be $7.6 million. In November 2009, the Division of Lottery promulgated rules and regulations to allow both Twin River and Newport Grand to operate VLTs on a 24 hours a day, seven days a week basis (24/7) at their discretion. This action is expected to increase the lottery transfer by $3.1 million in FY 2010. Thus, for FY 2010, an additional $10.7 million of lottery revenues is anticipated.

Lottery transfers to the General Fund totaled $337.5 million, which accounted for 11.2 percent of the State's total general revenues in FY 2009. The dollar amount of the lottery transfers to the General Fund decreased between FY 2009 and FY 2008 but the lottery transfers as a share of total general revenues increased.

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

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

The 2009 General Assembly also concurred with the Governor's proposal to transfer $1.0 million from the excess reserves of the Rhode Island Health and Educational Building Corporation. In addition, the General Assembly transferred $1.5 million of excess reserves from the Rhode Island Human Resources Investment Council. The sum of these two amounts is available as general revenues to be used to finance FY 2010 state operations.

The total amount of Other Miscellaneous monies received in FY 2009 was approximately $17.7 million, which accounted for 0.6 percent of the State's FY 2009 total general revenues. For FY 2008, these amounts were $181.8 million and 5.3 percent respectively.

Also included in the Other Sources category is the motor fuel tax transfer from the Intermodal Surface Transportation Fund. Gasoline tax receipts not dedicated for use by transportation agencies become available to the General Fund. As noted above this amount was $4.3 million in FY 2009.

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

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

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

Unclaimed property transfers totaled $8.0 million in FY 2009 and accounted for 0.3 percent of the State's total general revenues for FY 2009. The dollar amount of the unclaimed property transfer decreased as did its share of total general revenues between FY 2009 and FY 2008.

Restricted Receipts. In FY 2009, the State expended $123.9 million that was received in restricted receipts, excluding transfers into the General Fund. These expenditures reflect various dedicated fees and charges, interest on certain funds and accounts maintained by the State and private contributions and grants to certain State programs. Such receipts are restricted under law to offset State expenditures for the program under which such receipts are derived.

Federal Receipts: In FY 2009, the State expended $2.258 billion of revenues from the federal government, representing grants-in-aid and reimbursements to the State for expenditures for various health, welfare and educational programs and distribution of various restricted or categorical grants-in-aid.

Federal grants-in-aid reimbursements are normally conditioned to some degree, depending on the particular program being funded, on matching resources by the State ranging from a 50 percent matching expenditure to in-kind contributions. The largest categories of federal grants and reimbursements are made for medical assistance payments for the indigent (Title XIX), a block grant; Temporary Assistance to Needy Families (TANF). The federal participatory rate for Titles XIX is recalculated annually, and the major determinant in the rate calculation is the relative wealth of the State. Effective October 1, 2008 to September 30, 2009, the unenhanced rate was 52.59 percent. The rate for the prior year was 52.5 percent. The provisions of ARRA include a temporary increase in the FMAP rate from 52.59 percent to 63.89 through September 30, 2009 and from 52.63 to 63.93 from October 1, 2009 through December 31, 2010.

ECONOMIC FORECAST

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

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

On November 4, 2009, the Conferees heard updated economic forecasts for the nation and the State, as presented by Moody's Economy.com. The Rhode Island Department of Labor and Training (DLT) also presented current employment and labor force trends. The Conferees adopted the following revised economic forecast for the United States and Rhode Island based upon the information presented.

Moody's Economy.com derives its Rhode Island forecasts from its national models. These models incorporate $789 billion for the federal economic stimulus package to be spent in the 2009-2012 period, in an effort to provide relief to states and individuals, create jobs, and lift spending. Moody's Economy.com testified that the stimulus spending "provided a meaningful boost" to real U.S. Gross Domestic Product in the third quarter of 2009 but its impact is expected to subside in CY 2010. The November 2009 Revenue Estimating Conference adopted, through a consensus process after receiving testimony from Moody's Economy.com. an economic forecast for the period 2010 through 2015. The forecast is shown below.

As reported at the November 2009 Revenue Estimating Conference, Rhode Island's labor market began to feel the effects of recession as early as January 2007. The Rhode Island DLT reported that the unemployment rate had risen to 13.0 percent in September 2009. At that time, Rhode Island's unemployment rate of was the third highest in the nation, lagging the U.S. unemployment rate of 9.8 percent. There was a year-over-year increase of 25,600 unemployed Rhode Islanders in September 2009. The sector breakdown of these job losses were as follows: Manufacturing, -5,400; Trade, Transportation and Utilities, -4,400; Financial Activities, -900; Construction, -3,200; Professional and Business Services, -3,500; Government, -800; Leisure and Hospitality, -1,000; Other Services, -900, Information, -800 and Educational and Health Services, -700. No broad sector of the Rhode Island economy added jobs year-over-year in September 2009. In fact, since the January 2007 peak employment of 496,400 jobs, Rhode Island businesses have shed 37,700 jobs as of September 2009, a decline of 7.6 percent. The sector breakdown of these job losses indicates that most major sectors will continue to shed jobs as the recession runs its full course.

Rhode Island had the third highest rate in the country. In January 2010, Rhode Island's unemployment rate was 12.7 percent, the third highest unemployment rate in the country. The U.S. unemployment rate for January 2010 was 9.7 percent.

While there is no official measurement and dating of recessions at the state level, employment is usually used to gauge the cyclical status of the state economy. FY 2010 is expected to show a continued contraction in non-farm employment with a -2.7 percent rate of growth. This rate of growth represents an improvement over FY 2009, as non-farm employment shrank at a -3.4 percent rate last fiscal year. Non-farm employment growth rates are expected to increase beginning in FY 2012. Increases in total non-farm employment generally indicate that businesses are hiring as a result of expansion. It should be noted that the adopted growth rates suggest a more subdued trend from FY 2012 through FY 2014, than those levels adopted at the May 2009 Revenue Estimating Conference.

Rhode Island's unemployment rate was projected at the November 2009 Revenue Estimating Conference to peak at 13.4 percent in FY 2010. As recovery takes hold, Rhode Island's unemployment rate is projected to stagnate in FY 2011 at a rate of 13.2 percent and then steadily decline to 10.7 percent in FY 2012, to 8.6 percent in FY 2013, to 7.6 percent in FY 2014 and to 6.9 percent in FY 2015. Even at this lower rate, Rhode Island's unemployment rate will be significantly higher than the rates achieved in the mid 2000s.

The November 2009 Revenue Estimating Conference estimates for personal income growth suggest a downward revision in FY 2010 through FY 2012 from the May 2009 Revenue Estimating Conference estimates. The adopted personal income growth rate is projected to increase slightly in FY 2010 before approaching more normal growth rates in FY 2012 through FY 2015. Personal income growth rates average less than 1.0 percent in FY 2010 and FY 2011. Likewise, estimates of dividend, interest and rental income are trending downward in FY 2010 before turning positive in FY 2011 through FY 2015. Wage and salary income growth is projected to be negative in both FY 2010 and FY 2011, hitting bottom at a -3.2 percent rate of growth in FY 2010. Wage and salary growth declines modestly in FY 2011 before turning positive in FY 2012. Wage and salary income growth accelerates sharply in FY 2013 and FY 2014. By FY 2015, wage and salary growth is expected to achieve its normal rate of growth.

The U.S. CPI-U (Consumer Price Index for All Urban Consumers) is expected to decrease to 0.8 percent in FY 2010 from 1.4 percent in FY 2009. The projected decrease is mainly due to the lack of sufficient consumer demand that would allow for producers to raise prices. The U.S. CPI-U is forecasted to rise to 1.5 percent in FY 2011 further rising to 2.0 percent in FY 2012. In FY 2013 through FY 2015, inflation is expected to be 2.0 percent on average annually.

From FY 2010 through FY 2011, the interest rate on three-month Treasury bills is expected to remain at or below 1.0 percent before rising to 3.0 percent in FY 2012 and approximately 4.1 percent in FY 2013 through FY 2015. The interest rate on ten year Treasury notes is expected to rise within a much narrower band than three month Treasury bills. Thus, for FY 2010 the interest rate on ten year Treasury notes are expected to be 3.8 percent rising to 5.6 percent in FY 2012 before falling to 4.6 percent in FY 2015.

The consensus economic forecast reflects the immediate adverse impacts of the global economic crisis on employment, income, and other coincidental economic indicators. The forecast further suggests that self-sustainable economic recovery can be expected beginning in FY 2012. The November 2009 forecast revisions to the May 2009 economic forecast are largely negative, reflecting a shallower and longer recovery for the state. This will negatively impact current revenue estimates through FY 2013. The Consensus Economic Forecast for the fiscal years 2010 through 2015 agreed upon by the conferees at the November 2009 Revenue Estimating Conference is shown in the following table.

The November 2009 Consensus Economic Forecast						
Rates of Growth	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Non-farm Employment	-2.7	-0.3	2.4	3.4	2.4	1.1
Personal Income	0.2	1.4	3.1	4.7	4.6	4.0
Wage and Salary Income	-3.2	-0.6	2.4	4.6	4.7	3.7
Dividends, Interest and Rent	-2.5	2.0	3.9	7.4	7.0	5.2
Nominal Rates						
U.S. CPI-U	0.8	1.5	2.0	2.0	2.0	2.1
Unemployment Rate	13.4	13.2	10.7	8.6	7.6	6.9
Ten Year Treasury Notes	3.8	4.8	5.6	5.3	4.8	4.6
Three Month Treasury Bills	0.2	1.0	3.0	4.1	4.2	4.1

According to the February 2010 forecast of Moody's Economy.com, the decline in Rhode Island's house prices will reach bottom in mid-2010 but Rhode Island home prices will still be 60.0 percent higher than their level at the beginning of 2000. By the time housing prices hit bottom, the Federal Housing Finance Administration repeat-purchase price index is projected to have dropped by 23.9 percent from its peak in the first quarter of 2007. According to Moody's Economy.com, the housing price correction for Rhode Island will be larger than the U.S. average, but smaller than the hardest hit metro areas in southern California and Florida. Moody's Economy.com estimates that housing starts for the State topped out at around 3,500 units in the first quarter of 2006. As of December 2009, the number of starts was above 700 units at an annual rate and close to double what it had been in January 2009. According to the Rhode Island Real Estate Association, single-family home sales for all of 2009 have risen 15.9 percent compared with 2008.

The Moody's Economy.com forecast notes that mortgage credit quality continues to deteriorate in Rhode Island at a rapid rate and this poses a risk to its economy. The delinquency rate surged again during 2009, and had reached 9.2 percent of the dollar volume of all first mortgages outstanding in the State by the fourth quarter of 2009, according to data from Equifax. This rate remains higher than that of any other New England state, and is expected to remain so throughout the recession and subsequent recovery. The finances of foreclosed homeowners will take a considerable time to repair, especially as the recession and high re-default rates are still pushing down the level of loan modifications.

The Mortgage Bankers' Association data indicate that the increases in delinquencies are concentrated in adjustable rate mortgages (ARMs), particularly subprime ARMs. In recent years, an overpriced housing market pushed more than one-third of the State's homebuyers to use ARMs; many of them of the interest-only variety. Although practically all of these ARMs have reset from their initial teaser rates, they are still subject to smaller resets throughout the terms of the loans. As resets impact on many of the ARMs, homeowners have been hard pressed to keep current on their loans and are thus forced to sell their homes at a time when housing demand is slowing. In fact, the Rhode Island dollar-weighted default rates on first mortgages are the highest in New England and the foreclosure rate for Rhode Island in the third quarter of 2009 was 1.3 percent, the highest in New England and the second highest in the Northeast behind New Jersey. Not surprisingly, mortgage credit has been difficult to come by in the last two years – purchasing power is likely to be hindered by a shortage of credit in the coming two years as well.

REVENUE ESTIMATES

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

The Revenue Estimating Conference (REC) met on November 3, 4, 5 and 10, 2009, in open public meetings. The Conference issued a revised estimate for FY 2010 and a first estimate of FY2011 revenues. Based on collections trends, preliminary closing results, and the revised economic forecast, the Conference revised the FY 2010 estimates downward by $130.5 million from the FY 2010 Enacted Budget amount, to a total of $2.946 billion for FY 2010. The estimates do include additional revenues from the operation of video lottery terminals at Twin River on 24 hours per day, seven days per week basis. During the October 2009 special session of the General Assembly an increased share of Twin River's video lottery net terminal income was enacted for the Town of Lincoln for FY 2010 only. The estimates adopted at the November 2009 Revenue Estimating Conference incorporate this change in the share of video lottery net terminal income.

Estimated deposits of $69.9 million from current revenues will be made to the Budget Reserve and Cash Stabilization Fund during FY 2010 as a result of the constitutional funding formula which calculates annual contributions. The contributions to the Budget Reserve and Cash Stabilization Fund are funded by limiting annual appropriations to 97.6 percent of estimated revenues in FY 2010 and 97.4 percent of estimated revenues in FY 2011.

Revised FY 2010 General Revenues

The November 2009 Revenue Estimating Conference estimated general revenues of $2.946 billion, a decrease of -2.5 percent from the preliminary FY 2009 level. Relative to the FY 2010 enacted budget, the revised FY 2010 estimate of total general revenues is $130.5 million less or -4.2 percent. The revised FY 2010 revenue estimate presumes that the State's general revenues regain tax revenues in FY 2010 that previously were lost from several taxes due to the historic structures tax credit which will now be paid from revenue bonds issued in June 2009 by the Economic Development Corporation for that purpose. See "State Indebtedness – Authorized But Unissued Obligations Subject to Annual Appropriation" for a further discussion of the revenue bonds issued to fund the Historic Preservation Tax Credit Fund.

The largest source of revised FY 2010 general revenues is the Personal Income Tax, with estimated receipts of $919.2 million. The revised estimate for Personal Income Tax receipts are $44.0 million less than the enacted level or -4.6 percent. Personal Income Taxes are expected to comprise 31.2 percent of total general revenues in FY 2010. Relative to preliminary FY 2009 collections, the Revised FY 2010 Revenue Estimate for Personal Income Taxes are $21.3 million less, yielding a growth rate of -2.3 percent. The Revised FY 2010 Revenue Estimate for Personal Income Taxes has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against personal income taxes. Through January 31, 2010, these redemptions totaled $15.0 million.

Sales and Use Tax collections are estimated at a total $751.0 million in the revised FY 2010 revenue estimates. The revised estimate for Sales and Use Tax collections are $64.0 million less than the estimate included in the FY 2010 Budget as Enacted. This is a growth rate of -7.9 percent. The Revised FY 2010 Budget estimate for Sales and Use Taxes signifies negative growth of -7.1 percent over preliminary FY 2009 collections. Sales and Use Taxes are anticipated to contribute 25.5 percent to total general revenues in FY 2010.

Motor Vehicle Operator License and Vehicle Registration Fees are estimated at $48.6 million in the revised FY 2010 revenue estimate. This is a decrease of $1.8 million from the FY 2010 enacted estimate, a decrease of 3.6 percent. Relative to preliminary FY 2009 collections, the revised FY 2010 estimate for Motor Vehicle licenses and fees is 1.4 percent more and is projected to comprise 1.6 percent of all general revenues in FY 2010.

Motor Carrier Fuel Use Taxes are projected at $1.0 million for FY 2010, which is $325,034 less than preliminary FY 2009 collections. Compared to the enacted FY 2010 estimate for Motor Carrier Fuel Use taxes, the revised FY 2010 estimate is $80,000 more or 8.7 percent more.

Cigarette Taxes, which include excise taxes on cigarettes and ad valorem taxes on other tobacco products such as pipe tobacco, cigars, and the like, are estimated to total $140.3 million in FY 2010. The revised FY 2010 estimate is a decrease of $7.7 million from the original enacted estimate for FY 2010, a decrease of 5.2 percent.

Compared to preliminary FY 2009 cigarette taxes collections, the revised estimate is an increase of $9.8 million, or 7.5 percent.

Alcohol Taxes are projected at $11.0 million for FY 2010, an increase of 1.7 percent from preliminary FY 2010 collections. Relative to the enacted FY 2010 estimate, this revision is an increase of $100,000 or 0.9 percent.

General Business Taxes are projected to comprise 11.3 percent of revised total general revenue collections in FY 2010. Business Corporations Tax revenues are estimated at $94.1 million, a decrease of $18.8 million from the estimate contained in the FY 2010 Budget as Enacted. This is a decrease of 16.7 percent. Business Corporations Tax collections are estimated to be 9.9 percent lower than preliminary FY 2009 collections. Business Corporations Taxes are expected to constitute 3.2 percent of total general revenues in FY 2010. The revised FY 2010 Business Corporations Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against business corporations taxes. Through January 31, 2010 these redemptions totaled $67,157.

Health Care Provider Assessments are estimated at $34.9 million in the revised FY 2010 revenue estimate. In the enacted FY 2010 budget, Health Care Provider Assessments were estimated at $36.1 million or $1.2 million more than the revised FY 2010 estimate. These estimates incorporate the fact that the assessment on residential facilities for the developmentally disabled has been discontinued for services provided after June 30, 2009. Compared to FY 2009 preliminary health care provider assessment collections, the revised estimate represents a decrease of 24.2 percent.

Insurance Companies Gross Premiums Taxes are estimated at a total of $80.0 million for FY 2010 as adopted at the November 2009 Revenue Estimating Conference and are forecasted to be 2.5 percent higher than preliminary FY 2009 collections. Relative to the FY 2010 enacted estimate, the revised FY 2010 estimate is $1.9 million, or 2.3 percent, less. The revised FY 2010 Insurance Companies Gross Premiums Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against Insurance Companies Gross Premiums taxes. Through January 31, 2010, these redemptions totaled $3.1 million. Insurance Companies Gross Premiums Taxes are projected to comprise 2.7 percent of total general revenues in FY 2010.

The revised FY 2010 Financial Institution Taxes estimate is $2.0 million. Financial Institutions Taxes represent 0.1 percent of total revised general revenues in FY 2010. The revised FY 2010 Financial Institutions taxes estimate is $1.8 million less than enacted FY 2010, a decrease of 46.7 percent. Relative to preliminary FY 2009 collections, the revised FY 2010 estimate for Financial Institutions Taxes is 31.1 percent less. The Financial Institutions Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for any historic structures tax credit certificates that are redeemed against financial institutions taxes. Through January 31, 2010, there have been no redemptions of historic structures tax credit certificates against Financial Institutions taxes.

FY 2010 Bank Deposits Taxes are projected to total $1.8 million an increase of $70,000 over the enacted FY 2010 estimate. The FY 2010 level of Bank Deposits Taxes yields a growth rate of –0.2 percent when compared to preliminary FY 2009 collections.

The revised FY 2010 Public Utilities Gross Earnings Taxes estimate is projected at $120.0 million and comprises 4.1 percent of revised total general revenues in FY 2010. Compared to the enacted FY 2010 estimate for Public Utilities Gross Earnings tax, this is an increase of $5.0 million or 4.3 percent. The revised estimate represents a decrease of 5.3 percent over preliminary FY 2009 Public Utilities Gross Earnings tax collections.

Inheritance and Gift Taxes are estimated at $26.4 million in the revised FY 2010 revenue estimate, which is a decrease of 10.2 percent, or $3.0 million, from the FY 2010 enacted estimate. These estimates incorporate the increase in the state's estate tax exemption amount to $850,000 effective for decedents whose death occurs after December 31, 2009. At $26.4 million, the revised FY 2010 estimate for Inheritance and Gift Taxes are expected to constitute 0.9 percent of revised total general revenues. The revised FY 2010 revenue estimate for Inheritance and Gift Taxes is 6.0 percent less than preliminary FY 2009 collections.

The revised FY 2010 revenue estimates for Realty Transfer Taxes are projected at $6.5 million, which represents negative growth of 4.6 percent from preliminary FY 2009 levels.

Racing and Athletics Taxes are estimated at $2.0 million in revised FY 2010, a decrease of $100,000 from the FY 2010 enacted level. The revised estimate represents a decline of $450,809, or –18.4 percent, from preliminary FY 2009 collections. The revised FY 2010 estimate for Racing and Athletics Taxes accounts for the fact that only 125 days of greyhound racing will be held at Twin River during the fiscal year.

The total revised revenue estimate for all Other Taxes is 1.2 percent of revised total general revenues in FY 2010.

Revised FY 2010 departmental receipts are estimated to be $6.5 million more than enacted FY 2010 departmental receipts collections. Revised FY 2010 departmental receipts comprise 11.6 percent of estimated total general revenues in FY 2010. Relative to preliminary FY 2009 departmental receipt collections, the revised FY 2010 revenue estimate for departmental receipts yields a growth rate of 7.1 percent. In the licenses and fees category of departmental receipts, $128.8 million is expected as a result of the hospital licensing fee being assessed at 5.237 percent of 2008 net patient revenues for FY 2010.

The Other Sources component total of $365.6 million in the revised FY 2010 estimate represents an increase of $2.9 million, or 0.8 percent over the enacted FY 2010 estimate. The revised FY 2010 estimate is a decrease of 0.6 percent, or -$2.0 million, compared to preliminary FY 2009 Other Sources collections. Revised Other Sources revenues are expected to comprise 12.4 percent of total general revenues for FY 2010.

The revised FY 2010 revenue estimate for Other Miscellaneous Revenues is $500,000 less than the FY 2010 enacted estimate and $9.2 million lower than the preliminary FY 2009 level, a decrease of 52.1 percent. In FY 2009, Other Miscellaneous Revenues included a $7.5 million transfer from the Rhode Island Resource Recovery Corporation. This transfer does not recur in FY 2010. Other Miscellaneous Revenues are projected at $8.5 million in revised FY 2010, amounting to 0.3 percent of all general revenues.

Within the Gas Tax Transfer component, the revised FY 2010 revenue estimate reflects the fact that no portion of the State's $0.32 per gallon gas tax is available for use as general revenue. Thus, the Gas Tax Transfer is estimated at zero for revised FY 2010 just as it was in the FY 2010 Budget as Enacted. Relative to the preliminary FY 2009 transfer, the FY 2010 gas tax transfer is 100.0 percent less.

Within the Lottery category, the revised FY 2010 revenue estimate of $351.9 million is $3.2 million, or 0.9 percent, more than the enacted FY 2010 estimate. The revised estimate for FY 2010 incorporates the fact that the Rhode Island and Massachusetts lotteries can now sell MegaMillions and PowerBall tickets respectively. Prior to January 31, 2010, Rhode Island could only sell PowerBall tickets while Massachusetts could only sell MegaMillions tickets. The enacted FY 2010 estimate for the Lottery Transfer did not incorporate this change. The revised FY 2010 Lottery Transfer estimate is $14.4 million more than the preliminary FY 2009 transfer an increase of 4.3 percent. The revised FY 2010 lottery transfer estimate comprises 11.9 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property transfer. This transfer is expected to increase by $200,000 in revised FY 2010 vs. the estimate contained in the FY 2010 Budget as Enacted. The revised FY 2010 estimate is a decrease of $2.8 million or ─35.4 percent, from the preliminary FY 2009 transfer. The revised FY 2010 revenue estimate for the Unclaimed Property transfer is projected to be $5.2 million and is expected to comprise 0.2 percent of all general revenues.

Governor's Proposed FY 2010 Revenue Changes

The Governor's FY 2010 Supplemental Budget includes $30.0 million of additional general revenues. Of this total, a decrease of $8.8 million is proposed in Departmental Receipts. This decrease is offset by proposed increases in Other Miscellaneous revenues of $38.1 million and an increase of $641,250 in the Unclaimed Property transfer.

Within Department Receipts the Governor proposes converting the revenues collected from local school departments under the Statewide Student Transportation Initiative from general use to restricted receipts. This designation would require all payments collected for the Statewide Student Transportation Initiative be used exclusively for that purpose. The result of this change is a decrease in Departmental receipts of $8.6 million and a concomitant increase in Restricted Receipts of $8.6 million.

In addition, the Governor's FY 2010 Supplemental Budget proposes to exempt the Underground Storage Tank Replacement Fund from the State's indirect cost recovery charge. The Underground Storage Tank Replacement Fund is financed with one-half of the $0.01 per gallon surcharge that is assessed on the delivery of taxable motor fuel to underground storage tanks (the other half of the $0.01 per gallon surcharge is allocated to the Rhode Island Public Transit Authority). This surcharge is in addition to the state's $0.32 per gallon motor fuel tax. Currently the revenues deposited into the Underground Storage Tank Replacement Fund are assessed the state's 10.0 percent indirect cost recovery charge. Monies generated by the indirect cost recovery charge are deposited as general revenues. Exempting the Underground Storage Tank Replacement Fund from the indirect cost recovery charge decreases general revenues by $202,852 in FY 2010 while simultaneously increasing Restricted Receipts by the same amount.

The Governor's FY 2010 Supplemental Budget also proposes to reduce the fee assessed on landline phones that is used to finance the Telecommunication Education Access Fund from $0.26 per month to $0.15 per month and expand the base of assessment to include wireless phones. The Telecommunication Education Access Fund is a restricted receipt account and is subject to the State's indirect cost recovery charge of 10.0 percent. By reducing the fee and increasing the fee's tax base, Departmental Receipts are expected to increase by $32,330 due to the assessment of the indirect cost recovery charge.

The Governor's FY 2010 Supplemental Budget includes a total of $21.3 million from the sale of State owned land and assets. The revenues from these sales are included in the proposed increase of $38.1 million in Other Miscellaneous revenues. The assets to be sold and their estimated amounts are: (1) The Veterans Memorial Auditorium in Providence, $10.8 million; (2) the site of the old Training School in Cranston, $6.2 million; (3) the site of the State's old Central Computer Facility in Johnston, $1.5 million; and (4) 2 Metacom Avenue in Bristol, $2.8 million.

Further revenue enhancements that are included in the total for Other Miscellaneous Revenues are voluntary payments of $6.0 million from the State's privately owned residential facilities for adults with developmental disabilities, a transfer of $3.6 million from the State's automobile replacement fund, and $7.2 million in recovered child support collections that were due and payable in prior fiscal years.

Finally, the Governor's FY 2010 Supplemental Budget includes increased revenues from the State's Unclaimed Property program due to the turning over to the State of aged bail accounts by the Judiciary and forfeited property by the State Police. The total increase in the Unclaimed Property transfer from these actions is $641,250.

The net increase of $30.0 million in revenues contained in the Governor's FY 2010 Supplemental Budget is 1.0 percent above the $2.946 billion estimated total general revenues adopted at the November 2009 Revenue Estimating Conference.

FY 2011 Estimated Revenues

The November 2009 Revenue Estimating Conference estimates general revenues of $2.834 billion, a decrease of 3.8 percent from the revised FY 2010 level of $2.946 billion. The estimated FY 2011 revenues do not include collections attributable to the Hospital Licensing Fee. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY2011. All references to FY 2011 total general revenues do not include the value of the Hospital Licensing Fee which is estimated at $128.8 million in revised FY 2010. The FY 2011 revenue estimate assumes the State regains tax revenues in FY 2011 formerly lost from several taxes due to the historic structures tax credit, which will now be paid from proceeds from revenue bonds that were issued by the Economic Development Corporation for that purpose.

The largest source of estimated FY 2011 general revenues is the Personal Income Tax, with estimated receipts of $933.0 million, $13.8 million more, or 1.5 percent greater, than the revised estimate for FY 2010. Personal Income Taxes are expected to comprise 32.9 percent of total general revenues in FY 2011. The estimated FY 2011 Personal Income Taxes estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against personal income taxes.

Sales and Use Tax collections are estimated at a total $743.7 million in FY 2011. The FY 2011 estimate yields growth of –1.0 percent over the revised FY 2010 Sales and Use tax estimate. Sales and Use Taxes are anticipated to contribute 26.2 percent to total general revenues in FY 2011.

Motor Vehicle operator license and vehicle registration fees are estimated to equal $48.1 million in FY 2011. Relative to the revised FY 2010 estimate, the FY 2011 estimate for Motor Vehicle licenses and fees is down $500,000, or –1.0 percent. Motor Carrier Fuel Use Taxes are estimated at $1.0 million in FY 2011, the same level as was estimated for revised FY 2010.

The Cigarette excise tax component is estimated at $134.6 million in FY 2011, a decrease of $5.7 million, or 4.1 percent from the revised FY 2010 level. Cigarette taxes are expected to comprise 4.7 percent of estimated total general revenues in FY 2011.

Alcohol Taxes are estimated at $11.1 million for FY 2011, an increase of $100,000, or 0.9 percent over the revised FY 2010 estimate. Alcohol taxes are projected to make up 0.4 percent of total estimated general revenues in FY 2011.

General Business Taxes are estimated to be $340.0 million in FY 2011 and represent 12.0 percent of total general revenue collections in the FY 2011 revenue estimate. Business Corporations Tax revenues are estimated to yield $100.0 million in FY 2011, an increase of $5.9 million or 6.3 percent over the revised FY 2010 estimate. Business Corporations Taxes are expected to constitute 3.5 percent of total estimated general revenues in FY 2011. The FY 2011 Business Corporations Tax estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against business corporations taxes.

The FY 2011 Health Care Provider Assessments estimate is $34.7 million, which is $200,000 lower than the level contained in the revised FY 2010 estimate. This is a decrease of 0.6 percent. The Health Care Provider Assessment is anticipated to comprise 1.2 percent of estimated FY 2011 general revenues.

Insurance Companies Gross Premiums Taxes are estimated at a total of $82.4 million in FY 2011. Insurance Companies Gross Premiums Taxes are expected to be 3.0 percent higher than the revised FY 2010 estimate. They will comprise 2.9 percent of total estimated general revenues in FY 2011. The FY 2011 Insurance Companies Gross Premiums Tax estimate has been grossed up to reflect the reimbursement of the State from proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against insurance companies gross premiums taxes.

FY 2011 Financial Institution Taxes are estimated at $1.0 million less than the FY 2010 revised estimate. At a total of $1.0 million, they represent less than 0.1 percent of total estimated general revenues in FY 2011. Relative to the revised FY 2010 estimate, the estimated FY 2011 level of Financial Institutions Taxes is 50.0 percent less. The FY 2011 Financial Institutions Tax estimate has been grossed up to reflect the reimbursement of the State from the proceeds of Economic Development Corporation Revenue Bonds for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

FY 2011 Bank Deposits Taxes are estimated at the same level as in revised FY 2010, a total of $1.8 million, and comprise 0.1 percent of total estimated general revenues.

The estimated FY 2011 Public Utilities Gross Earnings Taxes are $1.0 million more than the revised FY 2010 general revenue estimates. The estimated FY 2011 Public Utilities Gross Earnings Taxes are $121.0 million and comprise 4.3 percent of total estimated general revenues in FY 2011. The FY 2011 Public Utilities Gross Earnings Tax estimate has been grossed up to reflect the reimbursement of the State from the Historic Structures Tax Credit Fund for historic structures tax credit certificates that are expected to be redeemed against financial institutions taxes.

Inheritance and Gift Taxes are estimated at $26.0 million for FY 2011. This revenue estimate includes one full year's worth of the increase in the exemption amount above which an estate becomes subject to Rhode Island's estate tax. The estimated revenue loss from this change in the estate tax exemption amount is approximately $1.6 million in FY 2011. The FY 2011 Inheritance and Gift Taxes are expected to constitute 0.9 percent of total estimated general revenues. The FY 2011 estimate for Inheritance and Gift Taxes is 1.5 percent less than the revised FY 2010 estimate.

FY 2011 Realty Transfer Taxes are estimated at the same level as in the revised FY 2010 estimate. Thus, estimated Realty Transfer Taxes are estimated to be $6.5 million and are expected to comprise 0.2 percent of estimated total general revenues in FY 2011. Racing and Athletics Taxes are estimated for FY 2011 at $200,000 below the level contained in the revised FY 2010 estimate. This estimate represents a decline of 10.0 percent, from revised FY 2010 levels. Racing and Athletics Taxes estimated for FY 2011 are $1.8 million. The estimated total of all Other Taxes is 1.2 percent of total estimated general revenues in FY 2011.

FY 2011 departmental receipts are expected to generate $121.0 million less than the revised FY 2010 level adopted at the November 2009 Revenue Estimating Conference. This difference is more than accounted for by the fact that the estimated FY 2011 estimate for departmental receipts does not include the Hospital Licensing Fee which is estimated to generate $128.8 million in revised FY 2010. The Revenue Estimating Conference does not estimate the Hospital Licensing Fee because it is authorized annually by the General Assembly and therefore is not considered current law beyond the single year authorized. FY 2011 departmental receipts represent 7.8 percent of total estimated general revenues in FY 2011. Relative to revised FY 2010 departmental receipt levels, the FY 2011 estimate of departmental receipts yields a growth rate of -35.4 percent.

The Other Sources component estimated total of $366.7 million in FY 2011 represents an increase of 0.3 percent, or $1.1 million, compared to the revised FY 2010 Other Sources estimate. FY 2011 Other Sources estimated revenues are expected to comprise 12.9 percent of total estimated general revenues.

The November 2009 Revenue Estimating Conference's adopted FY 2011 estimate for Other Miscellaneous Revenues is $4.0 million lower than the revised FY 2010 level, a decrease of 47.1 percent. Other Miscellaneous Revenues are estimated at $5.5 million in FY 2011, amounting to 0.2 percent of all general revenues.

Within the Gas Tax Transfer component, the November 2009 Conference's FY 2011 estimate shows no change from the revised FY 2010 estimate. The Gas Tax Transfer is estimated at zero due to the fact that the general fund no longer receives an allocation from the Intermodal Surface Transportation Fund (ISTF). That is, all of the revenue generated from the state's $0.32 per gallon motor fuel tax now remains with the ISTF and is reserved for transportation purposes.

In FY 2011, the Lottery Transfer is estimated to be $356.9 million and comprises 12.6 percent of total estimated general revenues for FY 2011. Within the Lottery category, the FY 2011 estimate is $5.0 million greater than the revised FY 2010 transfer, an increase of 1.4 percent. The FY 2011 estimate incorporates both 24/7 operations at the State's video lottery terminal facilities and the cross selling of MegaMillions and PowerBall in the states of Rhode Island and Massachusetts.

In March 2008, UTGR, Inc., the owner and operator of Twin River, one of the two licensed video lottery facilities of the State, defaulted on loan payments to its lenders who provided a $565.0 million loan package to UTGR, Inc. and its parent companies to buy and expand the Twin River facility. As a result of defaulting on loan payments, UTGR entered into a forbearance agreement with its lenders. In September 2008, both Standard & Poor's and Moody's Investors Service downgraded their rating of the company that owns Twin River, and Moody's issued a statement warning of a "high probability of bankruptcy". The forbearance agreement expired on January 31, 2009 and was not extended.

On or about June 23, 2009, UTGR, Inc. d/b/a Twin River, BLB Management Services, Inc, and BLB Worldwide Holdings, Inc. (collectively, the "Debtors") commenced a Chapter 11 bankruptcy proceeding by filing voluntary petitions for relief in the United States Bankruptcy Court for the District of Rhode Island (Case No. 09-12418). The filing was made when – after months of discussions and negotiations - the Debtors, their lenders and the State reached an agreement in principle with respect to a consensual reorganization plan, which plan is subject to approval of the Bankruptcy Court. The consensual plan contemplates, among other things, that the lenders will remove approximately $290.0 million of the approximately $590.0 million of debt on the balance sheet of the facility and, subject to the State's regulatory approval process, the lenders shall become the new owners of the facility and search for a new operator for the facility to replace the Debtors. The State is represented in the bankruptcy proceedings by outside legal counsel (Willkie Farr & Gallagher LLP and Brown Rudnick LLP). Progress has been made toward a successful restructuring of the companies. Since the filing, the Debtors have continued in the management and operation of the business as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code and Twin River has continued to remain open as usual.

On or about January 2, 2010 the Debtors filed their Second Amended Disclosure Statement and Second Amended Plan with respect to the reorganization, which has the support of the key stakeholders. The Debtors have already received approval of their Second Amended Disclosure Statement. In addition, the Debtors have been granted the authority to begin soliciting votes on the Second Amended Plan. The hearing on the Second Amended Plan is scheduled for April, 2010. Although the plan provides for the State to make additional investments in the marketing and management for the facility, it is not anticipated that the bankruptcy will have a significant impact on the lottery revenues the State expects to continue to receive from the facility. The lenders and/or Debtors intend to have legislation introduced to statutorily achieve certain requirements of the restructuring, including but not limited to, the elimination of the requirement that the Debtors offer live greyhound racing as a condition for operating video lottery terminals at the facility. The Rhode Island Lottery continues to control and regulate the video lottery operations at the facility, including cash receipts, cash transfers and cash deposits. The cash management process continues to be carried out with a high degree of physical security and financial integrity. If legislation acceptable to the lenders and/or Debtors is not passed, it is unclear as to what, if any, impact that will have on the video lottery operations at the facility.

The Department of Revenue, Division of Lotteries, and the Department of Business Regulation continue to closely monitor the situation. Any proposal to have a new operator of the facility and/or any proposal to transfer ownership of the facility would need regulatory approval. Certain applications for licensure have been submitted by the lenders to the Department of Business Regulation and these applications are currently under review. It should also be noted that the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River.

The final category of general revenues is the Unclaimed Property transfer. In FY 2011, this transfer is estimated at an amount of $5.3 million, an increase of $100,000, or 1.9 percent, from the revised FY 2010 transfer. The Unclaimed Property transfer is expected to comprise 0.2 percent of all adopted total general revenues in FY 2011.

FY 2011 Proposed Revenues

The Governor's recommended FY 2011 budget estimates general revenues of $2.927 billion, a decrease of 1.7 percent from the revised FY 2010 level. The Governor's recommendation is comprised of $2.834 billion of revenue estimated at the November 2009 Revenue Estimating Conference and $92.3 million of changes to the adopted estimates.

The largest source of FY 2011 general revenues is the Personal Income Tax, with estimated receipts of $927.7 million, $5.3 million less than the November 2009 REC estimate for FY 2011 or growth of 0.9 percent from the revised FY 2010 amount. This small revenue decrease is the net result of the Governor's proposal to eliminate two existing tax credits and institute a new tax credit, albeit one of a temporary duration. The Governor proposes the elimination of the state's Motion Picture Production Company Tax Credit and the Enterprise Zone Wage Tax Credit. The elimination of these two credits is estimated to increase personal income tax collections by $2.7 million in FY 2011. The Governor further proposes increasing the annual cap for the tax credit given for Contributions to K-12 Scholarship Organizations from $1.0 million to $2.0 million. This proposal is estimated to reduce personal income tax collections in FY 2011 by $730,000.

Finally, the Governor proposes the creation of the Small Business Jobs Growth Tax Credit. The Small Business Jobs Growth Tax Credit would allow employers with between 5 and 100 employees in the State (with no more than 200 employees worldwide) a $2,000 tax credit per new hire provided that the newly hired employee is a resident of the State, has received unemployment compensation or Temporary Assistance to Needy Families (TANF) or has graduated from an accredited higher education institution at any time in the past 24 months. The newly hired employee must be paid 250.0 percent of the State's minimum wage at the time of hire, work at least 30 hours per week, and be offered health insurance by the employer. The employer must employ the new hire for 18 consecutive months and its total employment after 18 months must be greater than it was at the time the credit eligible employee was hired. The program runs from July 1, 2010 through December 31, 2011. The Department of Revenue estimates that 3,625 individuals will be hired under this program by business entities that are not subject to the State's Business Corporations, Financial Institutions, or Insurance Companies tax. The estimated foregone personal income tax revenue from the implementation of the Small Business Jobs Growth Tax Credit is $7.3 million.

General Business taxes are projected to represent 11.2 percent of total general revenue collections in the FY 2011 budget year. Business Corporations Tax revenues are expected to yield $85.7 million, a decrease of $14.3 million from the FY 2011 estimate agreed to at the November 2009 REC. This decrease is the result of the Governor's proposals to implement the Small Business Jobs Growth Tax Credit, reduce the minimum corporate/franchise tax to $250, and increase the cap for the Contributions to K-12 Scholarship Organizations tax credit. These proposals are expected to reduce Business Corporations tax collections by $2.8 million, $11.5 million and $180,000 respectively. These revenue reductions are offset in part by increased Business Corporations tax collections that result from the repeal of the Motion Picture Production Company Tax Credit, an increase of $58,691, and the Enterprise Zone Wage Tax Credit, an increase of $150,000. The estimated growth rate in Business Corporations taxes over the FY 2010 revised level is -8.9 percent.

Insurance Companies Gross Premiums taxes are projected to reach $82.4 million in FY 2011. This amount is equal to the revenue estimate for Insurance Companies Gross Premiums taxes adopted at the November 2009 Revenue Estimating Conference and also includes an increase in revenue of $70,078 from the repeal of the Motion Picture Production Company Tax Credit and a decrease in revenue of $90,000 from the increase in the annual cap for Contributions to K-12 Scholarship Organizations tax credit. The recommended growth rate in FY 2011 Insurance Companies Gross Premiums taxes over the FY 2010 revised estimate is 3.0 percent.

FY 2011 recommended revenues for the Public Utilities Gross Earnings tax, the Financial Institutions tax, the Bank Deposits tax, and the Health Care Provider Assessment are at the same levels as were adopted at the November 2009 Revenue Estimating Conference. The respective FY 2011 recommended growth rates for these taxes relative to the FY 2010 revised estimates are 0.8 percent, -50.0 percent, 0.0 percent, and -0.6 percent respectively.

Sales and Use Tax collections are expected to yield $743.7 million in FY 2011, the same level that was adopted at the November 2009 Revenue Estimating Conference for FY 2011. The Governor's FY 2011 recommended estimate signifies growth of -1.0 percent over the FY 2010 revised estimate. Sales and Use Taxes are anticipated to contribute 25.4 percent to total general revenues in FY 2011.

Motor Vehicle operator license and vehicle registration fees are forecasted to equal $48.1 million in FY 2011 the same level that was adopted at the November 2009 REC. Motor Carrier Fuel Use Taxes are estimated to reach $1.0 million in FY 2011 and Cigarettes tax revenues are expected to total $134.6 million. Each of these recommended revenue amounts are the same as the estimates adopted at the November 2009 Revenue Estimating Conference. Alcohol Tax revenues are projected to increase by $100,000 or 0.9 percent in FY 2011 from the revised FY 2010 estimate.

Inheritance and Gift Taxes are projected to equal the $26.0 million amount adopted at the November 2009 Revenue Estimating Conference. Realty Transfer Taxes are estimated at the same level adopted at the November 2009 Revenue Estimating Conference and the revised estimate for FY 2010, with anticipated collections of $6.5 million. Racing and Athletics Taxes are also estimated at the level adopted at the November 2009 Revenue Estimating Conference. This estimate represents a decline of $200,000, or -10.0 percent, from the revised FY 2010 estimate. Total Racing and Athletics Taxes projected in FY 2010 is $2.0 million. Other taxes will comprise 1.2 percent of total general revenues in FY 2011.

FY 2011 departmental receipts are expected to generate $1.3 million less than the revised FY 2010 budget. Inclusive of the Governor's proposed changes to departmental receipts, total departmental revenues are expected to be $331.9 million in FY 2011, or 11.3 percent of total general revenues. In the licenses and fees category, $129.9 million more is expected due primarily to the Governor's proposal to reinstate the Hospital Licensing fee for one year using the current rate of assessment of 5.237 percent and the current base of FY 2008 net patient revenues. The FY 2011 recommended departmental revenues figure includes the following proposals:

- An increase of $128.8 million from reinstituting the Hospital Licensing Fee;
- An increase of $625,000 from the imposition of a $25 fee for road tests performed by the Division of Motor Vehicles;
- An increase of $130,000 from increasing the fee for a State Issued Identification Card to $25;
- An increase of $116,000 from increasing the motor vehicle dealers license fee to $300 annually;
- An increase of $34,500 from increasing the motor vehicle manufacturer / distributor license fee to $300 annually;
- An increase of $44,000 from increasing the flashing lights permit fee to $25 annually;
- An increase of $37,400 from increasing the registration fee for school buses to $25
- An increase of $26,910 from increasing the fee for an accident report to $15
- A decrease of $3,198,849 from the reclassification of board and support fees for patients at Slater and Zambarano Hospitals from general revenue to restricted receipts;
- A decrease of $15,640,000 from the reclassification of receipts received for the statewide student transportation initiative from general revenue to restricted receipts;
- A decrease of $202,852 from the exemption of the Underground Storage Tank Replacement Fund from the indirect cost recovery assessment;
- An increase of $77,592 from the indirect cost recovery assessment on the Telecommunication Education Access Fund which is expected to have increased revenues in FY 2011

The FY 2011 recommended revenues for the other sources component totals $367.7 million, a decrease of $36.6 million, or 9.1 percent, compared to the revised revenue estimate for FY 2010. The change in other sources of revenue is primarily due to the decrease in Other Miscellaneous Revenues of $41.1 million. Of this amount $21.25 million is related to one-time land sales that are in the revised FY 2010 budget. Other Miscellaneous Revenues are anticipated to generate $5.5 million in FY 2011 an increase of $1.0 million from the level adopted at the November 2009 Revenue Estimating Conference.

Within the Gas Tax Transfer component, the Governor's FY 2011 budget shows no change from the FY 2010 revised estimate. Effective July 1, 2009, the state's general fund no longer receives any of the revenues generated by the state's $0.32 per gallon gas tax.

Within the Lottery category, the recommended FY 2011 budget is $5.0 million greater than the revised FY 2010 budget, an increase of 1.4 percent. The Governor recommends no changes from the November 2009 Revenue Estimating Conference estimate for the Lottery Transfer. In FY 2011, the Lottery Transfer is expected to be $356.9 million and comprise 12.2 percent of total general revenues.

The final category of general revenue receipts is the Unclaimed Property Transfer. In FY 2011, this transfer is expected to decrease by $541,250, or 9.3 percent, from the revised FY 2010 estimate. The Unclaimed Property Transfer is projected to be $5.3 million in FY 2011, and comprises 0.2 percent of all general revenues.

The chart below shows the sources of general revenues for the period FY 2008 – FY 2011. The values of the two major sources of general revenues, personal income taxes and sales and use taxes, are highlighted.

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES

The following tables set forth comparative summaries for all State General Revenues for fiscal years 2008 through 2011 and expenditures for the fiscal years 2008 through 2011. General Fund data on expenditures for FY 2008 is derived from the State's Comprehensive Annual Financial Report prepared by the State Controller and post audited by the Auditor General. Expenditures for FY 2009 reflect unaudited data derived from the preliminary closing report of the State Controller. Expenditures for Enacted FY 2010 reflect the budget enacted by the General Assembly in June 2009. The expenditures for FY 2011 reflect those contained in the FY 2011 Budget proposed by the Governor in February 2010. The General Assembly included $67.9 million of undistributed savings in the Department of Administration, which required agency budgets to be reduced further during FY 2010 and the reduction was allocated from the Department of Administration across State government. Expenditures for the FY 2010 Working Budget reflect the allocation of $67.9 million of undistributed savings which were budgeted in the Department of Administration. Expenditures for Revised FY 2010 reflect the supplemental budget submitted by the Governor in December 2009, as amended. In addition, expenditures include other sources of funds outside the General Fund that are appropriated for budgetary purposes. These include all expenditures shown from other fund sources, as well as certain expenditures from Federal and Restricted sources.

General Fund revenues for FY 2008 reflect the audited actual revenues as reported by the State Controller. FY 2009 revenues reflect unaudited data derived from the preliminary closing report of the State Controller. FY 2010 Enacted revenues reflect those estimated at the May 2009 Revenue Estimating Conference adjusted by changes enacted by the 2009 General Assembly in the 2010 Budget. FY 2010 Revised reflects the November 2009 Revenue Estimating Conference revenues including proposed statutory changes contained in the Governor's FY 2010 Supplemental Budget. The FY 2011 Recommended revenues reflect those adopted by the Conferees at the November 2009 Revenue Estimating Conference and any statutory changes proposed by the Governor in the FY 2011 proposed budget. These estimates are explained under the section above entitled *Revenue Estimates* and the subheading below entitled *Free Surplus*.

General Revenues as Recommended

		FY 2008 Audited		FY 2009 Preliminary		FY 2010 Revised		FY 2011 Recommended
Personal Income Tax	$	1,073,616,875	$	940,513,781	$	919,200,000	$	927,681,919
General Business Taxes								
Business Corporations		150,468,827		104,436,811		94,100,000		85,742,941
Public Utilities Gross Earnings		99,436,915		126,664,890		120,000,000		121,000,000
Financial Institutions		1,830,270		2,901,945		2,000,000		1,000,000
Insurance Companies		67,997,274		78,016,930		80,000,000		82,380,078
Bank Deposits		1,710,050		1,802,796		1,800,000		1,800,000
Health Care Provider Assessment		53,356,431		46,030,570		34,900,000		34,700,000
Sales and Use Taxes								
Sales and Use		844,197,089		808,125,293		751,000,000		743,700,000
Motor Vehicle		48,610,020		47,925,805		48,600,000		48,100,000
Motor Fuel		991,473		1,325,034		1,000,000		1,000,000
Cigarettes		114,674,498		130,503,213		140,300,000		134,600,000
Alcohol		11,140,941		10,811,831		11,000,000		11,100,000
Other Taxes								
Inheritance and Gift		35,333,925		28,096,912		26,400,000		26,000,000
Racing and Athletics		2,812,860		2,450,809		2,000,000		1,800,000
Realty Transfer		10,223,094		6,811,322		6,500,000		6,500,000
Total Taxes	**$**	**2,516,400,542**	**$**	**2,336,417,942**	**$**	**2,238,800,000**	**$**	**2,227,104,938**
Departmental Receipts	$	356,546,075	$	319,361,734	$	333,229,478	$	331,896,889
Taxes and Departmentals	**$**	**2,872,946,617**	**$**	**2,655,779,676**	**$**	**2,572,029,478**	**$**	**2,559,001,827**
Other Sources								
Gas Tax Transfer	$	4,513,745	$	4,327,710	$	-	$	-
Other Miscellaneous		181,810,134		17,739,819		46,602,906		5,500,000
Lottery		354,321,087		337,529,754		351,900,000		356,900,000
Unclaimed Property		15,387,030		8,044,126		5,841,250		5,300,000
Other Sources	**$**	**556,031,996**	**$**	**367,641,409**	**$**	**404,344,156**	**$**	**367,700,000**
Total General Revenues	**$**	**3,428,978,613**	**$**	**3,023,421,085**	**$**	**2,976,373,634**	**$**	**2,926,701,827**

Expenditures from All Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
General Government						
Administration (1)	$617,461,725	$590,170,091	$601,864,659	$657,452,418	$555,231,922	$438,998,756
Business Regulation	11,812,170	9,890,282	11,332,045	10,722,415	10,505,780	11,061,944
Labor and Training	499,662,135	802,175,193	930,034,066	929,831,544	1,042,062,542	679,314,897
Revenue	254,603,213	224,429,886	239,805,187	237,466,215	240,798,638	238,006,505
Legislature	33,829,223	33,526,663	37,430,724	35,285,531	35,684,196	37,613,429
Lieutenant Governor	850,412	852,985	973,262	912,365	898,489	975,080
Secretary of State	6,819,947	7,031,773	6,495,579	6,124,073	6,141,031	7,164,027
General Treasurer	39,662,095	25,383,395	30,736,632	30,577,488	31,974,777	32,700,174
Board of Elections	1,926,493	2,042,871	1,850,141	1,710,252	1,382,177	3,919,591
Rhode Island Ethics Commission	1,343,029	1,349,725	1,437,730	1,347,336	1,416,832	1,485,693
Governor's Office	4,957,880	5,171,859	5,737,384	5,404,664	5,987,855	6,371,540
Commission for Human Rights	1,340,711	1,373,187	1,424,747	1,359,524	1,318,489	1,373,566
Public Utilities Commission	5,433,284	5,635,602	7,412,531	7,412,531	7,322,031	7,726,656
Rhode Island Commission on Women	105,953	112,319	109,462	102,822	69,270	-
Subtotal - General Government	**$1,479,808,270**	**$1,709,145,831**	**$1,876,644,149**	**$1,925,709,178**	**$1,940,794,029**	**$1,466,711,858**
Human Services						
Office of Health & Human Services	3,848,200	7,075,645	9,390,689	9,170,541	8,037,893	7,275,747
Children, Youth, and Families	226,983,230	249,961,027	247,749,655	243,460,201	242,035,994	236,894,644
Elderly Affairs	34,383,268	32,186,471	25,523,166	25,407,384	28,449,419	27,270,687
Health	126,552,009	122,192,186	132,310,791	130,474,221	143,907,813	112,565,829
Human Services	1,847,633,989	1,826,236,998	1,963,510,139	1,959,072,167	2,045,026,660	2,126,180,064
Mental Health, Retardation, & Hospitals	489,441,696	466,591,483	462,873,731	459,212,541	460,557,474	447,681,817
Governor's Commission on Disabilities	541,108	599,118	726,400	703,145	746,266	825,256
Commission on Deaf and Hard of Hearing	288,790	337,417	370,146	343,136	349,670	363,502
State Council on Developmental Disabilities	395,288	-	-	-	-	-
Office of the Child Advocate	485,449	512,005	588,148	553,544	558,159	590,863
Office of the Mental Health Advocate	419,127	441,060	448,423	419,706	391,609	441,956
Subtotal - Human Services	**$2,730,972,154**	**$2,706,133,410**	**$2,843,491,288**	**$2,828,816,586**	**$2,930,060,957**	**$2,960,090,365**
Education						
Elementary and Secondary	1,092,600,521	1,051,662,882	1,150,007,562	1,147,421,206	1,130,721,698	1,143,551,130
Higher Education - Board of Governors	789,906,567	840,759,237	886,769,732	877,536,814	897,109,495	932,884,178
RI Council on the Arts	2,934,389	2,602,169	3,274,826	3,232,532	3,670,150	1,942,131
RI Atomic Energy Commission	1,474,561	1,052,916	1,217,115	1,168,832	1,392,841	1,494,256
Higher Education Assistance Authority	25,921,954	27,244,765	28,631,338	28,587,530	25,556,789	25,840,120
Historical Preservation and Heritage Comm.	2,195,180	2,021,138	2,613,504	2,543,303	2,560,674	2,666,351
Public Telecommunications Authority	2,114,570	1,923,275	1,908,358	1,834,029	1,623,581	1,674,984
Subtotal - Education	**$1,917,147,742**	**$1,927,266,382**	**$2,074,422,435**	**$2,062,324,246**	**$2,062,635,228**	**$2,110,053,150**

Expenditures from All Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
Public Safety						
Attorney General	22,873,248	23,273,474	23,507,213	22,163,632	23,874,309	23,783,650
Corrections	198,729,607	179,135,548	185,355,506	173,341,335	186,339,325	190,269,623
Judicial	94,506,571	93,784,589	95,984,801	91,480,927	94,133,976	97,533,099
Military Staff	23,773,234	28,850,441	27,041,133	26,825,826	40,900,392	26,731,138
Public Safety (2)	73,150,505	78,573,137	91,427,484	90,320,985	103,322,224	105,282,008
Office of Public Defender	9,302,799	9,272,214	9,809,087	9,197,738	9,585,748	10,040,494
Subtotal - Public Safety	**$422,335,964**	**$412,889,403**	**$433,125,224**	**$413,330,443**	**$458,155,974**	**$453,640,012**
Natural Resources						
Environmental Management	70,373,524	66,566,213	90,973,245	88,711,349	95,023,648	92,302,638
Coastal Resources Management Council	5,474,935	3,607,015	5,541,521	5,409,414	10,045,740	3,867,225
Water Resources Board	1,635,666	1,133,329	1,473,785	1,370,431	1,653,914	1,438,150
Subtotal - Natural Resources	**$77,484,125**	**$71,306,557**	**$97,988,551**	**$95,491,194**	**$106,723,302**	**$97,608,013**
Transportation						
Transportation	305,436,562	362,791,116	489,066,491	489,066,491	418,100,369	424,818,766
Subtotal - Transportation	**$305,436,562**	**$362,791,116**	**$489,066,491**	**$489,066,491**	**$418,100,369**	**$424,818,766**
Total	**$6,933,184,817**	**$7,189,532,699**	**$7,814,738,138**	**$7,814,738,138**	**$7,916,469,859**	**$7,512,922,164**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) In FY 2009 several agencies merged into a new Department of Public Safety including State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from General Revenues

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
General Government						
Administration (1)	$520,058,764	$475,081,215	$429,600,820	$485,188,579	$365,653,488	$275,494,281
Business Regulation	10,333,679	8,527,973	9,577,234	8,967,604	8,771,882	8,756,919
Labor and Training	6,377,174	6,433,975	6,667,994	6,465,472	6,531,803	6,689,542
Revenue	35,086,502	32,332,034	36,191,064	33,852,092	33,882,287	35,671,581
Legislature	32,377,685	32,018,330	35,874,012	33,728,819	34,181,165	36,038,421
Lieutenant Governor	850,412	852,985	973,262	912,365	898,489	975,080
Secretary of State	5,488,114	6,318,527	5,521,241	5,149,735	5,235,706	6,669,460
General Treasurer	2,668,892	2,353,044	2,500,299	2,341,155	2,299,683	2,392,455
Board of Elections	1,315,331	1,547,547	1,600,141	1,460,252	1,161,596	3,919,591
Rhode Island Ethics Commission	1,343,029	1,349,725	1,437,730	1,347,336	1,416,832	1,485,693
Governor's Office	4,957,880	4,627,388	5,106,754	4,774,034	4,730,441	4,872,994
Commission for Human Rights	951,872	918,462	1,016,242	951,019	961,874	1,016,877
Public Utilities Commission	475,034	-	-	-	-	-
Rhode Island Commission on Women	105,953	112,319	109,462	102,822	69,270	-
Subtotal - General Government	**$622,390,321**	**$572,473,524**	**$536,176,255**	**$585,241,284**	**$465,794,516**	**$383,982,894**
Human Services						
Office of Health & Human Services	363,333	3,434,394	3,621,896	3,401,748	3,323,828	3,528,201
Children, Youth, and Families	151,491,614	161,307,641	158,822,427	154,532,973	154,127,876	155,086,402
Elderly Affairs	16,969,063	14,056,863	9,920,687	9,804,905	9,940,985	10,806,690
Health	29,985,420	26,238,737	29,554,572	27,718,002	28,502,412	28,572,462
Human Services	815,777,935	658,673,264	662,081,602	657,643,630	665,362,509	673,746,309
Mental Health, Retardation, & Hospitals	241,952,595	184,060,033	166,015,780	162,354,590	168,095,607	165,097,248
Governor's Commission on Disabilities	350,480	383,041	366,450	343,195	344,227	368,032
Commission on Deaf and Hard of Hearing	289,412	341,317	370,146	343,136	349,670	363,502
State Council on Developmental Disabilities	-	-	-	-	-	-
Office of the Child Advocate	445,443	501,518	547,048	512,444	512,265	545,058
Office of the Mental Health Advocate	419,127	441,060	448,423	419,706	391,609	441,956
Subtotal - Human Services	**$1,258,044,422**	**$1,049,437,868**	**$1,031,749,031**	**$1,017,074,329**	**$1,030,950,988**	**$1,038,555,860**
Education						
Elementary and Secondary	908,826,348	825,851,737	857,726,770	855,140,414	794,693,009	828,248,498
Higher Education - Board of Governors	189,982,773	170,814,823	173,306,844	164,073,926	162,966,485	163,878,632
RI Council on the Arts	2,111,963	1,591,482	1,983,986	1,941,692	1,939,874	991,141
RI Atomic Energy Commission	834,101	784,077	775,346	727,063	788,999	877,687
Higher Education Assistance Authority	10,219,792	7,283,678	7,305,741	7,261,933	7,238,150	7,274,358
Historical Preservation and Heritage Comm.	1,494,562	1,241,495	1,285,100	1,214,899	1,262,238	1,351,097
Public Telecommunications Authority	1,316,196	1,206,333	1,142,702	1,068,373	1,009,552	1,038,234
Subtotal - Education	**$1,114,785,735**	**$1,008,773,625**	**$1,043,526,489**	**$1,031,428,300**	**$969,898,307**	**$1,003,659,647**

Expenditures from General Revenues

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
Public Safety						
Attorney General	20,550,412	20,811,424	21,099,743	19,756,162	20,070,966	21,132,161
Corrections	193,138,298	154,269,696	177,390,562	165,376,391	174,850,922	181,711,505
Judicial	82,799,851	81,658,618	83,907,229	79,403,355	80,226,082	84,728,358
Military Staff	2,320,832	3,489,126	3,279,979	3,064,672	3,262,789	3,375,409
Public Safety (2)	62,946,519	63,138,445	54,745,909	53,639,410	54,824,372	84,281,696
Office of Public Defender	9,030,938	8,986,912	9,583,189	8,971,840	9,204,425	9,610,354
Subtotal - Public Safety	**$370,786,850**	**$332,354,221**	**$350,006,611**	**$330,211,830**	**$342,439,556**	**$384,839,483**
Natural Resources						
Environmental Management	36,032,812	32,853,893	35,484,369	33,222,473	32,811,928	34,665,256
Coastal Resources Management Council	1,985,139	2,002,176	2,027,574	1,895,467	1,945,046	2,043,079
Water Resources Board	1,226,089	999,005	1,370,785	1,267,431	1,099,936	1,318,150
Subtotal - Natural Resources	**$39,244,040**	**$35,855,074**	**$38,882,728**	**$36,385,371**	**$35,856,910**	**$38,026,485**
Transportation						
Transportation	-	-	-	-	-	-
Subtotal - Transportation	-	-	-	-	-	-
Total	**$3,405,251,368**	**$2,998,894,312**	**$3,000,341,114**	**$3,000,341,114**	**$2,844,940,277**	**$2,849,064,369**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) In FY 2009 several agencies merged into a new Department of Public Safety including State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Federal Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
General Government						
Administration (1)	$39,828,801	$48,933,450	$80,173,897	$80,173,897	$86,129,991	$76,215,134
Business Regulation	114,130	87,315	-	-	-	-
Labor and Training	28,883,497	62,635,505	214,366,612	214,366,612	326,479,058	76,870,788
Revenue	1,470,903	1,551,477	2,604,929	2,604,929	2,402,882	2,273,362
Legislature	-	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-	-
Secretary of State	911,443	285,130	500,000	500,000	408,400	-
General Treasurer	799,601	783,113	1,293,540	1,293,540	1,276,605	1,111,550
Board of Elections	611,162	495,324	250,000	250,000	220,581	-
Rhode Island Ethics Commission	-	-	-	-	-	-
Governor's Office	-	544,471	630,630	630,630	-	-
Commission for Human Rights	388,839	454,725	408,505	408,505	356,615	356,689
Public Utilities Commission	70,662	67,758	103,600	103,600	203,864	296,330
Rhode Island Commission on Women	-	-	-	-	-	-
Subtotal - General Government	**$73,079,038**	**$115,838,268**	**$300,331,713**	**$300,331,713**	**$417,477,996**	**$157,123,853**
Human Services						
Office of Health & Human Services	3,168,914	2,989,143	4,484,003	4,484,003	3,853,419	2,873,533
Children, Youth, and Families	72,217,463	85,846,952	85,504,945	85,504,945	85,263,506	77,912,449
Elderly Affairs	11,980,485	12,831,308	15,210,364	15,210,364	18,149,650	16,333,157
Health	80,827,914	75,887,694	77,831,370	77,831,370	89,610,560	58,814,531
Human Services	1,024,128,776	1,161,607,333	1,288,587,124	1,288,587,124	1,366,734,550	1,439,002,554
Mental Health, Retardation, & Hospitals	241,728,740	273,867,200	280,058,238	280,058,238	278,567,342	262,420,126
Governor's Commission on Disabilities	77,450	56,245	174,949	174,949	198,329	193,598
Commission on Deaf and Hard of Hearing	(622)	(3,900)	-	-	-	-
State Council on Developmental Disabilities	395,288	-	-	-	-	-
Office of the Child Advocate	40,006	10,487	41,100	41,100	45,894	45,805
Office of the Mental Health Advocate	-	-	-	-	-	-
Subtotal - Human Services	**$1,434,564,414**	**$1,613,092,462**	**$1,751,892,093**	**$1,751,892,093**	**$1,842,423,250**	**$1,857,595,753**
Education						
Elementary and Secondary	175,708,363	210,014,722	278,346,091	278,346,091	313,814,070	282,960,896
Higher Education - Board of Governors	4,924,539	3,735,334	20,338,416	20,338,416	19,641,010	14,754,667
RI Council on the Arts	612,251	698,153	855,840	855,840	1,195,276	950,990
RI Atomic Energy Commission	352,771	51,548	107,000	107,000	300,159	300,159
Higher Education Assistance Authority	8,610,378	13,123,386	14,575,320	14,575,320	11,855,920	12,044,337
Historical Preservation and Heritage Comm.	509,240	509,473	819,367	819,367	819,367	835,804
Public Telecommunications Authority	-	-	-	-	-	-
Subtotal - Education	**$190,717,542**	**$228,132,616**	**$315,042,034**	**$315,042,034**	**$347,625,802**	**$311,846,853**

Expenditures from Federal Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
Public Safety						
Attorney General	1,298,123	1,397,373	1,274,540	1,274,540	1,946,361	1,248,830
Corrections	2,688,836	22,288,285	2,196,668	2,196,668	3,460,879	2,587,994
Judicial	1,872,594	1,625,278	1,445,452	1,445,452	3,568,213	2,361,961
Military Staff	19,515,282	24,421,511	21,941,615	21,941,615	34,013,174	22,640,496
Public Safety (2)	5,957,636	7,925,798	17,227,246	17,227,246	22,425,845	8,932,131
Office of Public Defender	271,861	285,302	225,898	225,898	381,323	430,140
Subtotal - Public Safety	**$31,604,332**	**$57,943,547**	**$44,311,419**	**$44,311,419**	**$65,795,795**	**$38,201,552**
Natural Resources						
Environmental Management	18,024,013	19,660,114	33,680,872	33,680,872	38,503,320	35,386,175
Coastal Resources Management Council	1,779,206	1,384,339	1,608,438	1,608,438	6,195,185	1,574,146
Water Resources Board	-	(1,034)	-	-	-	-
Subtotal - Natural Resources	**$19,803,219**	**$21,043,419**	**$35,289,310**	**$35,289,310**	**$44,698,505**	**$36,960,321**
Transportation						
Transportation	189,355,117	222,082,466	381,348,383	381,348,383	317,024,679	315,733,127
Subtotal - Transportation	**$189,355,117**	**$222,082,466**	**$381,348,383**	**$381,348,383**	**$317,024,679**	**$315,733,127**
Total	**$1,939,123,662**	**$2,258,132,778**	**$2,828,214,952**	**$2,828,214,952**	**$3,035,046,027**	**$2,717,461,459**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) In FY 2009 several agencies merged into a new Department of Public Safety including State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Restricted Receipts

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
General Government						
Administration (1)	$9,973,069	$9,476,353	$18,938,514	$18,938,514	$25,652,492	$16,802,039
Business Regulation	1,364,361	1,274,994	1,754,811	1,754,811	1,733,898	2,305,025
Labor and Training	20,098,434	18,912,729	25,314,950	25,314,950	22,018,670	17,529,145
Revenue	789,994	706,530	845,292	845,292	739,952	824,191
Legislature	1,451,538	1,508,333	1,556,712	1,556,712	1,503,031	1,575,008
Lieutenant Governor	-	-	-	-	-	-
Secretary of State	420,390	428,116	474,338	474,338	496,925	494,567
General Treasurer	35,987,392	22,088,138	26,740,503	26,740,503	28,184,315	28,973,185
Board of Elections	-	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-	-
Governor's Office	-	-	-	-	1,257,414	1,498,546
Commission for Human Rights	-	-	-	-	-	-
Public Utilities Commission	4,887,588	5,567,844	7,308,931	7,308,931	7,118,167	7,430,326
Rhode Island Commission on Women	-	-	-	-	-	-
Subtotal - General Government	**$74,972,766**	**$59,963,037**	**$82,934,051**	**$82,934,051**	**$88,704,864**	**$77,432,032**
Human Services						
Office of Health & Human Services	315,953	652,108	1,284,790	1,284,790	860,646	874,013
Children, Youth, and Families	2,731,750	2,232,511	2,203,059	2,203,059	2,005,793	2,005,793
Elderly Affairs	956,578	850,000	392,115	392,115	358,784	130,840
Health	15,692,703	19,955,652	24,693,437	24,693,437	25,688,580	25,082,953
Human Services	7,027,278	5,923,901	8,316,413	8,316,413	8,519,601	9,146,201
Mental Health, Retardation, & Hospitals	2,587,327	4,695,837	5,203,044	5,203,044	4,504,330	10,055,752
Governor's Commission on Disabilities	13,178	8,432	10,001	10,001	13,559	13,626
Commission on Deaf and Hard of Hearing	-	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-	-
Subtotal - Human Services	**$29,324,767**	**$34,318,441**	**$42,102,859**	**$42,102,859**	**$41,951,293**	**$47,309,178**
Education						
Elementary and Secondary	6,507,062	6,511,894	7,501,077	7,501,077	17,030,683	23,930,750
Higher Education - Board of Governors	715,937	651,932	667,543	667,543	754,577	690,000
RI Council on the Arts	-	83,440	-	-	100,000	-
RI Atomic Energy Commission	-	-	-	-	-	-
Higher Education Assistance Authority	-	-	-	-	-	-
Historical Preservation and Heritage Comm.	191,378	270,170	509,037	509,037	479,069	479,450
Public Telecommunications Authority	-	-	-	-	-	-
Subtotal - Education	**$7,414,377**	**$7,517,436**	**$8,677,657**	**$8,677,657**	**$18,364,329**	**$25,100,200**

Expenditures from Restricted Receipts

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
Public Safety						
Attorney General	867,559	843,798	932,930	932,930	1,130,135	1,202,659
Corrections	(61)	-	-	-	94,000	-
Judicial	8,395,390	8,796,528	9,807,120	9,807,120	9,510,215	9,592,780
Military Staff	158,275	99,797	337,449	337,449	346,909	352,733
Public Safety (2)	1,103,585	243,803	609,000	609,000	877,056	377,761
Office of Public Defender	-	-	-	-	-	-
Subtotal - Public Safety	**$10,524,748**	**$9,983,926**	**$11,686,499**	**$11,686,499**	**$11,958,315**	**$11,525,933**
Natural Resources						
Environmental Management	13,483,302	11,413,374	15,246,049	15,246,049	13,950,042	14,136,916
Coastal Resources Management Council	120,000	220,500	250,000	250,000	250,000	250,000
Water Resources Board	327,378	109,816	-	-	-	-
Subtotal - Natural Resources	**$13,930,680**	**$11,743,690**	**$15,496,049**	**$15,496,049**	**$14,200,042**	**$14,386,916**
Transportation						
Transportation	(160,669)	370,919	1,500,000	1,500,000	1,000,000	1,000,000
Subtotal - Transportation	**($160,669)**	**$370,919**	**$1,500,000**	**$1,500,000**	**$1,000,000**	**$1,000,000**
Total	**$136,006,669**	**$123,897,449**	**$162,397,115**	**$162,397,115**	**$176,178,843**	**$176,754,259**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) In FY 2009 several agencies merged into a new Department of Public Safety including State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor's Justice Commission.

Expenditures from Other Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
General Government						
Administration (1)	$47,601,091	$56,679,073	$73,151,428	$73,151,428	$77,795,951	$70,487,302
Business Regulation	-	-	-	-	-	-
Labor and Training	444,303,030	714,192,984	683,684,510	683,684,510	687,033,011	578,225,422
Revenue	217,255,814	189,839,845	200,163,902	200,163,902	203,773,517	199,237,371
Legislature	-	-	-	-	-	-
Lieutenant Governor	-	-	-	-	-	-
Secretary of State	-	-	-	-	-	-
General Treasurer	206,210	159,100	202,290	202,290	214,174	222,984
Board of Elections	-	-	-	-	-	-
Rhode Island Ethics Commission	-	-	-	-	-	-
Governor's Office	-	-	-	-	-	-
Commission for Human Rights	-	-	-	-	-	-
Public Utilities Commission	-	-	-	-	-	-
Rhode Island Commission on Women	-	-	-	-	-	-
Subtotal - General Government	**$709,366,145**	**$960,871,002**	**$957,202,130**	**$957,202,130**	**$968,816,653**	**$848,173,079**
Human Services						
Office of Health & Human Services	-	-	-	-	-	-
Children, Youth, and Families	542,403	573,923	1,219,224	1,219,224	638,819	1,890,000
Elderly Affairs	4,477,142	4,448,300	-	-	-	-
Health	45,972	110,103	231,412	231,412	106,261	95,883
Human Services	700,000	32,500	4,525,000	4,525,000	4,410,000	4,285,000
Mental Health, Retardation, & Hospitals	3,173,034	3,968,413	11,596,669	11,596,669	9,390,195	10,108,691
Governor's Commission on Disabilities	100,000	151,400	175,000	175,000	190,151	250,000
Commission on Deaf and Hard of Hearing	-	-	-	-	-	-
State Council on Developmental Disabilities	-	-	-	-	-	-
Office of the Child Advocate	-	-	-	-	-	-
Office of the Mental Health Advocate	-	-	-	-	-	-
Subtotal - Human Services	**$9,038,551**	**$9,284,639**	**$17,747,305**	**$17,747,305**	**$14,735,426**	**$16,629,574**
Education						
Elementary and Secondary	1,558,748	9,284,529	6,433,624	6,433,624	5,183,936	8,410,986
Higher Education - Board of Governors	594,283,318	665,557,148	692,456,929	692,456,929	713,747,423	753,560,879
RI Council on the Arts	210,175	229,094	435,000	435,000	435,000	-
RI Atomic Energy Commission	287,689	217,291	334,769	334,769	303,683	316,410
Higher Education Assistance Authority	7,091,784	6,837,701	6,750,277	6,750,277	6,462,719	6,521,425
Historical Preservation and Heritage Comm.	-	-	-	-	-	-
Public Telecommunications Authority	798,374	716,942	765,656	765,656	614,029	636,750
Subtotal - Education	**$604,230,088**	**$682,842,705**	**$707,176,255**	**$707,176,255**	**$726,746,790**	**$769,446,450**

Expenditures from Other Funds

	FY 2008 Actual	FY 2009 Preliminary	FY 2010 Enacted	FY 2010 Working	FY 2010 Gov Revised	FY 2011 Gov Rec
Public Safety						
Attorney General	157,154	220,879	200,000	200,000	726,847	200,000
Corrections	2,902,534	2,577,567	5,768,276	5,768,276	7,933,524	5,970,124
Judicial	1,438,736	1,704,165	825,000	825,000	829,466	850,000
Military Staff	1,778,845	840,007	1,482,090	1,482,090	3,277,520	362,500
Public Safety (2)	3,142,765	7,265,091	18,845,329	18,845,329	25,194,951	11,690,420
Office of Public Defender	-	-	-	-	-	-
Subtotal - Public Safety	**$9,420,034**	**$12,607,709**	**$27,120,695**	**$27,120,695**	**$37,962,308**	**$19,073,044**
Natural Resources						
Environmental Management	2,833,397	2,638,832	6,561,955	6,561,955	9,758,358	8,114,291
Coastal Resources Management Council	1,590,590	-	1,655,509	1,655,509	1,655,509	-
Water Resources Board	82,199	25,542	103,000	103,000	553,978	120,000
Subtotal - Natural Resources	**$4,506,186**	**$2,664,374**	**$8,320,464**	**$8,320,464**	**$11,967,845**	**$8,234,291**
Transportation						
Transportation	116,242,114	140,337,731	106,218,108	106,218,108	100,075,690	108,085,639
Subtotal - Transportation	**$116,242,114**	**$140,337,731**	**$106,218,108**	**$106,218,108**	**$100,075,690**	**$108,085,639**
Total	**$1,452,803,118**	**$1,808,608,160**	**$1,823,784,957**	**$1,823,784,957**	**$1,860,304,712**	**$1,769,642,077**

(1) In FY 2009 Fire Code Board was moved to Department of Adminsitration.

(2) In FY 2009 several agencies merged into a new Department of Public Safety including State Police, Fire Marshal, E-911 Emergency Telephone System, Municipal Police Training Academy,Capitol Police, and the Governor’s Justice Commission.

Free Surplus

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

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

The State Budget Office is required to prepare quarterly reports which project the year end balance assuming current trends continue under current laws, and the typical cyclical expenditure patterns prevail over the course of the year. This consolidated report is released within forty-five days of the end of each fiscal quarter. Also, the State Budget Office is required to publish five year forecasts of expenditures and revenues for submission to the General Assembly as part of the annual budget process, and these forecasts over the years, based upon the information then available, have generally projected that outyear expenditures will exceed revenues, at times by a substantial amount as reflected in the State Budget Office's most recent projections for FY 2012 through FY 2015, which forecasts deficits of $362.2 million for FY 2012, $416.2 million for FY 2013, $457.2 million for FY 2014 and $535.7 million for FY 2015. In the event of a budgetary imbalance, the available free surplus will be reduced and or additional resources (i.e. taxes, fines, fees, etc.) will be required and/or certain of the expenditure controls discussed under "State Government Organization and Finances -- Budget Procedures and -- Financial Controls" will be put into effect.

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

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

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

The State's Annual Comprehensive Financial Report for FY 2008 revealed a deficit of $42.95 million for the fiscal year ended June 30, 2008. This is a result of revenues falling below enacted estimates by $7.1 million and expenditures exceeding appropriations by $37.4 million. Additionally, the Governor is required by law to reappropriate unexpended balances from FY 2008 for the General Assembly amounting to $1.7 million. The Governor sought appropriation from the Budget Reserve and Cash Stabilization Account, which was fully funded at $102.8 million at the end of FY 2008. The General Assembly did not make an appropriation to resolve the FY 2008 $42.95 million deficit. The deficit of $42.95 million, when combined with the $102.8 million reserve fund, resulted in approximately $60 million of combined balances. The budget enacted by the General Assembly in June 2008 for FY 2009 was predicated upon available resources of $3.2762 billion net of reserve fund contributions, and expenditures of $3.2762 billion resulting in an estimated closing surplus of $0.1 million. The General Assembly enacted a FY 2010 Budget that included expenditures of $3.0 billion from general revenues, $800,000 less than FY 2009 actual expenditures. The reduction in general revenue spending is the result of both reductions in real expenditures and shifts from state general revenue sources to one-time federal fund sources. Much of this shifting is the result of funds being made available from the American Recovery and Reinvestment Act of 2009. For the FY 2010 Revised Budget, the Governor recommends $2.845 billion, which is $155.2 million less than the originally enacted budget.

The nation is feeling the effects of the "Great Recession", the worst economic downturn since the Great Depression. The impact on the State of Rhode Island has been severe, with over 73,300 Rhode Islanders unemployed. The jobless rate peaked at 13.0 percent in September 2009 and the State currently ranks third in the nation with a 12.7 percent rate of unemployment as of January 2010, compared to 9.7 percent nationally. The State has depleted the resources it set aside to pay unemployment benefits and is now borrowing from the Federal Trust Fund to make benefit payments to unemployed Rhode Islanders.

The impact of the high level of unemployment has translated into a sharp decline in tax receipts to the State, as less personal income taxes are received from employers through withholding taxes, and taxpayers transmit lower estimated and final payments, but request larger refunds. Personal income taxes are estimated to be $919.2 million in FY 2010 and $927.7 million in FY 2011. This level of personal income tax revenues is $145.9 million less than the peak level of receipts collected in FY 2007 and is only slightly more than what was collected in FY 2004. Uncertainty about the economic future and the contraction of the State's housing market has caused Rhode Islanders to pull back on spending and impacted the State's second largest income stream, the sales and use tax. Sales tax receipts are estimated to be $751.0 million in FY 2010 and $743.7 million in FY 2011. This is $129.5 million less than the peak level of receipts collected in FY 2007 and is approximately what was collected in FY 2002. The business corporations tax, which peaked in FY 2006 at $165.1 million are estimated at $94.1 million in FY 2010 and $85.7 million in FY 2011. Rhode Island's estimated general revenue receipts in FY 2010 and FY 2011 are estimated to be $2.976 billion and $2.927 billion, respectively. This is less than the amount which was available in FY 2005.

The latest projections which take into account the revenue projections from the State's November 2009 Revenue Estimating Conference (REC) show a budget shortfall of $219 million in the current year (fiscal 2010) budget, representing about 7% of general fund revenues. This follows on the heels of a more substantial $553 million gap (about 18%) that the State addressed when the fiscal 2010 budget was adopted. In the past two fiscal years, the adopted budgets have relied heavily on reining in spending. The general fund tax revenue growth assumption incorporated in the enacted fiscal 2010 budget was negative 0.4%. The adopted tax revenue estimate is negative 4.2%. The fiscal 2011 tax revenue forecast reflects essentially flat growth (0.4%) coming off a low base.

The FY2010 budget shortfall is due to approximately $130 million in revenue underperformance, $62 million in carryover from fiscal 2009, and $35 million in additional spending pressure, in part due to caseload growth for social services. The legislature is currently deliberating the supplemental fiscal 2010 budget proposed by the governor in mid- December 2009 to resolve the latest $219 million shortfall. The plan includes approximately $163 million in ongoing expenditure savings that would be achieved through local aid cuts ($86 million), additional pension reforms ($43 million), and agency reductions ($21 million). It includes one-time budget solutions totaling $65 million, including several land/property sales totaling $21 million and a $22 million deferral of the State's annual contribution to its capital fund for pay-as-you-go capital financing. The deferral requires legislative approval and, if approved, the State would include the amount in its fiscal 2012 budget. A delay in the adoption of a supplemental budget will make the achievement of structural budget balance more difficult since ongoing savings on the spending side will take time to implement. Various amendments have been submitted by the Governor since the introduction of the Supplemental FYE 2010 Budget and the proposed FYE 2011 Budget. Additional amendments by the Governor, legislative committees and/or floor amendments should be anticipated. None of amendments are reflected in the foregoing discussion of the budgets submitted by the Governor. Such amendments are part of the normal legislative process until final passage. No assurance can be given as to when the FYE 2010 Supplemental Budget will be considered by the General Assembly. There is no timetable for its consideration or passage. Hence, the final form of the Supplemental FYE 2010 and proposed FYE 2011 budgets is yet to be determined.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $789.0 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package in a range from $825.0 million to over $1 billion (not including unemployment benefits, supplemental nutrition assistance programs, Pell grants, or child support enforcement). This includes approximately $546.0 million over 36 months for Rhode Island's Medicaid programs (assuming a six-month extension of the enhanced Medicaid match rate), approximately $137.0 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91.0 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165.0 million of fiscal stabilization funds to be used primarily as education aid. The FY 2010 Enacted Budget included $638.8 million of federal ARRA funds and the Revised FY 2010 Budget increased this amount by $135.4 million to include $774.2 million of ARRA funds. The General Assembly included in the FY 2010 Enacted Budget $198.6 million in additional federal Medicaid matching funds and enhanced Title IVE funds, thereby reducing general revenue expenditures by the same amount based on the federal act that raised the federal Medicaid match percentage by 11.3 points retroactive to October 1, 2008.

The Revised FY 2010 Budget also maximized use of State fiscal stabilization funds for State budget relief by utilizing $47.7 million of federal education funds to relieve state general revenue support to local governments. For FY 2010, the General Assembly enacted $37.2 million for education and $10.0 million for State Police from ARRA State stabilization grants.

As described above, the State has used a number of one-time measures, such as the use of one-time federal funds and reserves, which will not be available to address future budget needs. Furthermore, in light of the current conditions, significant budget deficits are expected for the years following FY 2011 and additional significant adjustments to both revenues and expenditures will likely be necessary for the adoption of balanced budgets for the fiscal years following FY 2011. The State cannot now predict with any certainty what adjustments, if any, will be made to the Enacted FY 2010 Budget or the outcome of the budget process for the fiscal years following the FY 2010 Budget.

The following table sets forth a comparative statement of General Fund free surplus for fiscal years 2008 through 2010. FY 2008 data is derived from the State's Comprehensive Annual Financial Report prepared by the Office of the State Controller and post audited by the Auditor General. The FY 2009 data is derived from the preliminary closing report of the State Controller. The FY 2010 Enacted Budget reflects the budget which was enacted by the General Assembly in June 2009. Due to downward revenue revisions of $130.0 million by the November 2009 Revenue Estimating Conference, and carry over deficit of $62.0 million from FY 2009, the State was facing a $219 million deficit for FY 2010. The FY 2010 Revised Budget reflects the FY 2010 budget enacted by the General Assembly in June 2009, changes to revenues projected by the November 2009 Revenue Estimating Conference, and changes to revenues and expenditures proposed by the Governor in the FY 2010 Supplemental Budget. The FY 2011 Recommended Budget reflects the revenues adopted by the November 2009 Revenue Estimating Conference, and changes to revenue proposed by the Governor in the FY 2011 Budget. Expenditures reflect those proposed by the Governor in the FY 2011 Budget.

FY 2011 General Revenue Budget Surplus

	FY2008 Actual(1)	FY2009 Preliminary(2)	FY2010 Enacted Budget(3)	FY2010 Revised(4)	FY2011 Recommended(5)
Surplus					
Opening Surplus	$ -	$ (42,950,480)	$ 1,142,383	$ (61,802,318)	$ 79,471
Resrve for Audit Adjustments				(600,000)	
Reappropriated Surplus	3,640,364	1,738,518		998,144	
Subtotal	**$ 3,640,364**	**$ (41,211,962)**	**$ 1,142,383**	**$ (61,404,174)**	**$ 79,471**
General Taxes	$ 2,516,400,542	$ 2,336,417,942	$ 2,378,626,289	$ 2,378,626,289	$ 2,246,700,000
Revenue estimators' revision	-			(139,826,289)	
Changes to the Adopted Estimates	-			-	(19,595,062)
Subtotal	**$ 2,516,400,542**	**$ 2,336,417,942**	**$ 2,378,626,289**	**$ 2,238,800,000**	**$ 2,227,104,938**
Departmental Revenues	356,546,075	319,361,734	335,532,188	335,532,188	221,000,000
Revenue estimators' revision	-			6,467,812	
Changes to the Adopted Estimates	-			(8,770,522)	110,896,889
Subtotal	**$ 356,546,075**	**$ 319,361,734**	**$ 335,532,188**	**$ 333,229,478**	**$ 331,896,889**
Other Sources					
Gas Tax Transfers	4,513,745	4,327,710	-	-	-
Revenue estimators' revision	-				
Changes to the Adopted Estimates			-	-	
Other Miscellaneous	181,810,134	17,739,819	9,000,000	9,000,000	4,500,000
Rev Estimators' revision-Miscellaneous	-			(500,000)	
Changes to the Adopted Estimates	-			38,102,906	1,000,000
Lottery	354,321,087	337,529,754	348,700,000	348,700,000	356,900,000
Revenue Estimators' revision-Lottery	-			3,200,000	
Changes to the Adopted Estimates					
Unclaimed Property	15,387,030	8,044,126	5,000,000	5,000,000	5,300,000
Revenue Est revision-Unclaimed Property	-			200,000	
Changes to the Adopted Estimates				641,250	
Subtotal	**$ 556,031,996**	**$ 367,641,409**	**$ 362,700,000**	**$ 404,344,156**	**$ 367,700,000**
Total Revenues	**$ 3,428,978,613**	**$ 3,023,421,085**	**$ 3,076,858,477**	**$ 2,976,373,634**	**$ 2,926,701,827**
Transfer to Budget Reserve	**(68,579,573)**	**(66,054,353)**	**(73,872,021)**	**(69,949,712)**	**(76,096,314)**
Total Available	**$ 3,364,039,404**	**$ 2,916,154,771**	**$ 3,004,128,839**	**$ 2,845,019,748**	**$ 2,850,684,984**
Actual/Enacted Expenditures	**$ 3,405,251,366**	**2,998,958,945**	**3,000,341,114**	**3,000,341,114**	**2,849,064,369**
Reappropriations				998,144	
Changes in Pass Through funds				8,600,000	
Other Expenditure Changes	-			(164,998,981)	
Total Expenditures	**$ 3,405,251,366**	**$ 2,998,958,945**	**$ 3,000,341,114**	**$ 2,844,940,277**	**$ 2,849,064,369**
Free Surplus	**$ (42,950,480)**	**$ (61,802,318)**	**$ 3,787,725**	**$ 79,471**	**$ 1,620,615**
Transfer from the Budget Reserve Fund		**$ 22,000,000**			
Reappropriations	(1,738,518)	**(998,144)**	-	-	-
Total Ending Balances	**$ (41,211,962)**	**$ (82,804,174)**	**$ 3,787,725**	**$ 79,471**	**$ 1,620,615**
Budget Reserve and Cash Stabilization Account(6)	**$ 102,869,358**	**$ 80,084,001**	**$ 116,964,033**	**$ 110,753,710**	**$ 122,924,815**

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

(2) Derived from the State Controller's preliminary closing report for FY 2009, reflecting a deficit of $61,802,318, after transfer of $22.0 million appropriated from the Budget Reserve Account. The carryover deficit from 2009 is addressed in the FY 2010 supplemental. However, the FY 2010 supplemental budget and FY 2011 budget proposed by the Governor defer the payment of the $22.0 million appropriated from the Budget Reserve Account until FY 2012.

(3) Reflects the FY 2010 budget enacted by the General Assembly in June 2009, reflecting the revenue estimates adopted at the May 2008 Revenue Estimating Conference, and further modified by legislative changes included in the enacted budget.

(4) Reflects the FY 2010 supplemental budget submitted by the Governor to the General Assembly on December 15, 2009, and modified by amendments thereto.The carryover deficit from 2009 is addressed in the FY 2010 supplemental through additional expenditure reductions and revenues, resulting in a balanced budget for FY 2010. It does not reflect, however, the fact that the State has made the third quarterly motor vehicle excise tax reimbursement payment to local governments in an amount of $32.5 million in February 2010 contrary to the FY 2010 supplemental budget proposed by the Governor.

(5) Reflects the Governor's recommended FY 2011 budget, including the results of the November 2009 Revenue and Caseload Estimating Conferences, and any proposed legislative changes to modify the adopted estimates.

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

CERTAIN MATTERS RELATING TO AUDITED FINANCIAL REPORTS

In recent years the State has sought to enhance the timeliness of completion of the Comprehensive Annual Financial Report. The report for the fiscal year ending June 30, 2005 was issued in February 2006. The report for fiscal year ending June 30, 2006 was issued in January 2007. The FY2007 report was issued in early April 2008, after passage of legislation by the General Assembly to appropriate $19.4 million from the Budget Reserve and Cash Stabilization Account for FY 2007. The report for fiscal year ending June 30, 2008 was issued in early April 2009, after passage of the FY 2009 Supplemental Budget which did not include the appropriation from the Budget Reserve Fund as requested by the Governor to resolve the FY 2008 deficit. The report for fiscal year ending June 30, 2009 is expected in mid April 2010.

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

STATE INDEBTEDNESS

Authorization and Debt Limits

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

Public Finance Management Board

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

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

Sinking Fund Commission

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

Development Corporation. The Commission executed a defeasance transaction on June 15, 2000 which reduced the State's general obligation debt by an estimated $4.415 million. As of December 31, 2009, the balance of Sinking Fund Commission funds was $0.

Tax Anticipation Notes

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

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

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

Fiscal Year	Maximum Principal Amount Outstanding	Percent of Prior Year's Tax Receipts
1990	$ 70,000,000	6.0%
1991	200,000,000	17.0
1992	240,000,000	20.0
1993	225,000,000	18.0
1994	150,000,000	11.0
1995	125,000,000	9.0
1996	100,000,000	8.0
1997	108,000,000	8.0
1998	0	0.0
1999	0	0.0
2000	0	0.0
2001	0	0.0
2002	90,000,000	4.4
2003	150,000,000	7.9
2004	200,000,000	7.4
2005	0	0.0
2006	0	0.0
2007	120,000,000	4.8
2008	220,000,000	7.8
2009	350,000,000	13.4
2010	350,000,000 *	14.6

*$350,000,000 in Tax Anticipation Notes due June 30, 2010 were issued on August 18, 2009.

Net Tax Supported State Debt

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

As of March 1, 2010, authorized but unissued direct debt totaled $229,256,822 and there was no authorized but unissued guaranteed debt.

Tax Supported Debt and Debt Ratios

	Debt Outstanding June 30,2006	Debt Outstanding June 30,2007	Debt Outstanding June 30,2008	Debt Outstanding June 30,2009
Direct Debt:				
Variable Rate Bonds[1]	19,665	16,365	14,165	-
Various purpose bonds	822,881	897,119	982,923	1,036,189
Subtotal	**$842,546**	**$913,484**	**$997,088**	**$1,036,189**
Guaranteed Debt:				
Turnpike and Bridge Authority Bonds	-	-	-	-
Blackstone Valley District Commission Bonds	-	-	-	-
Narragansett Bay District Commission Bonds	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
Other Debt Subject to Annual Appropriation:				
RI Refunding Bond Authority-Public Buildings Lease Rental Bonds	60,320	42,710	24,235	6,040
Convention Center Authority	287,185	279,935	270,960	263,800
Economic Development Corporation-Transportation (Motor Fuel)	79,920	76,290	72,560	81,125
Certificates of Participation -Equipment/Vehicle Leases	13,580	19,790	14,395	9,400
Certificates of Participation - Intake Center	10,655	8,160	5,535	2,775
Certificates of Participation - Attorney General	2,795	2,575	2,230	2,030
Certificates of Participation- DLT Howard Complex	17,150	15,970	13,375	12,630
Certificates of Participation-Shepard's Building(originally EDC)	23,655	22,135	20,980	19,155
Certificates of Participation-Howard Steam Plant	23,440	22,360	22,160	21,035
Certificates of Participation-Kent County Courthouse	56,685	54,405	52,075	49,690
Certificates of Participation-Traffic Tribunal Court Complex	21,565	20,765	19,940	19,090
Certificates of Participation-Training School	51,985	50,205	48,370	46,470
Certificates of Participation-Information Technology	-	23,490	21,000	30,500
Certificates of Participation-School for the Deaf	-	-	-	30,425
Economic Development Corporation-Historic Structures Tax Credit Fund	-	-	-	150,000
Certificates of Participation-DOA Energy Conservation	-	6,000	6,000	5,830
Energy Conservation - University of RI	-	6,735	6,735	18,090
RIHMFC Neighborhood Opportunities Housing Program	18,754	15,502	18,152	13,179
Economic Development Corporation-Masonic Temple	-	14,280	9,775	5,030
Economic Development Corporation-URI Power Plant	12,869	12,194	11,494	10,759
Economic Development Corporation- McCoy Stadium	5,245	4,275	3,265	2,220
Subtotal	**$685,803**	**$697,776**	**$643,236**	**$799,273**
Performance Based Agreements[2]				
Economic Development Corporation- Fidelity Building	21,154	20,402	19,592	18,708
Economic Development Corporation- Fidelity Building II	10,000	10,000	9,766	9,514
Economic Development Corporation- Fleet Bank	9,830	9,630	9,415	9,180
Subtotal	40,984	40,032	38,772	37,402
Gross Debt	1,569,333	1,651,292	1,679,096	1,872,864
Less: Adjustments for Agency Payments	(29,662)	(28,848)	(27,766)	(26,617)
Net Tax Supported Debt	**$1,539,672**	**$1,622,444**	**$1,651,331**	**$1,846,247**
Debt Ratios				
Personal Income	**$38,816,004**	**$41,113,066**	**$42,618,063**	**$42,988,324**
Debt as a percent of Personal Income	**3.97%**	**3.95%**	**3.87%**	**4.29%**

(1) Reflects the impact of the redemption on January 2, 2009 of the State's outstanding Multimodal General Obligation Bonds Consolidated Capital Development Loan of 2000, Series B in the principal amount of $12,365,000 refunded with fixed rate debt

(2) Excludes contract for Providence Plan Mall described under "Major Sources of State Revenues - Sales and Use 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, 2009, the State had $1.036 billion of general obligation tax supported bonds outstanding. The State currently has no variable rate debt outstanding.

The following table sets forth the debt service requirements on outstanding general obligation bonds of the State which are supported by State revenues for FY 2010 through FY 2028.

Debt Service Schedule for General Obligation
Debt Issued for FY 2010-2028*

Fiscal Year	Principal	Interest	Total Debt Service
2010	63,494,000	49,449,450	112,943,450
2011	64,695,000	45,954,662	110,649,662
2012	77,275,000	42,706,242	119,981,242
2013	85,535,000	38,607,265	124,142,265
2014	79,155,000	34,620,118	113,775,118
2015	75,480,000	30,754,639	106,234,639
2016	71,410,000	27,174,351	98,584,351
2017	71,435,000	23,633,711	95,068,711
2018	63,830,000	20,350,663	84,180,663
2019	59,800,000	17,278,276	77,078,276
2020	53,925,000	14,616,231	68,541,231
2021	53,005,000	12,163,514	65,168,514
2022	44,085,000	9,894,753	53,979,753
2023	44,895,000	7,816,116	52,711,116
2024	35,330,000	5,822,179	41,152,179
2025	29,340,000	4,042,125	33,382,125
2026	30,830,000	2,566,283	33,396,283
2027	16,710,000	1,393,626	18,103,626
2028	15,960,000	579,988	16,539,988
Total	$1,036,189,000	$389,424,190	$1,425,613,190

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

In addition, the following table sets forth the amounts, purposes and statutory authorizations of authorized but unissued general obligation direct debt of the State as of March 1, 2010 which has been approved by voter referenda.

Authorized but Unissued Direct Debt

Purpose	Statutory Authorization	Authorized but Unissued Debt as of March 1, 2010*
Direct Debt:		
Clean Water Act Environmental Trust Fund	Ch. 289-P.L. of 1986	1,264,627
RI Water Pollution Revolving Loan Fund and Trust Fund	Ch. 238-P.L. of 1988 as amended by Ch. 303-P.L. of 1989, Ch. 434-P.L. of 1990	4,900,000
Preservation, Recreation & Heritage	Ch. 65-P.L. of 2002	1,200,000
Transportation	Ch. 595-P.L. of 2004	950,000
Emergency Water Interconnect	Ch. 595-P.L. of 2004	5,800,000
Open Space Recreation, Bay & Watershed Protection	Ch. 595-P.L. of 2004	29,785,000
Quonset Point/Davisville	Ch. 595-P.L. of 2004	4,500,000
Higher Education	Ch. 246-P.L. of 2006	59,290,000
Transportation	Ch. 246-P.L. of 2006	5,992,195
Roger Williams Park Zoo	Ch. 246-P.L. of 2006	4,200,000
Environmental Management	Ch. 246-P.L. of 2006	3,000,000
Affordable Housing	Ch. 246-P.L. of 2006	25,000,000
Transportation	Ch.100-P.L.of 2008	87,215,000
Open Space and Recreational Development	Ch. 378/469-P.L.of 2008	2,500,000
Total Direct Debt		**$229,256,822**

Source: State Budget Office

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

The balance of the authorization for Chapter 65 Public Laws of 2002 for the State Police Headquarters was extinguished effective November 5, 2009. The State Police project is being funded through other means.

Guaranteed debt of the State includes bonds and notes issued by, or on behalf of, certain agencies, commissions and authorities created by the General Assembly and charged with enterprise undertakings, for the payment of which debt the full faith and credit of the State are pledged in the event that the revenues of such entities may at any time be insufficient. As of March 1, 2010, there was no outstanding or authorized but unissued guaranteed debt. However, the State has agreed to appropriate or borrow and pay to the Rhode Island Industrial Recreational Building Authority any amounts required up to $20,000,000 to service eligible mortgage loans for industrial and/or recreational projects insured under the Industrial Recreational Building Mortgage Insurance Fund that are in default and for which funds in the Industrial Recreational Building Mortgage Insurance Fund are insufficient (see the discussion regarding the Rhode Island Industrial Recreational Building Authority under the section entitled "State Agencies and Authorities"). The Governor has proposed as part of the FY 2011 Budget the restoring of the $20,000,000 ceiling to its original $80,000,000 amount.

Extinguishments of Debt Authorization

Chapter 438 of the Public Laws of 1988, which took effect on December 31, 1991, provides that any special act of the State which authorizes the issuance of general obligation bonds or notes of the State, which has a balance that remains unissued, and is seven (7) years old or older is invalid as to that portion which remains unissued. Notwithstanding, the General Assembly may, by special act, extend any authorization for a period of one (1) to five (5) years upon a petition of the Department of Administration. Such extension may be granted more than one (1) time. Upon a certification of the General Treasurer to the Governor as to debt authorizations described above the authorization shall not be deemed or counted toward the authorized but unissued debt of the State. Since December 31, 1991, the State has extinguished a total of $66,275,387, which was previously reflected in the above table. In addition, there is $1,552,805 of authorized debt which will not be issued due to premium received by the State in connection with its sale of $123,255,000 Consolidated Capital Development Loan of 2007, Series A Bonds being allocated to benefit the projects relating to such Bonds. This authorization has been removed from the balance of debt which can be issued.

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

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

In December 1995, the State entered into a lease agreement with a financial institution which issued $4,500,000 in certificates of participation to finance acquisition and renovation of an office building to house the Office of the Attorney General. $775,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $2,230,000 Lease Participation Certificates (Attorney General's Building – 2007 Refunding Series G). As of June 30, 2009, $2,030,000 of these certificates were outstanding.

The State has also entered into a lease agreement with a financial institution that issued $33,000,000 in certificates of participation to finance construction of an Intake Center for the Department of Corrections. These certificates were refunded in January 1997. As of June 30, 2009, $2,775,000 was outstanding.

The State also entered into a lease agreement with a financial institution which issued $24.0 million in 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 for use as an office facility for the Department of Labor and Training. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $13,375,000 Lease Participation Certificates (Howard Center Improvements – 2007 Refunding Series E). As of June 30, 2009, $12,630,000 of such certificates were outstanding.

In November 1994 the State entered into a lease agreement with the Economic Development Corporation which issued $34.1 million in long-term bonds for the renovation of the Shepard Building. During August 1997, the State of Rhode Island issued $34,805,000 in certificates of participation that were used to defease the Economic Development Corporation bonds. These remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $21,420,000 Lease Participation Certificates (Shepard's Building – 2007 Refunding Series F). As of June 30, 2009, $19,155,000 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, 2009, $2,220,000 was outstanding.

On June 29, 2000, the State entered into a lease agreement with a financial institution, which issued $9,525,000 in certificates of participation for the purchase and installation of telecommunications equipment, furnishings and vehicles and rolling stock. The State also privately placed $318,000 of taxable certificates at that time. In June 2001, the State financed an additional $3,150,000 of vehicles and rolling stock in this manner. In December 2002, the State financed an additional $3,890,000 of vehicles and rolling stock. In June 2005, the State financed an additional $6,950,000. In June 2006, the State financed an additional $6,000,000. In June 2007, the State financed an additional $9,100,000. As of June 30, 2009, $9,400,000 in certificates were outstanding.

In December 2000, Rhode Island entered into a lease agreement with a financial institution that issued $28.18 million in certificates of participation to rehabilitate and upgrade the Central Power Plant at the Pastore Center Complex. $3,875,000 of these certificates of participation were defeased in June 2002 from the proceeds of the securitization of revenues from the State's tobacco master settlement. All of the remaining certificates of participation were defeased through the issuance on December 13, 2007 of the $22,160,000 Lease Participation Certificates (Central Power Plant – 2007 Refunding Series D). As of June 30, 2009, there was $21,035,000 in certificates outstanding.

In April 2002, the State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation relating to the issuance of $13,060,000 of debt to provide funds for the relocation of the Traveler's Aid facility and for the Neighborhood Opportunities Program which provides affordable housing. In 2005, the State provided an additional $2,250,000 for the Traveler's Aid project through the loan agreement. In 2006, the State financed $5.0 million for related affordable housing projects. In FY 2008, the State provided an additional $7.5 million through the loan agreement for FY2007 projects. As of June 30, 2009, there was $13,179,000 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. In March 2006, a second series of bonds totaling $42,815,000 was sold, and on April 2, 2009 a third series was sold totaling $12,410,000. As of June 30, 2009, $81,125,000 was outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $58,910,000 in certificates of participation to construct a new Kent County Courthouse in Warwick. As of June 30, 2009, there was $49,690,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $21,565,000 in certificates of participation to construct a new Traffic Tribunal in Cranston. As of June 30, 2009, there was $19,090,000 outstanding.

In 2005, the State entered into a lease agreement with a financial institution that issued $51,985,000 in certificates of participation to construct a new Juvenile Training School, including a Youth Assessment Facility and a Juvenile Detection Center. As of June 30, 2009, there was $46,470,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued $23,490,000 in certificates of participation for technology improvement projects. In 2009, an additional $12,380,000 was issued. As of June 30, 2009, there was $30,500,000 outstanding.

In 2007, the State entered into a lease agreement with a financial institution that issued certificates of participation for energy conservation projects which will result in cost savings. There was $6.0 million issued for Department of Administration energy projects, and $6.75 million for the University of Rhode Island. In 2009, an additional $11,805,000 was issued for University of Rhode Island projects. As of June 30, 2009, there was $23,920,000 outstanding.

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to $14,280,000 of financing obtained to provide funds to extinguish historic structure tax credits for the Masonic Temple project through a long-term loan to the developer. As of June 30, 2009, there was $5,030,000 outstanding.

In 2009, the State entered into a lease agreement with a financial institution that issued $30,425,000 of certificates of participation for the construction of a new School for the Deaf. As of June 30, 2009, there was $30,425,000 outstanding.

In June 2009, the State entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of Economic Development Corporation Revenue Bonds in the amount of up to $356,200,000 to provide funds to reimburse the State for Historic Structures Tax Credits presented by taxpayers. As of June 30, 2009, there was $150,000,000 of such Revenue Bonds outstanding.

Authorized But Unissued Obligations Subject to Annual Appropriation.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of debt which is subject to annual appropriation. As of March 1, 2010, the following authorizations have been enacted and the State plans to issue the debt over the next several years:

Purpose	Total Remaining Authorization
Energy Conservation Certificates of Participation	$53,100,000
Registry of Motor Vehicles System	13,000,000
Economic Development Corporation – Historic Structures Tax Credit Fund	206,200,000
Total Authorized But Unissued Debt Subject to Annual Appropriation	$272,300,000

The State plans to issue approximately $20.0 million of Certificates of Participation in FY 2010. The State also anticipates issuing up to $11.250 million to fund the Registry of Motor Vehicles Systems in FY 2010. In FY 2011, it is expected that the Economic Development Corporation will issue approximately an additional $75.0 million of bonds to reimburse the State each fiscal year for tax credits taken relating to the Historic Structures Tax Credit Program in order to stabilize budget projections and the annual impact of the taking of such tax credits. The actual amount of bonds issued will be dependent upon the compliance by the parties involved with the projects. The debt service on these bonds will be subject to annual appropriation by the General Assembly. There are other debt authorizations approved by quasi-public agencies and the Board of Governors for Higher Education which will be funded from non-general revenue sources.

The FY 2010 Enacted Budget included a Debt Management Joint Resolution that allows the Rhode Island Public Rail Corporation, which is an instrumentality of the State, to fully indemnify AMTRAK's operations of the South County Commuter Rail. Section 8 of Article 17 of the FY 2010 Appropriations Act authorizes the Rail Corporation to secure, with the funding support of the Department of Transportation, either a line or evergreen letter of credit in the amount of $7.5 million in favor of AMTRAK to secure the Rail Corporation's performance of its obligations arising under any South County Rail Service agreements that may be entered into.

Performance-based obligations of the Economic Development Corporation. In May 1996 the Economic Development Corporation issued $25,000,000 of bonds to finance infrastructure for Fidelity Investments. These bonds carry a moral obligation of the State. If at any time, the amount in the capital reserve fund pledged for this bond issue falls below the capital reserve fund requirement as defined in the documents executed in connection with the transaction, a request will be made to the General Assembly to appropriate the amount of the deficiency. In addition, pursuant to the lease agreement between the Economic Development Corporation and FMR Rhode Island, Inc. to secure the bonds, job rent credits are applied against lease payments if certain targeted new job goals are met for the financed project. Currently, it is projected that these job goals will be met. If the job goals are met, the Economic Development Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriation which will be used to pay the debt service on this bond issue. In May 2002, an additional $10 million of Phase II bonds with similar provisions were issued. As of June 30, 2009, $28.222

million of Fidelity bonds were outstanding. Job rent credits are expected to result in a State obligation of $2.9 million in 2010, and are expected to reach $2.5 million for Phase I and $522,000 for Phase II annually when maximized.

In November 1997, the Economic Development Corporation entered into a similar agreement with Fleet Bank (now known as Bank of America); bonds issued for that transaction totaled $11.0 million. As of June 30, 2009, $9.180 million of Fleet bonds were outstanding. Under the lease agreement with Fleet, debt service on only $3.4 million of the total debt would be reimbursed through the applications of job rent credits. Job rent credits, if earned, are estimated to result in a State obligation of approximately $300,000 per year.

Borrowing for the Employment Security Fund

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

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

The balance in the Rhode Island Employment Security Fund was ($120.9) million as of December 2009. This was a decrease of $200.2 million from December 2008. Notwithstanding the limitations on borrowing described above, the State Constitution permits borrowings from the federal government without consent of the people. The Rhode Island Department of Labor and Training borrowed from the Federal Unemployment Account administered by the federal government $70.3 in FY 2009 and $100.5 million in FY 2010 as of March 2, 2010. The Department projects that it will need to continue to borrow as authorized by federal law in order to meet the cost of unemployment benefit payments in FY 2010 and FY 2011. The last time a borrowing occurred was when the Rhode Island Employment Security Fund borrowed a total of $129.3 million between February 1975 and April 1980 from the Federal Unemployment Account under Title XII of the Social Security Act. In early November 1984, the Governor of the State of Rhode Island authorized the transfer of $75.8 million from the Employment Security Fund to the Federal Unemployment Account to complete the $129.3 repayment of the outstanding loan balance.

A history of the Employment Security Fund's financial status since 1975 when the first loan was made is presented in the table below. The first column of the chart presents the ending fund balance for each calendar year between 1975 and 2009. This figure is comprised primarily of a combination of employer contributions and Federal loans (receipts) minus employee benefits and loan repayments (disbursements) less any outstanding loan balance.

		Borrowings from Federal Unemployment Account	
Year Ended Dec. 31	Fund Balance (Millions)	Amount Borrowed (Millions)	Amount Repaid (Millions)
1975	$ -40.5	$ 45.8	$ -0-
1976	-53.9	20.0	-0-
1977	-66.6	9.0	3.73
1978	-88.0	31.0	-0-
1979	-96.3	5.0	4.31
1980	-94.5	18.5	0.02

Year Ended Dec. 31	Fund Balance (Millions)	Borrowings from Federal Unemployment Account: Amount Borrowed (Millions)	Amount Repaid (Millions)
1981	-71.0	0	9.26
1982	-76.6	0	10.22
1983	-46.6	-0-	12.15
1984	19.7	-0-	89.61
1985	71.4	-0-	-0-
1986	133.5	-0-	-0-
1987	211.5	-0-	-0-
1988	270.8	-0-	-0-
1989	295.0	-0-	-0-
1990	255.7	-0-	-0-
1991	140.2	-0-	-0-
1992	99.5	-0-	-0-
1993	114.0	-0-	-0-
1994	110.3	-0-	-0-
1995	107.6	-0-	-0-
1996	112.5	-0-	-0-
1997	157.0	-0-	-0-
1998	220.0	-0-	-0-
1999	260.5	-0-	-0-
2000	295.7	-0-	-0-
2001	278.0	-0-	-0-
2002	253.8	-0-	-0-
2003	205.5	-0-	-0-
2004	184.3	-0-	-0-
2005	185.8	-0-	-0-
2006	197.9	-0-	-0-
2007	168.4	-0-	-0-
2008	79.2	-0-	-0-
2009	-120.9	127.5	-0-
2010 (as of Feb. 28)	-147.4	36.9	-0-

In March 2009, the Governor applied for repayable advances to the account of the State in the Unemployment Trust Fund from the federal unemployment account in accordance with the provisions of Section 1201 of the Social Security Act. In 2009, the State received $127.5 million in federal advances. The State has borrowed an additional $36.9 million in 2010 through the end of February and has received authorization to borrow up to an additional $40.0 million in March of 2010. It is expected that borrowing will continue throughout FY 2010 and into FY 2011, and could reach $232.1 million by the end of December 2010. Total borrowing is expected to peak at $308.1 million at the end of April 2011.

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

State Agencies and Authorities

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

Rhode Island Turnpike and Bridge Authority. Originally created by an act of the General Assembly, Chapter 12, title 24 of the General Laws, 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 of the Series 1997 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 the Authority's 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 $23,625,000 at June 30, 2009.

On February 1, 2009, the Authority converted to electronic toll collection (E-ZPass) and discontinued accepting tokens for passage over the Claiborne Pell Bridge. In connection with the Enacted FY 2010 Budget, the General Assembly has authorized the Authority to issue up to $50 million of revenue bonds to be secured by toll and other revenues for the purpose of financing the renovation, repair, and improvement of the Pell Bridge, the Mount Hope Bridge and other facilities for which it is responsible.

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. The Commission is authorized to acquire, operate and upgrade the metropolitan Providence wastewater collection and treatment facilities. Full responsibility for the metropolitan Providence system was assumed on May 2, 1982. On January 1, 1992 the former Blackstone Valley District Commission was merged into the Narragansett Bay Commission.

Pursuant to the Narragansett Bay Commission Act, the Commission is authorized to accept advances or loans of funds of up to $3.0 million from the General Fund of the State (a) in anticipation of the receipt of federal funds and (b) for the purpose of meeting debt service liabilities and providing for the construction, maintenance and operation for the project during such periods of time as the Narragansett Bay Commission Fund may be insufficient for any such purposes. The Commission currently has no outstanding advances from the State. However, as of February 28, 2010, the Commission has outstanding long-term debt (revenue bonds) of $155,128,722 and outstanding long-term loans payable to the Rhode Island Clean Water Finance Agency of $255,471,628.

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 and subsequent voter referendum to merge the Recreational Building Authority and the Industrial Building Authority. The Industrial-Recreational Building Authority is a body corporate and politic and a public instrumentality of the State, consisting of five members appointed by the Governor. Voter approval enabled the Authority to pledge the State's full faith and credit up to $80,000,000 for the following purposes: to insure eligible mortgages for new construction, acquisition, and rehabilitation or expansion of facilities used for manufacturing, processing, recreation, research, warehousing, retail, and wholesale or office operations. New or used machinery, equipment, furniture, fixtures or pollution control equipment required in these facilities is also authorized for mortgage insurance. Mortgages insured by the Authority are limited to certain specified percentages of total project cost. The Authority is authorized to collect premiums for its insurance and to exercise rights of foreclosure and sale as to any project in default. Effective July 1, 2008, the General Assembly reduced the authorization to $20,000,000. The Governor has, however, proposed as part of the FY 2011 Budget to restore this authorization to $80,000,000 once again.

As of June 30, 2009, the Authority had outstanding mortgage agreements and other commitments for $13,841,455 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, 2009, the Fund had a balance of $3,630,714 of which $3,110,367 was liquid. The State has agreed to appropriate or borrow and pay to the Authority any amounts required to service insured loans that are in default should the Fund be insufficient.

Rhode Island Refunding Bond Authority. The Authority was created in 1987 under Chapter 8.1, title 35 of the General Laws, 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. 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, 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 were 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. The 2003 Series A bonds matured and were no longer outstanding as of October 1, 2008. Total net debt outstanding on the remaining 1998 Series A issue as of June 30, 2009 was $6,040,000. As of February 1, 2010, all bonds of the Authority were paid in full.

Rhode Island Convention Center Authority. The Authority was created in 1987, under Chapter 99, title 42 of the General Laws as a public corporation having a distinct legal existence from the State and not constituting a department of State government. The Authority was created for the purpose of acquiring, constructing, managing and operating a convention center, as well as facilities related thereto such as parking lots and garages, connection walkways, hotels and office buildings, including any retail facilities incidental to and located within any of the foregoing and to acquire, by purchase or otherwise, land to construct the complex. Obligations issued by the Authority do not constitute a debt or liability or obligation of the State, but are secured solely from the pledged revenues or assets of the Authority. In November 1991 the Authority sold $225 million in bonds to finance the construction of the Rhode Island Convention Center and in July 1993 the Authority sold an additional $98 million in bonds to finance the construction of the hotel and parking garage. Market conditions in 1993, 2001 and 2003 enabled the Authority to refund all or portions of its 1991 and 1993 bonds. In addition, during 2005, the Authority sold the Westin Hotel and defeased $90,085,000 in Authority bonds and refunded a portion of its 1993 Series C Bonds. The 1993 Series C Bonds were retired in FY08. During FY09, the Authority refunded the 2001 Series A, thereby converting the variable risk of this series with a fixed rate. This series was replaced by 2009 Series A and B. The 2009 Series B issue is federally taxable.

As of June 30, 2009, the Authority had $275,810,000 in principal of outstanding debt (excluding interest) consisting of the following issues:

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

The Authority purchased the Dunkin' Donuts Civic Center from the City of Providence in December of 2005 for a purchase price of $28.5 million. The purchase price for the acquisition of the Dunkin Donuts Civic Center, together with funds for the renovation of and ancillary expenditures regarding the Dunkin Donuts Civic Center, was financed in 2006 through a taxable bond issuance of $92.5 million constituting the 2006 Series A Bonds.

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

Rhode Island Resource Recovery Corporation. The Rhode Island Resource Recovery Corporation, a quasi-public corporation and instrumentality of the State, was established in 1974 under Chapter 19, title 23 of the General Laws 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, 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. The outstanding balance at June 30, 2009 totals $14,845,000.

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

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

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

Fiscal Year	Amount
1995	$ 6,000,000
1996	15,000,000
1997	0
1998	2,000,000
1999	4,000,000
2000	0
2001	3,115,000
2002	3,000,000
2003	6,000,000
2004	0
2005	4,300,000
2006	7,500,000
2007	3,300,000
2008	5,000,000
2009	7,500,000
	$66,715,000

In FY 1994, the General Assembly approved a municipal tip fee of $32.00 per ton. Annually, the legislature has maintained the municipal tip fee at the FY 1994 level by reauthorizing the Corporation to charge $32.00 per ton for municipal solid waste. A portion of the Corporation's landfill is a designated Superfund site. During 1996, the Corporation entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, the Corporation has deposited approximately $33,299,000 into the trust fund and has disbursed approximately $5,484,000 for remediation expenses and trustee management fees through June 30, 2009. Additionally, trust fund earnings, net of changes in market value have totaled approximately $14,624,000 as of June 30, 2009.

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

The Corporation has also established trust funds, in accordance with EPA requirements for a municipal solid waste landfill, for the closure and post closure care costs related to Phases II, III, IV and V of the landfill. At June 30, 2009, the Corporation has approximately $40,119,000 in the trust funds to meet the financial requirements of closure and post closure care costs related to Phases II, III, IV and Phase V. Future trust fund contributions will be made each year to enable the Corporation to satisfy these closure and post closure care costs. The Corporation’s total estimate of future landfill closure and postclosure costs is approximately $140,000,000 as of June 30, 2008. The Corporation has received site approval for Phase VI from the State Planning Council. The Corporation has submitted an application for licensure of Phase VI to RIDEM. The Corporation expects to record an approximately additional $80,000,000 of closure costs based upon current costs over the anticipated life of Phase VI, once it is permitted and begins to accept solid waste.

As a result of some ethical concerns and suspected misuse of Corporation funds raised by the Corporation’s Executive Director, a preliminary forensic audit was ordered by the Governor in January 2008. The findings of that audit completed in March 2008 confirmed these concerns and the Governor then ordered a full forensic audit. On September 22, 2009 the Bureau of Audits released the results of its examination of the Corporation. Although none of the findings are expected to have a significant impact on the Corporation's financial position, the audit did reveal $75,000,000 in claims for lost value during the eight year period examined. The State has begun the legal process required to collect insurance proceeds covering up to $12,000,000 of the damages, and could also seek additional recovery from other private parties identified in the audit. Based on the results of the audit, and subsequent comments made by the Rhode Island State Police, criminal charges are unlikely to be filed.

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 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.

The Agency is empowered to issue revenue bonds and notes, which are not guaranteed by the State. As of June 30, 2009, the Agency has issued bonds in the aggregate amount of $777,115,000 to fund $872,196,309 in low-interest loans for various local wastewater pollution abatement projects, safe drinking water projects and the Cranston Privatization Issue. The outstanding bonded indebtedness of the Agency, as of June 30, 2009 is $428,800,000 in the clean water state revolving fund (CWSRF wastewater projects), $59,360,000 for three conduit financings and $114,445,000 in the drinking water state revolving fund. Also, in years 1997 through 2009, the Agency made a total of $41,430,000 in direct loans (loans issued without bond financing) out of the CWSRF, a total of $28,213,037 in direct loans out of the Drinking Water State Revolving Fund and $58,095,000 in direct loans out of the Rhode Island Water Pollution Control Revolving Fund.

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

The Authority is authorized to issue bonds and notes secured solely by its revenues. The Authority has no bonds or notes outstanding. Also, in order to increase the financial stability of the Authority, (1) the General Assembly authorized dedication of a portion of the State's gasoline tax receipts in support of appropriations to the Authority, and (2) the Authority increased its base fare from 70¢ to 75¢ to 85¢ to $1.00 to $1.50 and then to $1.75 in July 2008. The Authority, in an effort to build rider ship, has maintained rates at a level that has necessitated State appropriations to support its operations. In the fiscal year ended June 30, 2009, audited results of operations reveal that State-operating assistance to the Authority totaled $33,613,398, operating revenues totaled $34,009,752, and other revenues totaled $24,761,851.

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

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, and was created in 1974 under Chapter 64, title 42 of the General Laws. The

Corporation continues the function of the Port Authority, but also incorporates other activities performed by the State Department of Economic Development and provides assistance to economic related agencies including the Rhode Island Airport Corporation and the Rhode Island Industrial Facilities Corporation. The new corporation provides a single State agency to deal with economic development for the State.

As of June 30, 2009, the Corporation had revenue bonds outstanding of $1,169,076,268 including conduit debt of $94,463,439 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. Some, but not all, revenue bonds issued by or through the Corporation that are outstanding are listed below.

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

In May 1996, the Corporation issued $25,000,000 in revenue bonds on behalf of Fidelity Management Resources for development of infrastructure improvements at a site in Smithfield to be utilized for Fidelity of Rhode Island, Inc. These bonds are also secured, in part, by the Corporation's capital reserve fund. In addition, pursuant to the lease, the Corporation entered into an agreement with FMR Rhode Island, Inc., for the Fidelity Management Resources project described above, to secure those bonds, credits are provided for lease payments if certain targeted new job goals are met for the financed project. If the job goals are met, the Corporation will credit FMR Rhode Island, Inc.'s lease payments and make annual requests to the General Assembly for appropriations which will be used to pay the debt service on this issue. In FY 2009, the State's expenditure for this purpose was $2,554,276, reflecting approximately 9% of the total debt service. It is expected that within two years the full credits will be achieved. At June 30, 2009, the outstanding balance was $18,707,829.

In May 2002, the Corporation and Fidelity Management Resources entered into a Second Amendment to Ground Lease, to expand the premises to include additional lots at Fidelity Management Resources site in Smithfield. In connection therewith, the Corporation issued $10,000,000 in revenue bonds on behalf of Fidelity Management Resources. These bonds are secured, in part by the Corporation's capital reserve fund. At June 30, 2009, the outstanding balance was $9,000,000.

In November 1997, the Corporation issued $11,000,000 in revenue bonds on behalf of Fleet National Bank (which is now part of Bank of America by merger) for development of infrastructure improvements at a site in Lincoln, to be utilized by 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, 2009, the outstanding balance was $9,180,000.

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

In January 1998, the Corporation issued revenue bonds in the amount of $11,825,000 to finance improvements to McCoy Stadium in Pawtucket. These bonds are supported by State lease payments subject to annual appropriations. At June 30, 2009, the outstanding balance was $2,220,000.

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

In November 2003, Rhode Island entered into a payment agreement with the Rhode Island Economic Development Corporation relating to the issuance of $53,030,000 of Motor Fuel Tax Revenue Bonds to provide funds for the State match for certain major Transportation projects funded by GARVEE bonds also issued by the Corporation. The Motor Fuel Tax Revenue Bonds are secured by two cents of the motor fuel tax dedicated to the Department of Transportation, subject to annual appropriation. In March 2006, a second series of bonds totaling $42,815,000 was sold. In April 2009, a third series was issued totaling $12,410,000. As of June 30, 2009, $81,125,000 was outstanding.

The GARVEE bonds issued through the Corporation, which are secured by federal funds made available to the Department of Transportation, are not considered part of the State's net tax supported debt. As of June 30, 2009 there was $394,280,000 outstanding which were supported by federal revenues.

In July 2007, the Rhode Island Economic Development Corporation provided $14 million to an affiliate of Sage Hospitality, the developer of the old Masonic Temple located in Providence in the form of a 40 year loan, at an interest rate of ½ of one per cent, in exchange for the extinguishment of no less than $24 million in Rhode Island Historic Preservation Tax Credits that have not yet been issued on the project to redevelop the old Masonic Temple into a Renaissance Hotel. The Corporation borrowed funds for the transaction from Bank of America and the Governor agreed to request that the General Assembly appropriate each fiscal year funds sufficient to repay the obligation of the Corporation during FY 2008 through FY 2010. It is anticipated that the net savings to the State would be approximately $8,000,000 over the period of time those tax credits may otherwise have been used.

In June 2009, the Corporation issued revenue bonds in the amount of $150,000,000 to provide funds to reimburse the State for historic Structures Tax Credits from time to time presented by taxpayers. These revenue bonds are supported by a payment agreement with the State subject to annual appropriation. As of June 30, 2009, there was $150,000,000 of such revenue bonds outstanding.

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

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

RIAC was created to operate as a self-sustaining entity and receives no funds from the State's General Fund for the operation and maintenance of any of the Airports under its jurisdiction. RIAC has used proceeds of State 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 bonds issued for airport purposes. RIAC does not have the power to issue bonds or notes or borrow money without the approval of the Rhode Island Economic Development Corporation.

RIAC operates T.F. Green Airport, which is Rhode Island's only certified Part 139 Class I Airport. The Airport is primarily an origin – destination airport. In recent years, approximately 96% of the passengers at the Airport either began or ended their journeys at the Airport. As of June 2009, and based upon classifications defined by the U.S. Department of Transportation, the Airport has scheduled passenger service provided by thirteen major/national and five commuter airlines. Air Georgian provides international service at the Airport. Two airlines provide all-cargo service.

Airport Use & Lease Agreements

RIAC has entered into Airport Use & Lease Agreements (Airline Agreements) with the following Signatory Airlines as of June 30, 2009:

- American Airlines (while American Airlines has discontinued service, they still maintain a signed agreement)
- Continental Airlines
- Delta Airlines
- Northwest Airlines (Delta has assumed Northwest's operations and is paying for Northwest's vacant space and unused services through the expiration of Northwest's agreement)
- Southwest Airlines
- United Airlines
- US Airways

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

Historical Enplanement Data

T.F. Green Airport was ranked as the 60th busiest airport in the country for the federal fiscal year 2007 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 60th busiest in federal fiscal year 2006, 57th busiest in federal fiscal year 2005, and 58th busiest in federal fiscal years 2003 and 2004.

Actual enplaned passengers for fiscal year 2009 were 218,254 below 2008, resulting in a decrease of 8.8%. The decline in enplanements at the Airport is attributable to the ongoing impact of the economic downturn.

General Aviation Airports

There are five General Aviation Airports operated by RIAC, each of which is managed pursuant to a Management Contract dated as of May 7, 1996, that has been extended to June 30, 2011, by and between RIAC and

Piedmont Hawthorne Aviation, LLC (doing business as Landmark Aviation). The contract provides for an additional five-year term beginning July 1, 2011. Each of these airports is briefly described below:

North Central Airport

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

Quonset Airport

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

Westerly Airport

Located in the southwest portion of Rhode Island in Westerly, Westerly Airport is approximately thirty-five miles from the Airport. Westerly is classified as a commercial service airport and enplanes approximately 9,100 commuter passengers annually.

Newport Airport

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

Block Island Airport

Situated on Block Island, just off the southern coast of Rhode Island, Block Island Airport is approximately twenty-five miles from the Airport. Block Island Airport is classified as a commercial service airport and enplanes approximately 9,700 commuter passengers annually.

Long-Term Debt Administration – General

Under the State Lease Agreement, RIAC has agreed to reimburse the State bond debt service accruing after July 1, 1993, to the extent of available moneys in the Airport General Purpose Fund which are not required to pay capital improvements at the Airport or general aviation airports' operating expenses. In the event there are not sufficient funds to reimburse the State currently, such event shall not constitute an event of default. Instead, the unpaid portion shall accrue and be payable in the next succeeding fiscal year and shall remain a payment obligation of RIAC until paid in full. If the unpaid portion is not reimbursed by the end of the following year, such failure could constitute an event of default on the part of RIAC under the State Lease Agreement. RIAC is current in all of its payment obligations to the State. These bonds mature annually through 2023. The balance outstanding at June 30, 2009 and 2008 was $10.11 million and $11.678 million, respectively.

In 1994, RIAC issued $30 million General Airport Revenue Bonds dated May 19, 1994, maturing annually from 1998 through 2014 with interest coupons ranging from 5.25% to 7%. The balance outstanding at June 30, 2009 and 2008 was $6.07 million for both years.

In 1998, RIAC issued $8.035 million Series A and $53.14 million Series B General Airport Revenue Bonds dated June 11, 1998, maturing annually from 2001 through 2028 with interest coupons ranging from 4.2% to 5.25%. The balance outstanding as of June 30, 2009 and 2008 was $33.605 million and $35.08 million, respectively.

In 2000, RIAC issued $8.38 million Series A and $42.165 million Series B Airport Revenue Bonds dated May 11, 2000, maturing annually from 2005 through 2028 with interest coupons ranging from 5.51% to 6.5 %. The balance outstanding as of June 30, 2009 and 2008 was $4.005 million and $5.19 million, respectively.

In 2003, RIAC issued $31.725 million Series A Airport Revenue Refunding Bonds dated October 2, 2003 to enable the defeasance of $31.395 million of 1993 Series A General Airport Revenue Bonds. The refund issue matures annually from 2005 through 2015 with interest coupons ranging from 3.5% to 5%. The balance outstanding as of June 30, 2009 and 2008 was $20.6 million and $23.585 million, respectively.

In 2004, RIAC issued $52.665 million Series A Airport Revenue Refunding Bonds dated March 12, 2004 to enable the defeasance of $31.915 million and $20.190 million in 1993 Series A General Airport Revenue Bonds (GARB) and 1994 Series A GARBs, respectively. The refunding issue matures annually from 2005 through 2024 with interest coupons from 2% to 5%. The balance outstanding as of June 30, 2009 and 2008 was $49.155 million and $50.06 million respectively.

In 2005, RIAC issued $43.545 million Series A and $27.245 million Series B Airport Revenue Bonds dated June 28, 2005 maturing annually from 2009 through 2030 with interest coupons ranging from 4.625% to 5%. Also on June 28, 2005, RIAC issued $44.465 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $42.165 million in 2000 Series B General Airport Revenue Bonds. The refunding issue matures annually from 2006 through 2028 with interest coupons ranging from 3% to 5%. RIAC's defeasance of the 2000 Series B Bonds resulted in an economic present value gain of $3.04 million or 7.2% of the refunded bonds. The outstanding balance for the 2005 Series as of June 30, 2009 and 2008 was $114.66 million and $114.87 million, respectively.

In 2008, RIAC issued $17.645 million Series A and $15.49 million Series B Airport Revenue Bonds dated May 30, 2008 maturing annually from 2008 through 2038 with interest coupons ranging from 3.5% to 5.25%. Also on May 30, 2008, RIAC issued $18.03 million Series C Airport Revenue Refunding Bonds to enable the defeasance of $18.06 million of 1998 Series B General Airport Revenue Bonds. The refund issue matures annually from 2010 through 2018 with interest coupons ranging from 4% to 5%. RIAC's defeasance of these 1998 Series B Bonds resulted in an economic present value gain of $597 thousand or 3.3% of the refunded bonds. The outstanding balance for the 2008 Series as of June 30, 2009 and June 30, 2008 was $50.88 million and $51.165 million respectively.

Long Term Debt Administration – Special Facility

In 2006, RIAC issued $48.765 million Series 2006 First Lien Special Facility Bonds for the Intermodal Facility Project (2006 First Lien Bonds) dated June 14, 2006 maturing annually from 2011 through 2036 with interest coupons ranging from 4% to 5%. The balance outstanding for the 2006 First Lien Bonds was $48.765 million as of June 30, 2009 and June 30, 2008. The principal amount of, redemption premium, if any, and interest on the 2006 First Lien Bonds is payable from and secured by a pledge of the respective interests of EDC and RIAC in the Trust Estate created under the Indenture.

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

As part of the financing for the Intermodal Facility Project, RIAC and the EDC have secured additional funds under the U.S. Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) provisions for the payment of eligible project costs of the Intermodal Facility up to $42 million at an interest rate of 5.26%. This TIFIA Bond is issued pursuant to the First Supplemental Indenture as a Second Lien Obligation payable from and secured by a pledge of and secondary interest in the Trust Estate under the Indenture, subject to the pledge of the Trust Estate for the security and payment of the 2006 First Lien Bonds. The 2006 TIFIA Bond is also secured by the Second Lien Debt Service Reserve Fund to be funded from CFCs on the Date of Operational Opening in an amount equal to the average annual debt service on the 2006 TIFIA Bond calculated as of the date of the closing. As of June 30, 2009 and June 30, 2008 approximately $83 thousand had been drawn on the TIFIA loan.

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 . 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, 2009, the Corporation had an outstanding principal balance of conduit debt of $89,323,373. 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 $13,841,455 as of June 30, 2009.

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, to originate and make mortgage loans to low and moderate income persons and families, to purchase mortgage loans from and make loans to private mortgage lenders in the State in order to increase the amount of mortgage money generally available, to make mortgage loans to contractors and developers of low and moderate single-family and multi-family housing developments and to acquire and operate, both solely and in conjunction with others, housing projects. The total outstanding indebtedness, including unamortized bond premium/discount, of the Corporation at June 30, 2009 was $1,583,918,961 consisting of $1,480,114,961 of long-term bonds and $103,804,000 of short-term or convertible-option bonds. Included in the total outstanding is $285,257,986 in bonds, which are secured in part by capital reserve funds which have aggregated to $39,562,797 on June 30, 2009. Under provisions similar to those governing the Rhode Island Economic Development Corporation, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The Corporation has never been required to request any such appropriations. Such reserve funds relate solely to multi-family issues of the Corporation.

Rhode Island Student Loan Authority. The Authority was created in 1981 under Chapter 62, title 16 of the General Laws, for the purpose of increasing the supply of loans made to students and their families to finance the cost of obtaining a post-secondary education. To achieve this purpose, one of the powers of the Authority is the ability to issue bonds and notes. Obligations of the Authority shall not constitute a debt, liability or obligation of the State or any political subdivision thereof, and shall be payable solely from the revenues or assets of the Authority. As of September 30, 2009, the Authority held $759,048,247 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, 2009, $183,850,910 in Rhode Island Family Education Loans and $228,148,641 in College Bound Loans. As of September 30, 2009, the Authority had $1,075,360,000 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, 2009 was $990,000.

On March 1, 1994, the Board issued revenue bonds for public drinking water protection in the amount of $11,835,000. On November 15, 2002, the Board issued $11,385,000 of refunding revenue bonds. The proceeds refunded the 1994 series on March 1, 2004 in the amount of $7,847,700. The excess proceeds 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, 2009 was $5,765,000.

During the 2009 Session, the General Assembly enacted legislation which provides that upon the repayment by the Board of all of its existing debt, the Board is to be dissolved and all existing functions and duties of the Board are to be transferred to the Rhode Island Clean Water Finance Agency.

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 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, 2009, the Corporation had $2,600,179,582 of bonds and notes outstanding (excluding series secured by trust funds for future redemption).

Tobacco Settlement Financing Corporation. The Tobacco Settlement Financing Corporation ("TSFC") was created in 2002 as a public corporation, having distinct legal existence from the State and not constituting a department of state government. The TSFC was created to finance the acquisition from the State of the State's right, title and interest in the moneys due under and pursuant to (i) the Master Settlement Agreement, dated November 23, 1998, among the attorneys general of 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Territory of the Northern Marianas and Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and Lorillard Tobacco Company and (ii) the Consent Decree and Final Judgment of the Rhode Island Superior Court for Providence

County dated December 17, 1998, as the same has been and may be corrected, amended or modified, in the class action styled State of Rhode Island v. American Tobacco, Inc., et al. (Docket No. 97-3058), including without limitation, the rights of the State to receive the moneys due to it thereunder.

The TSFC issued $685,390,000 of its Tobacco Settlement Asset-Backed Bonds, Series 2002A ("TSAC Bonds") in June 2002 to finance the costs of acquisition of the right, title and interest to one-hundred percent (100%) of the "state's tobacco receipts" for the years 2004-2043. As of June 30, 2009, the TSFC had $625,435,000 of bonds outstanding from the June 2002 bond issue. The TSFC issued an additional $197.0 million of its TASC Bonds on June 27, 2007, all of which is outstanding. Combined, there is $822,440,742 of bonds outstanding as of June 30, 2009.

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

EMPLOYEE RELATIONS

Under State law, all State employees, with certain exceptions, have the right to organize, to designate representatives for the purpose of collective bargaining and to negotiate with the Governor or his designee on matters pertaining to wages, hours and other conditions of employment, except the State employees' retirement system. State employees have all rights given to private employees under the State Labor Relations Act other than the right to strike. If the representatives of employee organizations and the State representatives are unable to reach agreement in collective bargaining negotiations, State law provides for the submission of unresolved issues to arbitration. The decision of the arbitrators is binding on the parties with respect to all issues and matters other than issues which involve wages for all bargaining units other the State Police, E-911 Emergency Telephone, and employees of the Rhode Island Brotherhood of Correctional Officers, for whom 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 July 24, 2009 the State had 14,471 paid employees. This equates to approximately 13,566 full-time equivalent positions. Of this amount, 11,010 employees organized in numerous unions represented by various collective bargaining units, the largest of which is the American Federation of State, County and Municipal Employees, Council 94. This union represents approximately 3,757 employees, or 34.0 percent of total organized State employees. Several other major bargaining groups are represented by the Rhode Island Alliance of Social Service Employees, Local 580 (825 employees); the Rhode Island Brotherhood of Correctional Officers (1,050 employees); the American Association of University Professors (688 employees) to name a few. In addition, there are 3,461 non-union employees. Contracts with all but two of the collective bargaining units expired on or prior to June 30, 2008. During the summer of 2008, the Administration negotiated a four year agreement which required approval of the various union memberships, and which reflected a portion of the savings to the State needed in order to accomplish the proposed $50.2 million general revenue savings in personnel costs to balance the originally Enacted FY 2009 Budget. In 2008, the Rhode Island Brotherhood of Correctional Officers were awarded through arbitration, contractual provisions through 2006. The Brotherhood and the State have begun arbitration to address the subsequent three-year contract period. Wage demands have yet to be made or addressed as part of such arbitration. The Enacted FY 2010 Budget includes $7.3 million for wage base adjustments in FY 2010, but no retroactive adjustment for this period for the Rhode Island Brotherhood of Correctional Officers. The State Police union has a contract which expired on April 20, 2009, and discussions have been started on that contract.

As part of the FY 2009 budget, the Governor recommended, and the General Assembly agreed, that State Government operate with fewer state employees and that several measures be taken to reduce the overall cost of the workforce. The FY 2009 Enacted Budget included targeted reductions of 629.7 FTE positions in certain agencies based upon specific programmatic reductions. It was projected that this reduction would save $41.0 million from all fund sources in FY 2009. The FY 2009 Enacted Budget also included $60.6 million in savings, of which $33.4 million was general revenues for personnel savings which were to be the result of negotiations with the unions. Additionally, the Governor's recommendation, and the FY 2009 Enacted Budget, assumed $30.5 million in savings from all fund sources ($16 million general revenues) from permanent position eliminations as a result of retirements for FY 2009. The FY 2009 Enacted Budget assumed that 400 non-critical positions will be eliminated upon the incumbent's retirement. The FY 2010 Enacted Budget provides that state employee full time equivalent positions be reduced from the FY 2008 enacted level of 15,987.3 to 14,863.0 in FY 2010, a reduction of 1,124.6 positions. The Governor has recommended in the FY 2011 Budget that the level of state employee full-time equivalent positions be 14,894.2. As a result of changes enacted which modified the cost sharing of State employee retiree health benefits effective October 1, 2008, there have been a significant number of state employees who have retired. As of January 30, 2010, there were 13,566.5 FTE positions filled, 1,296.5 less than the authorized amount in the FY 2010 Enacted Budget. Since July 1, 2007, the State has reduced the FTE employed by 1,381.8. As a result of the significant decline in the number of State employees from the levels provided for in the enacted budget for FY 2008, the State will be confronted with the challenge of reorganizing staffing to effectively render services to its residents with fewer employees.

STATE RETIREMENT SYSTEMS

Employees' Retirement System

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

The ERSRI provides retirement, disability and death benefit coverage. Health insurance benefits are provided by the State for ERSRI members retiring on or after July 1, 1989 through the Department of Administration. Pension, disability and death benefits are funded (a) for State employees by contributions from the State and the employees and (b) for public school teachers by contributions from the teachers with employer contributions shared by the local education agencies ("LEA") and the State, except that, benefits under the Teachers' Survivors' Plan are financed by the LEAs and the teachers. Additionally, the State created the Judicial Retirement Benefits Trust ("JRBT") to fund retirement benefits for judges hired after December 31, 1989 and the State Police Retirement Benefits Plan ("SPRBP") to fund retirement benefits for state police officers originally hired after July 1, 1987. These two plans are significantly smaller than the ERSRI for state employees and teachers. As of June 30, 2008, there are 43 active members and seven retirees and beneficiaries of the JRBT and 177 active members and four retirees and beneficiaries of the SPRBT. Pensions for state police officers and judges hired prior to the dates reflected above for each of the plans are funded on a pay-as-you-go basis. Retiree health insurance benefits are currently funded on a pay-as-you-go basis and are not paid from any trust fund. The System's Actuary is currently Gabriel, Roeder, Smith & Company.

Financial Objectives and Funding Policy

The actuarial cost method and the amortization periods for ERSRI, JRBT, and SPRBT 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 21 years (30 years from June 30, 1999). The actuary considers the funding period reasonable.

The State's total contributions (exclusive of contributions by LEAs for teachers and employee contributions) to the ERSRI, JRBT and SPRBP were $195.23 million in FY 2007, $219.86 million in FY 2008, $204.93 million in FY 2009 and are estimated to be $216.6 million for FY 2010 and $225.9 million for FY2011 based upon the actuarial report as of June 30, 2008. The State has made 100% of its actuarially determined contributions to the pension system for each of the past fifteen years. For more detailed information regarding the funding policy and annual pension costs of the State, see Note 13 – Employer Pension Plans to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

Progress Toward Realization of Financing Objectives

As of June 30, 2008, the date of the last actuarial valuation, the total UAAL for the pension plans was $4.35 billion, which consists of $1.67 billion for State employees, $2.66 billion for teachers, $14.1 million for state police and $7.8 million for judges. For further information relating to the funding progress of the ERSRI, the State pension plan in which substantially all of the unfunded actuarial accrued liability resides, see the table later provided entitled "Schedule of Funding Progress".

The funded ratio (the ratio of the actuarial value of assets to the unfunded actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100 percent. For the State employees, the funded ratio increased from 57.5% to 61.8% during the period July 1, 2007 to June 30, 2008, while for teachers the ratio increased from 55.4% to 60.3% over the same period. During the same period, the funded ratio decreased from 83.8% to 81.7% for the judges and increased for the state police from 76.1% to 79.6%. These are based on the Entry Age Normal funding method effective June 30, 1999.

The State's unfunded pension liability as reflected in the actuarial valuation as of June 30, 2008, is primarily due to the level of benefits being provided to employees under the plans and the failure of investment returns under the plans to historically meet the annual investment return assumption of 8.25%. The average annual return for the plans based on the market value of assets over the period from July 1, 1998 to June 30, 2008 was 5.15%. The average annual return for the plans based on the actuarial value of assets over the same period was 6.05%.

Subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds declined significantly, consistent with overall declines in the domestic and international financial market due to the economic recession, which put even further financial stress on the State's pension system. At June 30, 2009 declines were approximately 19.2% compared to the fair value of investments at June 30, 2008 and approximately 27.4% compared to the value of the funds in January 2008. Subsequent to June 30, 2009, the System has seen a significant recovery within the capital markets that began during the second quarter (calendar 2009). Initiatives to maintain exposures while reducing costs began in 2008 and are proving to be beneficial throughout 2009. The State's discontinuance of securities lending practices within its investment portfolio prior to the disruption in the capital markets has also proven to be a risk to reward decision that appears to have been prudent. The State Investment Commission has adopted a long-term investment policy for the System's investments, which includes diversification of holdings pursuant to an asset allocation model. In addition, the impact on the funded status of the System's plans and required contributions due to any near-term decline in value of the System's investments will be tempered by the five-year smoothing method employed in calculating the actuarial value of assets.

Pension Reform

In the last several years, the State has modified the pension benefit structure in order to address the growing burden that pension obligations were placing on the State budget. The reforms enacted in the 2005, 2008, and 2009 Sessions of the General Assembly are described below.

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

Change in Retirement Age Eligibility

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

Change in Benefit Accrual Rates

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

Change in Cost of Living Adjustment

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

Social Security Option

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

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

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

Article 7 of the FY 2010 Appropriation Act included several provisions that modifyied ERSRI and JRBT that would reduce the cost of employee pensions for the state and for local communities. The total estimated savings from the modifications is $58.6 million, including state savings of $36.4 million and local government savings of $22.3 million. By employee category, state employee savings are $21.3 million ($12.1 general revenue, $5.4 million federal, $949,258 restricted receipts, and $2.9 million other funds), teacher savings $14.9 million (as well as $22.3 million teacher retirement savings accruing to LEAs), and judicial savings of $226,165. It has been reported that a number of unions representing State employees and teachers plan to file a lawsuit challenging and attempting to block the Article 7 pension reform enacted by the General Assembly during the 2009 Session, which could impact some or all of the estimating savings relating to such pension reform if such unions do file a lawsuit and are successful.

The enacted modifications apply to those who retire on or after October 1, 2009 and do not affect those who are eligible for retirement as of September 30, 2009. The following summarizes the modifications contained in Article 7 of the final enacted appropriation.

The pensions for State Employees and Teachers would now be calculated based upon final average compensation for the 5 highest consecutive years of compensation, versus 3 years in prior law. The cost of service credit purchases after June 16, 2009 will be calculated at full actuarial value (except military service and restoration credits) for state and teachers.

The age and service eligibility provisions for State Employees and Teachers are changed to reflect a minimum retirement age of 62 with a minimum of 10 years of service, versus prior law for Tier I employees of 60 years of age and a minimum of 10 years of service or 28 years of service at any age. For Tier II employees, the age and service eligibility provisions are changed to also reflect a minimum retirement age of 62 with 29 years of service or 65 years of age and 10 years of service, versus prior law of 59 years of age and 29 years of service or 65 years of age and a minimum of 10 years service or 55 years of age and 20 years of service with actuarial reduction. For correctional officers and MHRH nurses, who are eligible to retire under current law at age 50 with 20 years of service (correctional officers) or with 25 years of service (MHRH nurses), similar proportionate eligibilities would be applied with minimum retirement eligibilities of age 55 with 25 years of service.

For active state employees and teachers in the system as of October 1, 2009, the minimum retirement age of 62 will be proportionally adjusted downward based on the member's first point of pension eligibility under the prior law as of September 30, 2009.

For example, if a Tier I employee was hired at age 22, he or she could expect to be eligible to retire under prior law at age 50 with 28 years of service. If the member has 14 years of service at Sept. 30, 2009, they have earned half of the necessary service (i.e., 14 years earned out of 28 needed to retire at age 50). Rather than requiring the member to work until 62 for an unreduced retirement benefit, the minimum retirement age of 62 age is adjusted downwards by half the difference between ages 62 and 50. Therefore, the member could first retire at age 56.

If that same hypothetical member had 21 years of service as of September 30, 2009, he or she would have earned 75% of the service needed to retire under prior law and would then be eligible to retire at age 53 [(62 - 50) x 75% = 9 and then [62-9=53]. If the member had already earned 28 years of service, he or she would be grandfathered under the prior law Tier I benefits.

Article 7 also modifies the future benefit accrual schedule for members of ERSRI in Tier I, except for grandfathered members. After September 30, 2009, each Tier I member would be entitled to receive a benefit equal to his or her Final Average Compensation multiplied by an accrual factor. The accrual factor would be the sum of (a) the member's percentage accrual under Tier I for service through September 30, 2009, plus (b) the member's accrual under Tier II for service after September 30, 2009. For example, a member in Tier I with 23 years of service at September 30, 2009 would have an accrual of 45% at that date. If the member retires at September 30, 2014, with 28 years of service, his benefit accrual would be 55.75% (45% at September 30, 2009 + 4% for the next two years under Tier II structure + 6.75% for the next three years under Tier II). The maximum benefit for any Tier I member will remain at 80%. No change is being made to the special formula for correctional officers, and no change is made to members under Tier II.

With respect to pensions relating to accidental disability, members who retire on accidental disability are entitled to receive a lifetime benefit equal to two-thirds of their salary at the time of disability. Article 7 makes several modifications to the provisions governing accidental disability. It would add requirements for the retiree to provide evidence of the continuation of disabled status as requested by the Retirement Board. The Retirement Board would have to determine whether an applicant for an accidental disability retirement benefit is (a) not disabled, (b) disabled from service, or (c) permanently and totally disabled from any employment. For members who meet the stronger test of totally and permanently disabled from all employment, the current benefit (66 2/3% of salary) would be unchanged. For members found to be only disabled from service, the benefit would be reduced from 66 2/3% of salary to 50% of salary. These changes take place for disabilities incurred on October 1, 2009 or later.

With respect to the cost of living adjustments, Article 7 provides that all members, except for the grandfathered members, would receive a COLA under the Tier II provisions. That is, the COLA paid each year would be limited to the lesser of the increase in the Consumer Price Index or 3%, and the first increase would be paid on the third anniversary of the member's retirement.

Article 7 also adjusts judicial pensions. Currently, members who were appointed prior to January 1, 2009 receive a 100% benefit if they retire after reaching age 65 with 20 years of judicial service or if they retire after age 70 with 15 years of judicial service. Members with these same years of service and ages appointed on or after January 1, 2009 receive a 90% benefit, and take an additional 10% reduction to 80% if they wish to elect the spouse's death benefit. Under Article 7, members appointed on or after July 1, 2009 would receive an 80% benefit, or a 70% benefit if they wish to elect the spouse's death benefit.

Reduced Retirement: Currently, members who were appointed prior to January 1, 2009 receive a 75% benefit if they retire with at least 20 years of service prior to age 65, or if they retire after reaching age 65 with 10 years of service. Members appointed on or after January 1, 2009 receive a 70% benefit, and take an additional 10% reduction to 60% if they wish to elect the spouse's death benefit. Under Article 7, members appointed on or after July 1, 2009 would receive a 65% benefit, or a 55% benefit if they wish to elect the spouse's death benefit.

Finally, judge's retirement benefit is based on his pay at the time of retirement if he was appointed on or before July 2, 1997. For members appointed after that date, benefits are based on an average of the member's three highest yearly salaries. Under Article 7, benefits for members appointed on or after July 1, 2009 will be based on a five-year average of the member's salaries

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 below shows a historical summary of the funded ratios and other information for ERSRI. The notes to required supplementary information show 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 (Development of Contribution Rates) shows the calculated contribution rates. This is the ARC for State Employees and Teachers, respectively. The payroll growth rate used in the amortization calculations is as determined by method approved by the Retirement Board, and does not include any allowance for membership growth.

Development of Contribution Rates
June 30, 2008

			State Employees	Teachers
1.	Compensation			
	(a)	Supplied by ERSRI	$ 617,622,521	$ 928,250,193
	(b)	Adjusted for one-year's pay adjustment	587,500,000	985,898,174
2.	Actuarial accrued liability		4,371,829,709	6,705,498,005
3.	Actuarial value of assets		2,700,368,568	4,044,954,378
4.	Unamortized accrued actuarial liability (UAAL) (2 - 3)		1,671,461,141	2,660,543,627
5.	Remaining amortization period at valuation date		21	21
6.	Contribution effective for fiscal year ending:		June 30, 2011	June 30, 2011
7.	Payroll projected for two-year delay		615,596,250	1,071,480,298
8.	Amortization of UAAL		127,869,711	204,051,600
9.	Normal cost			
	(a)	Total normal cost rate	9.62%	10.53%
	(b)	Employee contribution rate	8.75%	9.50%
	(c)	Employer normal cost rate (a - b)	0.87%	1.03%
10.	Employer contribution rate as percent of payroll			
	(a)	Employer normal cost rate	0.87%	1.03%
	(b)	Amortization payments (8 / 7)	20.77%	19.04%
	(c)	Total (a + b)	21.64%	20.07%
11.	Estimated employer contribution amount (7 x 10(c))		$ 133,215,029	$ 215,046,096

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Employees						
June 30, 1999	$2,201,890,748	$2,607,397,329	$405,506,581	84.4%	$494,815,513	82.0%
June 30, 2000	2,345,319,663	2,874,905,547	529,585,884	81.6%	517,632,152	102.3%
June 30, 2001	2,406,278,029	3,089,247,738	682,969,709	77.9%	539,015,218	126.7%
June 30, 2002	2,353,855,871	3,284,126,961	930,271,090	71.7%	586,888,745	158.5%
June 30, 2003*	2,267,673,016	3,517,352,031	1,249,679,015	64.5%	606,102,182	206.2%
June 30, 2004	2,202,900,345	3,694,787,818	1,491,887,473	59.6%	606,087,585	246.2%
June 30, 2005	2,163,391,323	3,843,518,875	1,680,127,552	56.3%	606,474,789	277.0%
June 30, 2006	2,256,979,077	4,131,157,601	1,874,178,524	54.6%	644,980,127	290.6%
June 30, 2007	2,493,428,522	4,332,888,818	1,839,460,296	57.5%	660,044,273	278.7%
June 30, 2008	2,700,368,568	4,371,829,709	1,671,461,141	61.8%	587,500,000	284.5%
Teachers						
June 30, 1999	3,259,015,814	3,967,529,172	708,513,358	82.1%	673,484,467	105.2%
June 30, 2000	3,514,399,312	4,359,881,262	845,481,950	80.6%	703,201,056	120.2%
June 30, 2001	3,619,863,426	4,679,288,010	1,059,424,584	77.4%	748,460,527	141.5%
June 30, 2002	3,553,823,995	4,857,003,061	1,303,179,066	73.2%	792,015,577	164.5%
June 30, 2003*	3,427,685,554	5,341,627,416	1,913,941,862	64.2%	834,642,391	229.3%
June 30, 2004	3,340,527,073	5,634,195,435	2,293,668,362	59.3%	866,532,598	264.7%
June,30 2005	3,280,977,321	5,919,156,211	2,638,178,890	55.4%	898,051,154	293.8%
June 30, 2006	3,394,086,565	6,444,693,666	3,050,607,101	52.7%	914,985,746	333.4%
June 30, 2007	3,737,981,686	6,750,125,236	3,012,143,550	55.4%	959,372,837	314.0%
June 30, 2008	4,044,954,378	6,705,498,005	2,660,543,627	60.3%	985,898,174	269.9%

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

Schedules Of Contributions From The Employers And Other Contributing Entity

ERS FY Ended June 30	State Employees Annual Required Contribution	Percentage Contributed	Teachers (State) Annual Required Contribution	Percentage Contributed	Teachers (Local) Annual Required Contribution	Percentage Contribution
2008	$131,560,248	100%	$82,455,777	100%	$122,906,860	100%
2007	118,389,603	100%	70,531,472	100%	109,415,227	100%
2006	91,254,063	100%	54,537,733	100%	83,794,372	100%
2005	66,087,984	100%	48,834,755	100%	73,006,173	100%
2004	55,699,588	100%	45,039,279	100%	70,666,221	100%
2003	45,323,258	100%	38,242,690	100%	55,504,739	100%
2002	31,801,645	100%	30,763,337	100%	44,391,050	100%
2001	44,540,998	100%	35,365,234	100%	48,153,386	100%
2000	44,353,675	100%	40,719,407	100%	57,667,528	100%
1999	48,526,064	100%	30,202,943	100%	42,373,952	100%

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

Item (1)	State Employees (2)	Teachers (3)
Valuation date	June 30, 2008	June 30, 2008
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of Payroll - Closed	Level percent of Payroll - Closed
Remaining amortization period	21 years	21 years
Asset valuation method	5-Yr Smoothed Market	5-Yr Smoothed Market
Actuarial assumptions:		
Investment rate of return	8.25%	8.25%
Projected salary increase	4.50% to 9.0%	4.50% to 13.25%
Includes inflation at:	3.00%	3.00%
Cost of Living Adjustment – Schedule A (grandfathered)	3.00%	3.00%
Cost of Living Adjustment – Schedule A (nongrandfathered)	2.50%	2.50%
Cost of Living Adjustment – Schedule B	2.50%	2.50%

Schedule A members are those who have at least 10 years of contributing service as of June 30, 2005; Schedule B members are all others. The grandfathered Schedule A members are those retired or eligible to retire on October 1, 2009.

OTHER BENEFITS

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

In order to address the unfunded liability associated with retiree health benefits and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree heath. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service and based on the cost of an active employee health benefit plan. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan. Pursuant to GASB Statement 45, *"Other Post Employment Benefits"* the State obtained an updated actuarial valuation of the unfunded liability relating to retiree medical benefits. The unfunded liability as of June 30, 2007 was determined to be approximately \$788.2 million, including \$679.5 million for State employees, \$54.6 million for State Police, \$29.7 million for Legislators, and \$14 million for Judges, and \$10.2 million for the State's share for teachers. This was calculated using an investment rate of return of 3.566% due to the fact for fiscal year ending June 30, 2009, the plan was not funded on an actuarial basis. The annual required contribution as a percentage of payroll would be 7.91%, 29.83%, 116.91% and 11.64% (no rate for teachers), respectively. The \$788.2 million unfunded liability as of June 30, 2007 reflects an increase from the calculated unfunded liability of \$643.5 million as of June 30, 2005 (based on a discount rate of 3.566%). The actuarial analysis also included estimates utilizing alternative rates of return. The estimated unfunded liability as of June 30, 2007 utilizing an investment rate of 5.0% was \$655.2 million. The total contributions made by the State and the other participating employees for retiree medical benefits were \$28.4 million in FY2008, which contributions reflect only a pay–as-you-go amount necessary to provide for current benefits to retirees and administrative costs. The State has not set aside any funds on an actuarial basis to address the unfunded retiree medical benefit liabilities, which continue to grow. During the 2008 session of the General Assembly, in order to begin funding this unfunded liability, legislation was enacted which would require the State to fund on an actuarial basis and authorized creation of a trust fund for retiree medical benefit liabilities and assets. The actuarial valuation report as of June 30, 2007 reflected that the annual required contribution for FY2010 would be \$56,917,900 (based on a discount rate of 3.566%). During the 2009 Session of the General Assembly, the actuarial funding requirement was delayed until FY2011 due to budget constraints. For further information on retiree medical benefits, see Note 14 Other Post Employment Benefits to the State's audited financial statements for the fiscal year ending June 30, 2008 attached hereto as Exhibit A.

LITIGATION

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position. It should be noted, however, that litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has reached a settlement in the case for \$10,000,000, subject to finalizing a mutually satisfactory release, probate approval for certain plaintiffs and certain other incidental matters. An appropriation of $10 million for this settlement amount was made by the General Assembly.

In November 2007, the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island were ordered by an arbitrator to pay a contractor, DePasquale Building and Realty Company, $3.3 million in damages relating to the construction of a new facility. This decision was appealed to the Rhode Island Superior Court by the Rhode Island Board of Governors for Higher Education and the Community College of Rhode Island. On June 29, 2009, the Rhode Island Superior Court rendered its decision on the matter by vacating the arbitration award except for progress payments in the amount of $327,000 owed to Depasquale and $155,000 owed to a subcontractor, Delta Mechanical Contractors. Delta was subsequently paid. The court decision has been appealed by DePasquale to the Rhode Island Supreme Court and the matter may be assigned to the appellate mediation program.

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

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor, Raito, Inc., was hired by the contractor, Cardi Corp., to, among other things, drill and install twenty-three shafts to allow for placement and erection of the I-Way Bridge. Raito claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. Raito's claims total approximately $9 million, consisting of an alleged unpaid contract balance of approximately $2.8 million and approximately $6.2 million in purported extra work. The litigation is still in the discovery phase and the State cannot estimate the likelihood of loss to the State, if any.

In late 2009 Shire Corporation sued the Rhode Island Department of Transportation, the Rhode Island Department of Administration and several state employees. The complaint alleges that Shire suffered damages and losses over a period of years in several past and current projects and from bids it claims it did not receive. Shire claims damages of approximately $15,000,000. The State has denied the claim in its totality and will contest all damages.

Separate claims have been made against the Rhode Island Department of Education by the Cranston School Department and the Chariho Regional School Committee alleging that they are owed reimbursement for certain expenses incurred by them in the operation of their respective area vocational-technical career centers. The Cranston School Department claims it is owed $7,166,656 for the amounts it paid for salaries of directors and guidance counselors from 1990 to the present and for the costs of building repairs from 1999 to the present at the Cranston Area Vocational Technical Center. The Chariho Regional School Committee claims it is owed $4,142,893 for amounts it paid for salaries of directors and guidance counselors from 1990 to the present at the Chariho Career and Technical Center. None of the other six (6) school districts that operate regional vocational technical centers in the state have raised similar claims to date. The claims were assigned to a hearing officer at the Department of Education. On August 26, 2009 counsel for the Department filed a preliminary motion to dismiss on several legal grounds. That motion was granted and both claims were dismissed by the Commissioner on January 21, 2010. Both parties have appealed to the Board of Regents and their appeals are currently pending. Cranston and Chariho filed their briefs with the Board of Regents on February 17, 2010. The Department of Education will be submitting a reply brief in this matter.

FINANCIAL STATEMENTS

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

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

EXHIBIT A

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

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

♦ Integrity
♦ Reliability
♦ Independence
♦ Accountability

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

Ernest A. Almonte

Ernest A. Almonte, CPA, CFF
Auditor General

April 9, 2009

Management's Discussion and Analysis

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

Financial Highlights – Primary Government

Government-wide Financial Statements

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

Fund Financial Statements

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

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

Major Features of the Basic Financial Statements

	Government-wide	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 year end Expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Assets

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

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

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

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

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

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

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

Changes in Net Assets

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

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

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

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

Financial Analysis of the State's Funds

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

Governmental Funds

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

The major governmental funds of the primary government are:

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

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

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

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

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

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

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

General Fund Budgetary Highlights

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

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

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

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

Capital Assets and Debt Administration

Capital Assets

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

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

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

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

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

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

Debt Administration

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

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

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

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

Other Post-Employment Benefits

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

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

Conditions Expected to Affect Future Operations

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

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

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

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

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

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

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

Economic Factors

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

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

Requests for Information

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Rhode Island and Providence Plantations

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2008

(Expressed in Thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

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

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

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

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

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

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

by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets. This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets. This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

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

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

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

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

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

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

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

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

The State reports the following major funds:

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

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

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

The State reports the following major proprietary funds:

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

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

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

Fiduciary Fund Types:

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

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

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

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

H. Receivables

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

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

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

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

M. Bonds Payable

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

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

N. Obligations under Capital Leases

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

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

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

O. Compensated Absences

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

P. Other Liabilities

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

Q. Fund Balances

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

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

R. Recently Issued Accounting Standards

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

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

GASBS No. 50, Pension Disclosures, amends existing Statements 25 and 27 and more closely aligns the financial reporting for pensions with those for other postemployment benefits (OPEB) and requires defined benefit pension plans to disclose additional information in the Notes to the Basic Financial Statements and Required Supplementary Information.

The State will adopt the following new pronouncements in future years:

GASBS No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* effective for the State's fiscal year ending June 30, 2009.

GASBS No. 51 – *Accounting and Financial Reporting for Intangible Assets*, effective for the State's fiscal year ending June 30, 2010.

GASBS No. 52 – *Land and Other Real Estate Held as Investments by Endowments*, effective for the State's fiscal year ending June 30, 2009.

GASBS No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, effective for the State's fiscal year ending June 30, 2010.

The impact of these pronouncements on the State's financial statements has not been determined.

Note 2. Cash, Cash Equivalents, Investments and Funds on Deposit with Fiscal Agent

Cash

<u>Primary Government</u>

At June 30, 2008, the carrying amount of the State's cash deposits was $90,682,000 and the bank balance was $126,066,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, $984,000 was covered by federal depository insurance and $50,675,000 was collateralized with securities held by the pledging financial institution, or its agent but not in the State's name. The remaining amount, $74,406,000 was uninsured and uncollateralized. The carrying amount and bank balance includes $11,132,000 of certificates of deposit.

During the year, the State issued $220,000,000 in General Obligation Tax Anticipation Notes for working capital. The notes were repaid in full as of June 30, 2008. Additionally, during fiscal year 2008, the General Fund borrowed $85.0 million from the Rhode Island Temporary Disability Insurance Fund and approximately $63.7 million from the Rhode Island Capital Plan Fund for working capital. The loan from the Rhode Island Temporary Disability Insurance Fund was repaid in full at June 30, 2008, while the Rhode Island Capital Plan Fund loan remained outstanding at June 30, 2008.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum

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

capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2008.

Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Of the State's investments equaling $72,521,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $72,280,000.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2008, the State's investments in Morgan Stanley and GE Capital Corporation commercial paper were rated A1+ by Standard & Poor's and P1 by Moody's. The State's investments in Hanover FDG Co, LLC and JP Morgan Chase commercial paper were rated A1 by Standard & Poor's and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in money market mutual funds included the following: UBS Select Treasury Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 20 days; Fidelity Institutional Money Market Funds Class I Government Portfolio which was rated AAAm by Standard & Poor's with an average maturity of 56 days; The Reserve - US Government Fund which was rated AAAm by Standard & Poor's with an average maturity of 48 days; Fidelity Institutional Prime Money Markets which was rated AAAm by Standard & Poor's with an average maturity of 44 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; and Wells Fargo Advantage Treasury Plus which was rated AAAm by Standard & Poor's with an average maturity of 6 days.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a. The counterparty or b. The counterparty's trust department or agent but not in the government's name.

The portfolio concentrations (expressed in thousands) are as follows.

Type	Issuer	Amount	Percentage
Repurchase Agreements	Citizens Bank	$38,044	5.9%
Commercial Paper	Hanover FDG	52,019	8.1%
Investment Agreements	AIG Matched Funding Corp	100,796	15.7%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The State's investments (expressed in thousands) at June 30, 2008 are as follows.

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Government Agency Securities	$ 29,796	$ 29,796	$ 0	$ 0	$ 0
Money Market Mutual Funds	296,079	296,079	0	0	0
Commercial Paper	87,950	87,950	0	0	0
Repurchase Agreements	44,324	44,324	0	0	0
	$ 458,149	$ 458,149	$ 0	$ 0	$ 0

Funds on Deposit with Fiscal Agent

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2008 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market	$ 56,969	56,969	0	0	0
Investment Agreements	128,633	100,750	23,577	0	4,306
Funds on deposit with fiscal agent	$ 185,601	$ 157,719	$ 23,577	$ 0	$ 4,306

The State's investments in money market mutual funds as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund which was rated AAAm by Standard & Poor's with an average maturity of 49 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; Wells Fargo Prime Investment Money Market which was rated AAAm by Standard & Poor's with an average maturity of 28 days; and JP Morgan US Government Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt proceeds are held in trust until used for their intended purpose. The trust agreement

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

specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

During fiscal year 2008, approximately $6.9 million of income from investments, reported in the Bond Capital Fund and the Rhode Island Clean Water Act Environmental Trust Fund, was assigned to the General Fund for debt service payments.

Fiduciary Funds

Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System (ERSP), Municipal Employees Retirement System (MERS), State Police Retirement Board Trust (SPRBT), and Judicial Retirement Board Trust (JRTB).

Cash Deposits and Cash Equivalents

At June 30, 2008, the carrying amount of the ERS cash deposits was $2,640,000 and the bank balance was $2,994,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts and collateralized bank money market accounts. Of the bank balance, the entire amount is covered by federal depository insurance and is fully collateralized. Cash equivalent type investments include overnight repurchase agreements totaling $696,000 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2008.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the ERS. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the ERS, make certain investments. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment expense is allocated to each plan based on the plan's units in the Short-term Investment Fund and the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type at June 30, 2008 (in thousands):

Investment Type	Fair Value
U.S. Government Securities	$ 601,359
U.S. Government Agency Securities	643,207
Collateralized Mortgage Obligations	31,140
Corporate Bonds	522,078
Domestic Equity Securities	1,139,478
International Equity Securities	1,239,592
Foreign Currencies	12,482
Private Equity	661,784
Real Estate	380,787
Money Market Mutual Fund	423,572
Commingled Funds - Domestic Equity	1,973,594
Commingled Funds - International Equity	190,306
Investments at Fair Value	7,819,379
Securities Lending Collateral Pool	1,116,709
Total	$ 8,936,088

Exhibit A-37

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

- Citigroup Broad Investment Grade Bond Index
- Barclays MBS Index
- Barclays Credit Index
- Credit Suisse First Boston Global Hi Yield Index
- Barclays US Tips Index

At June 30, 2008, no fixed income manager was outside of the policy guidelines.

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

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2008 (in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 601,359	5.71
U.S. Government Agency Securities	643,207	3.87
Collateralized Mortgage Obligations	31,140	2.04
Corporate Bonds	522,078	5.61
Total Fixed Income	$ 1,797,784	4.96

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 40 days.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS directs its investment managers to maintain well diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager's guidelines is as follows:

- No single industry is expected to represent more than 20% of the portfolio's market value.
- No single issue is expected to represent more than 5% of the portfolio's market value.

- The portfolio, once fully invested, is expected to include a minimum of 70 individual holdings.
- The portfolio quality is expected to be invested in high yield below investment grade fixed income securities.
- The weighted average credit quality is expected to maintain a minimum rating of "B" using either Moody's or Standard and Poor's credit ratings.

The ERS's exposure to credit risk as of June 30, 2008 is as follows (in thousands):

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 22,956	$ 643,207	$ 35,093
Aa	66		56,688
A	1,662		144,812
Baa	5,749		152,548
Ba	407		36,019
B			63,041
Caa			10,799
D			529
Not rated	300		22,549
Fair Value	$ 31,140	$ 643,207	$ 522,078

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a ERS's investments in a single issuer. There is no single issuer exposure within the ERS's portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2008 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to

minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2008, was as follows (in thousands):

Currency	Currency	Equities	Private Equity	Total
Australian Dollar	$ 560	$ 84,595	$	$ 85,155
Canadian Dollar	728	63,088	8,706	72,522
Danish Krone	188	3,404		3,592
Euro Currency	3,524	430,431	91,405	525,360
Hong Kong Dollar	549	42,729		43,278
Hungarian Forint	21	69		90
Indonesian Rupiah	356	2,361		2,717
Japanese Yen	2,290	256,072		258,362
Malaysian Ringitt	231	6,138		6,369
Mexican Peso	16			16
New Zealand Dollar	201	3,987		4,188
Norwegian Krone	185	3,967		4,152
Pound Sterling	996	212,210		213,206
Singapore Dollar	452	17,643		18,095
South African Rand	279	4,794		5,073
South Korean Won	291	17,142		17,433
Swedish Krona	509	14,968	1,358	16,835
Swiss Franc	963	70,262		71,225
Thailand Baht	143	5,732		5,875
Total	$ 12,482	$ 1,239,592	$ 101,469	$ 1,353,543

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $190,306,000.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts, and options. Derivatives and other similar investments are financial contracts whose value depends on the values of one or more underlying assets, reference rates, or financial indexes. The ERS enters into these transactions to enhance performance, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Through commingled funds, the ERS also indirectly holds derivative type instruments, primarily equity index futures. Other types of derivative type instruments held by the commingled funds include purchased or written options, forward security contracts, forward foreign currency exchange contracts, interest rate swaps and credit default swaps.

The ERS invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities. Additional information regarding interest rate risks for these investments is included in *Interest Rate Risk*.

The ERS may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is subject to a higher cost to purchase the security in order to cover the position.

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2008 the investment pool had a weighted average maturity of 33.36 days and an average final maturity of 77.53 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge

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

or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2008, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were $1,141,668,086 (fair value), and the collateral received for those securities on loan was $1,173,504,899 (fair value).

Private Purpose Trust

The private purpose trust had investments of $2,175,000 in the Fidelity Balanced Fund.

Note 3. Receivables

Receivables at June 30, 2008 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 289,720	$ 216,521	$	$	$ (148,084)	$ 358,157
Intermodal Surface Transportation	15,775	9		1,000	(3,658)	13,126
Other governmental	43,371	868			(1,577)	42,662
Internal Service		2,685				2,685
Total - governmental activities	$ 348,866	$ 220,083	$	$ 1,000	$ (153,319)	$ 416,630
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 9,979	$ 12,923				
Business-type activities:						
State Lottery	$	$ 4,745	$	$	$ (239)	$ 4,506
Convention Center		1,311			(394)	917
Employment Security	49,449	10,885			(10,481)	49,853
Total - business-type activities	$ 49,449	$ 16,941	$	$	$ (11,114)	$ 55,276
Component Units	$	$ 98,956	$ 33,335	$ 3,312,392	$ (84,385)	$ 3,360,298

Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2008, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	$ 2,676	$
Intermodal Surface Transportation Fund	5,585	
GARVEE		931
Other		
Bond Capital		11,706
RI Temporary Disability Insurance		1,658
COPS	71	
RI Capital Plan	6,860	
Permanent School	1,153	
Total Other	8,084	13,364
Total Governmental	16,345	14,295
Proprietary Funds		
Enterprise		
RI Lottery		1,674
RI Convention Center Authority		1,500
Employment Security Trust Fund		526
Total Enterprise		3,700
Internal Service		
Assessed Fringe Benefits		561
Central Utilities	313	
Energy Revolving		1,339
Central Mail	90	
State Telecommunications		16
Central Pharmacy	1,338	
Central Laundry	175	
Automotive Maintenance		124
Central Warehouse		38
Correctional Industries	237	
Health Insurance Active	39	
Records Center		8
Health Insurance Retiree	1,751	
Vehicle Replacement Revolving Loan		207
Total Internal Service	3,943	2,293
Totals	$ 20,288	$ 20,288

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

Note 5. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 338,987	$ 2,949	$ (29)	$ 341,907
Works of Art	135	104		239
Intangibles	111,537	25,099	(126)	136,510
Construction in progress	597,005	193,367	(13,306)	777,066
Total capital assets not being depreciated	1,047,664	221,519	(13,461)	1,255,722
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	520,733	1,936	(5,420)	517,249
Building Improvements	208,342			208,342
Furniture and equipment	220,661	9,980	(5,715)	224,926
Intangibles	8,428			8,428
Infrastructure	2,052,745	11,260		2,064,005
Total capital assets being depreciated	3,014,609	23,176	(11,135)	3,026,650
Less accumulated depreciation for:				
Land improvements	2,707	185		2,892
Buildings	170,983	18,349	(3,406)	185,926
Building Improvements	126,361			126,361
Furniture and equipment	158,485	18,692	(5,159)	172,018
Intangibles	1,603	1,628		3,231
Infrastructure	997,660	68,052		1,065,712
Total accumulated depreciation	1,457,799	106,906	(8,565)	1,556,140
Total capital assets being depreciated, net	1,556,810	(83,730)	(2,570)	1,470,510
Governmental activities capital assets, net	$ 2,604,474	$ 137,789	$ (16,031)	$ 2,726,232

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

General government	$ 8,526
Human services	7,109
Education	2,907
Public safety	12,112
Natural resources	3,801
Transportation	72,451
Total depreciation expense - governmental activities	$ 106,906

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	25,142	48,862	(72,436)	1,568
Total capital assets not being depreciated	70,700	48,862	(72,436)	47,126
Capital assets being depreciated:				
Buildings	161,266	2,037		163,303
Machinery and equipment	13,059	70,406	(70)	83,395
Total capital assets being depreciated	174,325	72,443	(70)	246,698
Less accumulated depreciation	76,263	9,027	(62)	85,228
Total capital assets being depreciated, net	98,062	63,416	(8)	161,470
Business-type activities capital assets, net	$ 168,762	$ 112,278	$ (72,444)	$ 208,596

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 95,016	$ 8,299	$ (954)	$ 102,361
Construction in progress	579,567	221,706	(274,148)	527,125
Total capital assets not being depreciated	674,583	230,005	(275,102)	629,486
Capital assets being depreciated:				
Buildings	1,138,754	205,503	(249)	1,344,008
Land improvements *	154,168	12,419		166,587
Machinery and equipment *	279,212	21,919	(5,961)	295,170
Intangibles		4,100		4,100
Infrastructure	339,906	27,337		367,243
Total capital assets being depreciated	1,912,040	271,278	(6,210)	2,177,108
Less accumulated depreciation for:				
Buildings	437,205	46,242	(760)	482,687
Land improvements *	86,675	8,465		95,140
Machinery and equipment *	170,364	19,624	(5,347)	184,641
Intangibles		615		615
Infrastructure	103,737	6,736		110,473
Total accumulated depreciation	797,981	81,682	(6,107)	873,556
Total capital assets being depreciated, net	1,114,059	189,596	(103)	1,303,552
Total capital assets, net	$ 1,788,642	$ 419,601	$ (275,205)	$ 1,933,038

* Certain beginning balances have been restated, see Note 18, Section C.

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

Note 6. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2008, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities		Primary Government: Business Type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 104,069	$ 104,672	$ 9,285	$ 13,853	$ 142,153	$ 170,542
2010	93,349	100,064	9,740	13,408	99,132	164,856
2011	88,075	95,691	10,205	12,938	99,555	160,656
2012	101,920	91,243	10,720	12,431	102,399	153,828
2013	111,335	85,838	11,260	11,895	122,316	148,920
2014 - 2018	504,750	352,209	64,255	50,507	592,639	680,816
2019 - 2023	371,255	252,365	81,355	33,183	640,557	529,398
2024 - 2028	111,210	178,337	35,670	16,918	587,847	381,135
2029 - 2033	168,260	152,227	25,820	8,711	597,490	243,937
2034 - 2038		116,156	12,650	1,161	615,245	123,426
2039 - 2043	371,700	92,925			286,645	31,570
2044 - 2048					52,355	7,422
2049 - 2053	197,006	2,637,174			3,705	148
	$ 2,222,929	$ 4,258,901	$ 270,960	$ 175,005	$ 3,942,038	$ 2,796,654

Primary Government

Governmental Activities

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature through 2009 with interest payable with each principal payment.

In July 2007, the State issued $46,570,000 Consolidated Capital Development Loan of 2008, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2009 through 2014. The proceeds were used to advance refund $47,305,000 1998A Refunding Series. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 7 years by $1,719,994 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,703,927.

Included in the current interest bonds is $14,165,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. These bonds were refunded subsequent to June 30, 2008.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to affect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has not taxing power. The TSFC 2007 bonds are capital

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

appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2008, TSFC utilized $16,620,000 of excess collections to early redeem an equal amount of outstanding bonds

At June 30, 2008 general obligation bonds authorized by the voters and unissued amounted to $275,016,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

Business Type Activities

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2008, outstanding bond and note indebtedness totaled $272,100,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of $101,315,000. The bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the bonds to fixed rate bonds. The bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the bondholders for the years ended June 30, 2008 was $2,088,000. The bonds mature in varying installments through May 15, 2027; $59,210,000 of these bonds remain outstanding at June 30, 2008.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2008 under the Swap Agreement was $2,403,000. Total interest received by the RICCA from UBSAG for the years ended June 30, 2008 under the Swap Agreement was $1,834,000. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2008, the fair value of RICCA's liability for the interest rate swap was approximately $3,771,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent).

The termination date of the standby bond purchase agreement is the later of November 1, 2011 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2008 totaled $104,000. Subsequent to June 30, 2008, $58,410,000 of the $59,210,000 2001 Series A Refunding Revenue Bonds outstanding as of June 30, 2008 was tendered to Dexia pursuant to the standby purchase agreement.

Outstanding indebtedness on the 2001 Series A Refunding Revenue bonds is insured under a financial guaranty insurance policy with Municipal bond Insurance Association, Inc. (MBIA) In June 2008, MBIA's rating was downgraded by Standard & Poor's and Moody's Investors Service to AA and A2 respectively. In addition, UBS, the Authority's Remarketing Agent, has exited the municipal bond market. The combination of these factors and the current condition of the financial markets caused management to investigate alternative financing options with respect to the 2001 Series A Refunding Revenue Bonds. In July 2008, the authorized the issuance of refunding revenue bonds to refund the 2001 Series A Refunding Revenue bonds and terminate the Swap Agreement.

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

In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

All outstanding indebtedness is subject to optional and mandatory redemption provisions. Mandatory redemption is required for certain bonds over various years beginning in 2009 through 2027 at the principal amount of the bonds. Certain bonds may be redeemed early, at the option of RICCA at amounts ranging from 100% to 102% of the principal balance.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during FY08.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2008, RIAC had $83,000 in borrowings under this agreement.

During the year ended June 30, 2008, the Airport Corporation issued $18,030,000 of revenue bonds with an average interest rate of 4.492% to advance refund $18,060,000 of revenue bonds with an average interest rate of 5.081%. The Airport Corporation advance refunded these bonds to reduce its total debt service payments over the next 10 years by approximately $717,000 and obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately $597,000. The reacquisition price exceeded the carrying amount of the old debt by $539,126. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The proceeds of the refunding were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. As of June 30, 2008, $60,225,000 of outstanding refunding bonds, including prior year refundings, are considered defeased.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of $70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The $80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, $4,000,000 at June 30, 2008 (See Note 18B). The insured mortgages are guaranteed by the State. Subsequent to June 30, 2008 the authorization was reduced to $20,000,000 by the General Assembly.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds. URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and a) a fixed rate on the swap equal to 3.691% and b) in return URI receives the sum of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds. All payments under the swap agreement are netted and paid on a monthly basis each month on the fifteenth (15^{th}), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a negative fair market value ($1,397,697) at June 30, 2008. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from Merrill Lynch Capital Services (MLCS), the swap exposes URI to basis risk. As of June 30, 2008, the Bond Market Municipal Swap Index was 1.55% whereas 67.0% of the 1 month LIBOR plus 0.12% was 1.65%.

As of June 30, 2008, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

In November 2008, URI refunded the Series 2004B bonds and financed the termination of the swap agreement with the proceeds of the Series 2008 A and B bonds (see Note 19 Subsequent Events).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2008 are as follows:

Primary Government	
Agricultural Land Preservation Commission 2 installments on or before July 2009	$ 2,276
Less: current payable	(1,860)
	$ 416
Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,849
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	37,081
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.	9,775
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	3,415
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	702
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	1,250
	54,072
Less: current payable	(43,292)
	$ 10,780

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

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $269,027,000.

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets.

The State's obligation under capital leases at June 30, 2008 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

In December 2007, the State issued $59,183,000 of refunding Certificates of Participation to advance refund $60,435,000 of outstanding capital leases. Interest rates on the new capital leases range from 3.30% to 5.00% with maturities through fiscal year 2021. This in-substance defeasance resulted in an economic gain of approximately $2,429,000 and total debt service requirements were reduced by approximately $2,963,000.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

Fiscal Year Ending June 30	COPS
2009	$ 32,048
2010	31,291
2011	26,128
2012	24,835
2013	23,743
2014 - 2018	98,043
2019 - 2023	64,196
2024 - 2028	16,400
Total future minimum lease payments	316,684
Amount representing interest	(80,624)
Present value of future minimum lease payments	$ 236,060

E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. The State calculates the liability for accrued sick leave for only those employees that are eligible for retirement. Payment is calculated at their then-current rate of pay.

The compensated absences liability attributable to the governmental activities will be liquidated in the applicable fund as the sick and vacation time is discharged. Upon termination the applicable amount owed will be paid out of the Assessed Fringe Benefit Fund, an internal service fund.

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. Other long-term liabilities include a tax carry-over credit for a large corporation determined to be a long-term liability and the State's estimated liability for the Station Fire litigation (see Note 12 – Contingencies).

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation (EDC) relating to $14,280,000 of financing obtained by EDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of EDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR. To obtain a fixed rate on the obligation, the EDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay EDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. EDC's note payable is secured by an assignment of a payment agreement between the State and EDC reflecting legislative approval of EDC executing this debt and the State's obligation to appropriate to EDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to EDC through FY 2010 to pay the debt service on the loan.

The State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives. At June 30, 2008 there was $18,152,000 outstanding under the loan agreement.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2008, the following changes (expressed in thousands) occurred in long-term debt:

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

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	$ 913,367	$ 178,325	$ (94,613)	$ 997,079	$ 54,545	$ 942,534
Capital appreciation bonds	118		(109)	9	9	
Accreted interest on capital appreciation bonds	3,046	667	(3,403)	310	310	
Premium and deferred amount on refunding	31,800	3,040	(3,719)	31,121		31,121
	948,331	182,032	(101,844)	1,028,519	54,864	973,655
RIEDC Grant Anticipation Bonds	313,820		(28,315)	285,505	27,475	258,030
Premium	20,799		(3,563)	17,236		17,236
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	76,290		(3,730)	72,560	3,845	68,715
Premium	1,502		(125)	1,377		1,377
Revenue bonds - RIRBA	42,710		(18,475)	24,235	18,195	6,040
Net premium/discount and deferred amount on refunding	(251)		(35)	(286)		(286)
Tobacco Settlement Asset-Backed Bonds	860,161		(16,620)	843,541		843,541
Accreted interest on TSFC bonds		11,153		11,153		11,153
Net premium/discount	(27,723)		1,394	(26,329)		(26,329)
Bonds payable	2,235,639	193,185	(171,313)	2,257,511	104,379	2,153,132
Certificates of Participation (COP)	256,865	59,185	(79,990)	236,060	21,330	214,730
Premium	6,167	703	(769)	6,101		6,101
Obligations under capital leases	263,032	59,888	(80,759)	242,161	21,330	220,831
Compensated absences	78,108	62,333	(73,005)	67,436	55,226	12,210
Net OPEB Obligation		16,112		16,112		16,112
Notes Payable		2,276		2,276	1,860	416
Other long-term liabilities	56,867	39,478	(13,206)	83,139	9,786	73,353
	$ 2,633,646	$ 373,272	$ (338,283)	$ 2,668,635	$ 192,581	$ 2,476,054
Business type activities						
Revenue bonds	$ 279,935	$	$ (8,975)	$ 270,960	$ 9,285	$ 261,675
Add: bond premium	4,224		(319)	3,905		3,905
Less: issuance discounts	(734)		101	(633)		(633)
Deferred amounts on refunding	(6,586)		679	(5,907)		(5,907)
Bonds payable	276,839		(8,514)	268,325	9,285	259,040
Other long-term liabilities	1,359		(188)	1,171	188	983
	$ 278,198	$	$ (8,702)	$ 269,496	$ 9,473	$ 260,023

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2008, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 288,083
Certificates of Participation	21,230
R.I. Convention Center Authority	35,660
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	280,780
R.I. Economic Development Corporation	81,205
R.I. Turnpike and Bridge Authority	32,300

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2008 was $97,000,000, $2,420,465,710 and $868,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $427,588,000 of restricted net assets, of which $181,143,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets.

Unrestricted Net Assets

The detail of the unrestricted net assets of the governmental activities (expressed in thousands), is listed below.

	Governmental Activities	
Deficit	$ (1,427,537)	
General Revenue		
Appropriations carried forward	1,739	General revenues carried forward for original purpose
Internal Service Funds	7,593	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	$ (1,418,205)	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,376,087,000 of such debt, which causes the above deficit.

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

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 78,659	$ 68,579	$ (44,369)	$ 102,869
Appropriations carried forward				
General revenue	3,640	1,739	(3,640)	1,739
Departmental restricted revenue	51,777	42,413	(51,777)	42,413
Other	10,090	2,584	(10,090)	2,584
Total	$ 144,166	$ 115,315	$ (109,876)	$ 149,605

The State maintains a State Budget Reserve and Cash Stabilization Account in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the R.I. Capital Plan Fund to be used for capital projects. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,073,617	$ 1,073,057
General Business Taxes:		
Business Corporations	150,469	150,892
Public Utilities Gross Earnings	99,437	99,902
Financial Institutions	1,830	1,839
Insurance Companies	67,997	68,243
Bank Deposits	1,710	1,712
Health Care Provider Assessment	53,357	54,888
Sub-total - General Business Taxes	374,800	377,476
Sales and Use Taxes:		
Sales and Use	844,197	844,544
Motor Vehicle	48,610	48,611
Motor Fuel	991	1,008
Cigarettes	114,675	114,679
Alcoholic	11,141	11,141
Sub-total - Sales and Use Taxes	1,019,614	1,019,983
Other Taxes:		
Inheritance and Gift	35,334	35,473
Racing and Athletics	2,813	2,813
Realty Transfer	10,223	10,223
Sub-total - Other Taxes	48,370	48,509
Total - General Fund	2,516,401	2,519,025
Intermodal Surface Transportation Fund		
Gasoline	135,412	135,412
Other Governmental Funds	166,272	166,272
Total Taxes	$ 2,818,085	$ 2,820,709

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2008 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 48,637	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,966	Operating assistance
Tobacco Settlement Trust	124,000	Allocation of last year ending balance
Bond Capital	6,950	Debt service and capital projects
RI Refunding Bond Authority	331	Prior year undesignated balance
Certificate of Participation	25	Support of the arts
Business-Type Activities		
Lottery	94	Support of the arts
Lottery	354,321	Net income
Employment Security	2,643	Operating assistance
Internal Service		
Assessed Fringe Benefits	55	Charges for Information Technology Services
Energy Revolving	1,339	Prior year ending balance of dissolved fund
Correctional Industries	1,250	Excess revenue
ISTEA		
Bond Capital	28,198	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,175	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	63,792	Statutory excess in budget reserve
General	7,770	Transfer of remaining appropriations
Bond Capital	4,928	RICAP residual balance
Tobacco Settlement Trust	23,801	Allocation of prior year ending balance
Permanent School		
Lottery	1,153	Support of education
Total Governmental Activities	724,428	
Business-Type Activities		
Convention Center		
General	31,661	Debt service
Employment Security		
Assessed Fringe Benefits	1,622	Reimbursement for State employee's unemployment compensation
Internal Service Funds		
Health Insurance Retirees		
General	1,428	
Vehicle Replacement Revolving Loan		
Tobacco Settlement Trust	6,350	Allocation of prior year ending balance
Total operating transfers	$ 765,489	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,044,000 for the fiscal year ended June 30, 2008.

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2008:

Fiscal Year Ending June 30	
2009	$ 11,387
2010	10,367
2011	9,149
2012	7,507
2013	6,702
2014 - 2018	22,487
2019 - 2023	2,006
Total	$ 69,605

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2008 are listed below (expressed in thousands).

Major funds	
General	$ 11,439
ISTEA	209,822
GARVEE	115,635
Total major funds	336,896
Other governmental funds	20,434
Total encumbrances outstanding	$ 357,330

The primary government is committed at June 30, 2008 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2008 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The

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

agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2008, $3,560,000 was paid to PPG.

The R.I. Convention Center Authority (RICCA) completed the renovation of the Dunkin' Donuts Center (DDC) in November 2008. The new Guaranteed Maximum Price for the project through March 2009 totaled $65,368,402 and RICCA's remaining commitment is $886,937. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

In 2003, the Lottery entered into a 20-year master contract with its gaming systems provider granting them the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and amends all previous agreements between the parties.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 1,750 video lottery terminals to be installed at Twin River and UTGR, Inc. has agreed to invest no less than $125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Twin River has been met.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. At the time of the agreement, the Lottery authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than $20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately $20,121,000 which is expected to be funded from current available resources and future operations. As of June 30, 2008, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately $7,824,000.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately $25,016,000 at June 30, 2008.

A portion of the R.I. Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately $33,300,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during 2012. In 2005, RIRRC began landfilling in Phase V. RIRRC has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phase IV and V. The total estimate of future landfill closure and postclosure care costs was increased to approximately $140,000,000 at June 30, 2008.

The liability for closure and postclosure care costs at June 30, 2008 of $84,847,000 is recorded in the statements of net assets, as noted below, with $55,200,000 remaining to be recognized at June 30, 2008. The detail of the recorded liability (expressed in thousands) is listed below.

Phase V	$	28,342
Phase IV		14,168
Phases II and III		6,572
Phase I		35,765
	$	84,847

Based on the estimates of RIRRC engineers, approximately 87% and 54% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2012 for Phase V.

RIRRC has received site approval for Phase VI from the State Planning Council. RIRRC has submitted an application for licensure of Phase VI to RIDEM. RIRRC expects to record an approximate additional $80,000,000 of closure and post closure costs based upon current costs over the anticipated life of Phase VI., once it is permitted and begins to accept solid waste.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets on the accompanying statement of net assets is $39,636,409 at June 30, 2008, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2008 relating to remediation that will be required as a result of the Consent Decree is approximately $12,000,000.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of $47,476,464 under various loan programs at June 30, 2008.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2008 remaining commitments on these contracts approximated $3,540,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of $4,646,591 at June 30, 2008

The College Crusade of R.I. has committed $1,069,851 toward scholarships for tuition during the 2008/2009 school year. This represents approximately 314 students for an average award of approximately $3,407 per student. As of June 30, 2008, the estimated value of the potential future scholarship costs through the year 2021 is estimated to be between $1,800,000 and $7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling $3,931,621 at June 30, 2008 which are expected to be funded from the receipt of State bond proceeds and internal funding.

The R.I. Industrial Recreational Building Authority has an outstanding commitment as of June 30, 2008 in the amount of $4,000,000 to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and R.I. Industrial Facilities Corporation.

The R. I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) agreed on September 27, 2007 to terminate the 2004 agreement between the parties which sold and assigned certain assets and rights from RISLA to Nelnet. In the original agreement RISLA assigned to Nelnet all rights associated with the Authority's student loan origination business, including the use of the Authority's name and federal identification number, issued by the U.S. Department of Education, to market and originate federal and alternative student loans for a term of 10 years and sold to Nelnet all fixed assets and the assumption of operating liabilities. Effective September 27, 2007 RISLA hired all the personnel that had previously been employed by Nelnet in the Warwick, RI location. RISLA's June 30, 2008 operating expenses include all salaries and wages, payroll taxes and benefits for the thirty seven new employees for the period September 27, 2007 through June 30, 2008. RISLA also assumed responsibility for all costs associated with the marketing and origination of student loans and all general and administrative costs that prior to the termination date had been paid by Nelnet and reimbursed by RISLA according to the service agreement in place between the two entities.

The September 2007 termination agreement required RISLA to return to Nelnet $4.1 million of $8 million that was paid to RISLA in 2004 for the assigned rights and fixed assets. RISLA received a valuation report from a national investment banking firm which confirmed that the amount paid to Nelnet was within the range of values for the remaining term of the original agreement. RISLA also received a confirmation from a second investment banking firm that the methodology used to calculate the repurchase price of the agreement was appropriate and reasonable. RISLA will amortize the capital asset of $4.1 million over a 5 year period ending in September 2012. The amortization expense for the year ended June 30, 2008 was $615,000.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling $6,277,380, are derived from the Program Fund. In addition, the R.I. Higher Education Assistance Authority (RIHEAA)

receives $250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to $1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to $10,000 to each student over a four-year scholarship period. During 2008, $325,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly $6,600,000 in fiscal year 2008. These transfers consisted of $325,000 for the Academic Promise Scholarship Program, $600,000 for the Adult Education Grant Program and over $5,600,000 in supplemental funding for the State Scholarship/Grant Program.

Note 12. Contingencies

Primary Government

The State, its officers and employees are defendants in numerous lawsuits. With respect to any such litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. A liability has been accrued on the Statement of Net Assets for this estimated settlement.

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

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the

Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, is proceeding before an administrative hearing officer to present evidence in support of this claim.

Also, a claim has been made by the Chariho Regional School Committee for reimbursement for sums paid by Chariho for salaries of the directors and guidance counselors at the Chariho Career and Technical Center from 1990-present totaling $4,142,893. The claim was received in February 2009 and assigned for an administrative hearing. A full assessment of the likelihood of an unfavorable outcome cannot be made until the matter proceeds further into the administrative hearing process.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The alleged overpayment amount in dispute is approximately $9 million. The City of Providence requested a hearing and disputes the findings of the Department. The FY 2009 Supplemental Budget requires a seven year repayment schedule with the first payment in FY 2009.

Tobacco Settlement Financing Corporation

In 2005 and 2006, several states sued Participating Manufacturers (PM's) in their state courts seeking orders that the states diligently enforced the Master Settlement Agreement (MSA) and related statutes. All of the state courts denied the states' actions and ordered those states to arbitrate the 2003 Non-Participating Manufacturers (NPM's) Adjustment, including whether the state diligently enforced the MSA and related statutes.

Although Rhode Island did not sue the PM's, in 2006, the PM's filed in Rhode Island Superior Court a Motion to Compel the State to Arbitrate the 2003 NPM Adjustment, which the State opposed. In 2007, the Court granted the Motion to Compel Arbitration, which the State moved for reconsideration. The Court denied the State's Motion to Reconsider. The State appealed the Court's orders. In 2008, the Supreme Court of Rhode Island remanded the case for the Superior Court to rule on a Motion for a Stay. The Superior Court denied the stay and the case was returned to the Supreme Court of Rhode Island. During the appeal, the PM's and Rhode Island entered into an agreement, whereby Rhode Island would join nationwide arbitration and the PM's would release funds from the disputed account attributable to the 2005 NPM Adjustment. Rhode Island received $3,866,925 on February 26, 2009 which flowed to the TSFC. In addition, the agreement provided for a partial liability reduction for the 2003 NPM Adjustment. Arbitration will commence in the Fall of 2009.

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for nonparticipating manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

Lottery

The Lottery's master contracts with its video lottery facility operators contain revenue protection provisions in the event that existing video lottery facility operators incur revenue losses caused by new gaming ventures within the State.

As a result of defaulting on loan payments, UTGR, Inc., the owner and operator of Twin River, entered into a forbearance agreement with its lenders. The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. The Department of Revenue and the Division of Lotteries are monitoring the situation on a daily basis. The Lottery has been collecting all revenues due the State each day without interruption. Management of the Department of Revenue has contingency plans to ensure continued operation of the Twin River facility.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2007 was issued in May 2008. That report identified approximately $19.0 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies and in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2008 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2008 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $321,812,545 and $41,661,677 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately $3,355,000 of the debt on the related economic development revenue bonds in fiscal year 2009.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of $31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of $69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2012, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

R.I. Public Transit Authority

The R.I. Public Transit Authority has a $2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2008.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter percent, which was 4.75 % at June 30, 2008. There was an outstanding balance of $390,000 as of June 30, 2008. Total interest expense for the fiscal year ended June 30, 2008 was $15,391.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of $20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in October, 2008, whereby the Corporation may borrow up to a maximum outstanding principal sum of $50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2008, $10,500,000 is outstanding under these revolving loans.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court and is awaiting a judgment on the case. In the interim, the Community College has recorded a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from payroll. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. Investment transactions are recorded on a trade date basis. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income securities and domestic and international stocks is generally based on published market prices and quotations from national security exchanges and securities pricing services. Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions). Commingled funds consist of institutional domestic and international equity index funds and a short duration fixed income fund. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

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

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.77%	31.00%	32.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.52% and 8.97%		
Annual pension cost	$214,016	$3,720	$2,128
Contributions made - state employees	$131,560	$3,720	$2,128
Contributions made - teachers	$82,456		
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8.2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/06	145,792	100%	$ 0
	6/30/07	188,832	100%	0
	6/30/08	214,016	100%	0
State Police Retirement Benefits Trust	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
Judicial Retirement Benefits Trust	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2007, the most recent actuarial valuation date:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS (*State Employees*)	$ 2,493,428,522	$ 4,332,888,818	$ 1,839,460,296	57.5%	$ 660,044,273	278.7%
ERS (*Teachers*)	$ 3,737,981,686	$ 6,750,125,236	$ 3,012,143,550	55.4%	$ 959,372,837	314.0%
SPRBT	$ 45,996,910	$ 60,427,947	$ 14,431,037	76.1%	$ 15,836,354	91.1%
JRBT	$ 29,630,637	$ 35,355,326	$ 5,724,689	83.8%	$ 6,451,666	88.7%

The schedules of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liabilities (AAL) for benefits.

Additional information as of the June 30, 2007 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/07	6/30/07	6/30/07 *	6/30/07 *
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	22 years	22 years	22 years	22 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members -3.0% compounded Schedule B members – 2.5%	Schedule A members -3.0% compounded Schedule B members – 2.5%	$1,500 per annum	3.0% (see Note1(b)(4)) to the financial statements

* restated June 30, 2007 actuarial valuation

Schedule A - ERS members are those with 10 years or more of contributory service on or before July 1, 2005.

Schedule B - ERS members are those with less than 10 years of contributory service on or before July 1, 2005.

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to $14,389,235 during the year ended June 30, 2008.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2008 totaled $5,699,331. At January 1, 2008, the most recent valuation date, the total actuarial accrued liability was $76,525,478 and the actuarial value of assets was $47,327,996. The Authority contributed 100.00% of its annual pension cost for fiscal year 2008 and had a net pension obligation of $1,799,084 at June 30, 2008.

Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 14. Other Post-Employment Benefits

Plan Descriptions. The State administers four defined benefit post-employment health care plans collectively known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP).

Members of the Employees' Retirement System (ERS), including State employees, legislators, judges, State Police Officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of State sponsored retiree health care benefits. A summary of the principal plan provisions follows:

	State Employees and Teachers	Judges	State Police	Legislators
Plan type	Agent Multiple Employer	Sole employer	Sole employer	Sole employer
Eligibility	Members of ERS meeting eligibility criteria	Retired judges	Retired members of the State Police	Retired legislators
Plan benefits	Retiree plan for members until Medicare eligible; subsequently eligible for Medicare supplement	May purchase active employee plan for member and spouse for life	Active employee plan for member, spouse and dependants until age 65; at age 65 coverage ceases if Medicare eligible	May purchase active employee plan for member and spouse for life
Other	Retired teachers can purchase coverage for themselves and dependants at active or early retirement rate, as applicable. Members can purchase coverage for dependants at active or early retirement rate, as applicable.			

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP and they may be amended in the future by action of the General Assembly.

On May 1, 2008 Public Law 2008-09 was enacted. The legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage. For members of the ERS who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2008 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

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

Funding Policy. The contribution requirements of retiree members, the State and other participating employers are established and may be amended by the General Assembly.

As mentioned above, in fiscal year 2008 non-Medicare retiree members paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

The retirees' fiscal 2008 contributions for Tier II benefits were as follows:

Retiree Age	Years of Service	Amount of Cost Paid by Retiree
Below 60: (1)		
	28-34	10%
	35+	0%
Retiree Age from 60 to 65: (2)		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Retiree Age Greater than 65: (3)		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

(1) The monthly premium rate is $708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of $452.28 (the active plan rate).

(2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.

(3) The monthly premium rate for the Medicare Supplemental plan is $179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was $100.00 for the first six months of fiscal year 2008 and $107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on the years-of-service subsidy above.

In fiscal year 2008 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs and they contributed 3.91% of covered payroll. The contributions to the State Police Plan were equal to actual claims and administrative expenses. For the fiscal year ended June 30, 2008 the State and other participating employers paid $28,377,748 into the Plans.

Annual OPEB Cost and Net OPEB Obligation. Annual OPEB cost reflected in the government-wide financial statements is equal to the annual required contribution (ARC). The amount reflected in the governmental fund financial statements is equal to the actual contributions to the plan. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the Plans over a period of 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB obligation. The annual OPEB cost for the year, the amount actually paid on behalf of the Plans the changes in the net OPEB obligation and the percentage of annual OPEB cost contributed to the Plans, are as follows (dollar amounts in thousands):

Date of Actuarial Valuation	State Employees 06/30/05	Teachers 06/30/05	Judges 06/30/07	State Police 06/30/05	Legislators 06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution and annual OPEB cost	$ 38,203	$ 1,428	$ 1,382	$ 4,827	$ 285
Participating State and/or other employer contributions	$ 24,854	$ 1,428	$ 464	$ 1,572	$ 60
Increase in OPEB obligation	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at beginning of year	$ 0	$ 0	$ 0	$ 0	$ 0
Net OPEB obligation at end of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Actuarial accrued liability (AAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded OPEB plan assets at valuation date	$ 0	$ 0	$ 0	$ 0	$ 0
Unfunded actuarial accrued liability (UAAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded ratio	0%	0%	0%	0%	0%
Covered payroll (in thousands)	$ 575,613	$ NA	$ 9,888	$ 13,821	1,509
UAAL as percentage of covered payroll	100.77%	NA	141.83%	369.27%	259.71%
Percentage of annual OPEB cost paid	65.06%	100.00%	33.57%	32.57%	21.05%

The table below displays the funded status of each plan as of the most recent actuarial valuation date, June 30, 2007, (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows

whether the actuarial value of assets of the Plans are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the Plans and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The State's annual required contribution was determined using the individual entry age actuarial cost method. The State's unfunded actuarial accrued liability as of the June 30, 2005 transition date is being amortized over a period of 30 years using the level (principal and interest combined) percent of payroll (open) contribution amortization method. For judges, the June 30, 2007 valuation was used to determine the Annual Required Contribution for fiscal year 2008.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond for State Employees and legislators, ranging from 17% in year 1 to 4.5% in year 15 and beyond for teachers, ranging from 15% in year 1 to 5% in year 15 and beyond for Police, and 5.25% in all years for judges. The discount rate of 3.566% was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the General Fund.

The impact of Public Law 2008-09 on plan provisions and benefits has been factored into the June 30, 2005 actuarial valuation.

There were changes in actuarial assumptions in the June 30, 2007 valuation. These include changes in demographic assumptions adopted in the June 30, 2006 valuations for the Employees' Retirement System of Rhode Island, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust, based on experience studies performed by the actuary for those systems. The Medicare election assumption for Judges changed from 100% electing Medicare at age 65 to 100% not electing Medicare at age 65 and for Legislators from 100% electing Medicare at age 65 to 75% not electing Medicare at age 65. In addition, in anticipation of the retirements occurring before October 1, 2008, the election percentage for State employees was increased to 90% and the retiree liability was adjusted 110%.

Further, for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan. The June 30, 2007 actuarial valuation will be used to determine the annual required contribution for fiscal 2010.

The RIRHCBP does not issue a stand-alone financial report.

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2008, the Program operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2006. For fiscal 2008, annual OPEB cost for the university and colleges was $2,975,528 and actual contributions made were $1,897,053. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or “unforeseeable emergency”.

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the State’s financial statements.

Note 16. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage.

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

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2008 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds Liability for unpaid claims	$ 19,836	$ 234,456	$ 233,642	$ 20,650

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Condensed statement of net assets:					
Other assets	$ 2,108,233	$ 1,057,517	$ 33,417	$ 284,540	$ 89,326
Capital assets - nondepreciable			2,677	116,099	415,607
Capital assets - depreciable (net)		3,611	83,127	377,584	223,261
Due from primary government				634	
Total assets	2,108,233	1,061,128	119,221	778,857	728,194
Long term debt	1,616,370	950,167	25,796	377,802	427,227
Other liabilities	207,477	33,640	5,391	41,541	14,217
Due to primary government	12,000			11,678	
Total liabilities	1,835,847	983,807	31,187	431,021	441,444
Net assets:					
Invested in capital assets, net of related debt	9,766	196	57,596	224,143	228,385
Restricted					
Debt service	207,217	75,583	6,359		
Other				79,366	190
Other nonexpendable					
Unrestricted	55,403	1,542	24,079	44,327	58,175
Total net assets	272,386	77,321	88,034	347,836	286,750
Condensed statement of activities:					
Program expenses					
Personal services	12,811	2,564	1,918	26,460	17,053
Supplies, materials, and services	9,408	7,259	1,780	17,331	14,522
Interest expense	73,620	39,610			
Depreciation, depletion, and amortization	2,757	969	2,399	17,903	7,464
Other program expenses	7,648	10,554	2,352	39,348	13,199
Total program expenses	106,244	60,956	8,449	101,042	52,238
Program revenue					
Charges for services	93,785	54,315	12,040	63,156	67,078
Operating grants and contributions				10,036	28
Capital grants and contributions				36,617	
Net program (expense) revenue	(12,459)	(6,641)	3,591	8,767	14,868
Interest and investment earnings	20,401	7,952	2,335	7,555	2,196
Miscellaneous			(4)	10,476	70
Payments from primary government	(26,020)			21,327	
Change in net assets	(18,078)	1,311	5,922	48,125	17,134
Beginning net assets as restated	290,464	76,010	82,112	299,711	269,616
Ending net assets	272,386	77,321	88,034	347,836	286,750

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,915	$ 123,068	$ 27,260	$ 14,622	$ 1,299
Capital assets - nondepreciable		14,835	307	6,557	
Capital assets - depreciable (net)	38	47,484	904	77,078	
Due from primary government				3,547	
Total assets	9,953	185,387	28,471	101,804	1,299
Long term debt		16,639	366	7,221	
Other liabilities	246	98,853	2,018	21,454	826
Due to primary government					
Total liabilities	246	115,492	2,384	28,675	826
Net assets:					
Invested in capital assets, net of related debt	39	46,929	1,211	83,635	
Restricted					
Debt service		2,155			
Other			24,876		
Other nonexpendable					
Unrestricted	9,668	20,811		(10,506)	473
Total net assets	9,707	69,895	26,087	73,129	473
Condensed statement of activities:					
Program expenses					
Personal services	378	14,152	3,220	47,261	62
Supplies, materials, and services	1,473	21,209	6,132	50,050	47
Interest expense					
Depreciation, depletion, and amortization	23	13,776	257	10,633	
Other program expenses		13,419	16,884		
Total program expenses	1,874	62,556	26,493	107,944	109
Program revenue					
Charges for services	2,143	66,993	15,292	32,643	120
Operating grants and contributions			368	20,602	
Capital grants and contributions				4,104	
Net program (expense) revenue	269	4,437	(10,833)	(50,595)	11
Interest and investment earnings	205	1,383	1,150	382	19
Miscellaneous	(1)	(423)		2,838	
Payments from primary government		(5,000)	10,220	32,725	
Change in net assets	473	397	537	(14,650)	30
Beginning net assets as restated	9,234	69,498	25,550	87,779	443
Ending net assets	9,707	69,895	26,087	73,129	473

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

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 1,010,150	$ 3,200	$ 5,734	$ 1,727	$ 6,773
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	46	353		6,027	25
Due from primary government					
Total assets	1,010,196	3,734	5,734	8,575	6,798
Long term debt	648,882		9,427	1,113	
Other liabilities	9,895	774	433	473	1,778
Due to primary government					
Total liabilities	658,777	774	9,860	1,586	1,778
Net assets:					
Invested in capital assets, net of related debt	46	535		5,975	26
Restricted					
Debt service	329,259				
Other			(4,271)	1,168	1,594
Other nonexpendable					
Unrestricted	22,114	2,425	145	(154)	3,400
Total net assets	351,419	2,960	(4,126)	6,989	5,020
Condensed statement of activities:					
Program expenses					
Personal services	501			3,437	2,591
Supplies, materials, and services	2,531	143	35	1,733	564
Interest expense	26,379				15
Depreciation, depletion, and amortization	390	14	107	938	23
Other program expenses			416	61	2,307
Total program expenses	29,801	157	558	6,169	5,500
Program revenue					
Charges for services	21,364	282	1,226	4,967	4,848
Operating grants and contributions	10,904				
Capital grants and contributions					
Net program (expense) revenue	2,467	125	668	(1,202)	(652)
Interest and investment earnings	12,376	76	135	(58)	166
Miscellaneous			3	217	
Payments from primary government				2,292	1,056
Change in net assets	14,843	201	806	1,249	570
Beginning net assets as restated	336,576	2,759	(4,932)	5,740	4,450
Ending net assets	351,419	2,960	(4,126)	6,989	5,020

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

	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 220,877	$ 48,577	$ 23,923	$ 6,519	$ 5,076,677
Capital assets - nondepreciable	63,173	4,310	4,919		629,486
Capital assets - depreciable (net)	354,608	82,937	43,172	3,297	1,303,552
Due from primary government					4,181
Total assets	638,658	135,824	72,014	9,816	7,013,896
Long term debt	212,418	19,171	9,077	1,746	4,323,422
Other liabilities	54,458	19,238	11,043	7,069	530,824
Due to primary government		19,327			43,005
Total liabilities	266,876	57,736	20,120	8,815	4,897,251
Net assets:					
Invested in capital assets, net of related debt	236,957	54,598	40,358	3,103	993,498
Restricted					
Debt service					620,573
Other	26,317	4,387	5,337	116	139,080
Other nonexpendable	76,058	16,152			92,210
Unrestricted	32,450	2,951	6,199	(2,218)	271,284
Total net assets	371,782	78,088	51,894	1,001	2,116,645
Condensed statement of activities:					
Program expenses					
Personal services	260,096	87,742	71,812	54,266	606,324
Supplies, materials, and services	113,025	22,497	24,749	1,548	296,036
Interest expense				15	139,639
Depreciation, depletion, and amortization	20,378	4,713	2,946	276	85,966
Other program expenses	27,019	6,667	2,818		142,692
Total program expenses	420,518	121,619	102,325	56,105	1,270,657
Program revenue					
Charges for services	319,837	72,307	55,354	9,821	897,571
Operating grants and contributions		3,165	1,093		46,196
Capital grants and contributions	56,162	3,833	2,686		103,402
Net program (expense) revenue	(44,519)	(42,314)	(43,192)	(46,284)	(223,488)
Interest and investment earnings	3,839	(202)	416	19	60,345
Miscellaneous	14,941	6		65	28,188
Payments from primary government	75,390	44,347	47,820	44,088	248,245
Change in net assets	49,651	1,837	5,044	(2,112)	113,290
Beginning net assets as restated	322,131	76,251	46,850	3,113	2,003,355
Ending net assets	371,782	78,088	51,894	1,001	2,116,645

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 10,220	Operating assistance
R.I. Economic Development Corporation	10,864	Operating and capital assistance
University of Rhode Island	74,943	Educational assistance
Rhode Island College	44,512	Educational assistance
Community College of Rhode Island	48,182	Educational assistance
Central Falls School District	43,526	Educational assistance
R.I. Public Transit Authority	8,202	Operating assistance
R.I. Housing & Mortgage Finance Corporation	(26,020)	Operating assistance
ISTEA		
R.I. Public Transit Authority	32,882	Operating assistance
Bond Capital		
RI Economic Development Corporation	14,547	Construction, improvement or purchase of assets
University of Rhode Island	41,309	Construction, improvement or purchase of assets
Rhode Island College	5,915	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	6,237	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	9,107	Construction, improvement or purchase of assets
Total Governmental Activities	$ 324,426	

Note 18. Other Information

A. Elimination Entries

When the governmental fund statements and the internal service funds statements are combined into one column for governmental activity on the government-wide financial statements interfund balances and activity should be eliminated. The following are the eliminations (expressed in thousands) that were made.

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,345	$ 3,943	$ 20,288	$ (16,588)	$ 3,700
Loans to other funds	78,829	2,100	80,929	(80,929)	
Total assets	$ 95,174	$ 6,043	$ 101,217	$ (97,517)	$ 3,700
Liabilities					
Due to other funds	$ 14,295	$ 2,293	$ 16,588	$ (16,588)	$
Loans from other funds	71,129	9,800	80,929	(80,929)	
Total liabilities	$ 85,424	$ 12,093	$ 97,517	$ (97,517)	$
Program revenue					
General government	$ 30	$ 291,713	$ 291,743	$ (291,743)	
Human services		8,348	8,348	(8,348)	
Public safety		10,272	10,272	(10,272)	
Expenses					
General government	30	290,813	290,843	(290,843)	
Human services		8,689	8,689	(8,689)	
Public safety		10,831	10,831	(10,831)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 724,428	$ 7,778	$ 732,206	$ (407,278)	$ 324,928
Operating transfers out	(403,012)	(4,266)	(407,278)	407,278	
Net transfers	$ 321,416	$ 3,512	$ 324,928	$	$ 324,928

	Total Business-type Activities		Total	Eliminations	Internal Balances
Liabilities					
Due to other funds	$ 3,700	$	$ 3,700	$	$ 3,700
	$ 3,700	$	$ 3,700	$	$ 3,700
Transfers					
Operating transfers in	$ 33,283	$	$ 33,283	$ (33,283)	$
Operating transfers out	(358,211)		(358,211)	33,283	(324,928)
Net transfers	$ (324,928)	$	$ (324,928)	$	$ (324,928)

B. Related Party Transactions

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The R.I. Student Loan Authority (RISLA) and the R.I. Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administrating other programs of post-secondary student financial assistance assigned by law.

Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2008 were as follows:

Guaranteed loans outstanding at June 30, 2008	$509,527,000
Loans guaranteed during the year	247,588,000
Guarantee claims paid during the year	21,668,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2008 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

The Narragansett Bay Commission has approximately $269,000,000 of loans payable to the RI Clean Water Finance Agency.

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2007			
Net assets as previously reported	$ 982,917	$ 2,017,401	
Fund balance as previously reported			$ 921,468
Correction of errors		(14,042)	
Reclassifications	42	(4)	42
June 30, 2007 net assets/fund balance as restated	$ 982,959	$ 2,003,355	$ 921,510

The beginning net assets of Governmental Activities within the government-wide financial statements were increased by $42,000. This increase is the result of the Rhode Island Economic Policy Council, a blended component unit as of June 30, 2007, being merged with the Rhode Island Economic Development Corporation, a discretely presented component unit. This merger also resulted in a reclassification of total net assets of the governmental funds for the same amount at June 30, 2007.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $14,000,000 to correct errors in prior periods. The majority of this decrease was attributable to a $13.8 million decrease in net assets for the Rhode Island Resource Recovery Corporation. During 2007, the Corporation ceased development activities of the industrial park and began actively marketing the land for sale. Based upon the sales consummated during 2007, the intent of the Corporation and other information available prior to the issuance of its 2007 financial statements, the land should have been reclassified from land held for development to land held for sale and reduced from its cost basis to net realizable value. As a result, the Corporation's financial statements overstated both total assets and net assets as of June 30, 2007 by the amount necessary to reduce the land to net realizable value. That amount totaled $13,758,679.

The State's fiscal 2008 financial statements include the following new funds:

- Rhode Island Capital Plan Fund - Capital Projects Fund
- Coastal Resources Management Council Dredge Fund – Special Revenue Fund
- Vehicle Replacement Revolving Loan Fund – Internal Service Fund

The Energy Revolving Internal Service Fund was dissolved and remaining net assets were transferred to the General Fund.

In accordance with GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* a net OPEB obligation has been recorded within the government-wide financial statements and proprietary funds reflecting an actuarially determined annual required contribution for postemployment benefits provided to employees (see Note 14).

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

An annual budget is adopted on a basis consistent with generally accepted accounting principles. The budget encompasses the General Fund and certain special revenue funds. Preparation and submission of the budget is governed by the State Constitution and the Rhode Island General Laws. The budget, as enacted, contains a complete plan of proposed expenditures from all sources of funds (general, federal, restricted, and transfers in). Revenues upon which the budget plan is based are determined as part of the State's Revenue Estimating Conference. The Conference, held twice each year, results in a consensus estimate of revenues for the next fiscal year and an update of prior revenue estimates for the current fiscal year.

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 98 percent of estimated general revenues. The remaining 2 percent is contributed to the Budget Reserve Account until such account equals 3 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

Budgetary Controls

The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch.

Budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations, accounting system controls to limit expenditures in excess of authorized amounts, and budgetary monitoring controls.

Budgetary Compliance

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

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2008:

- Assessed Fringe Benefits Fund ($5,659,000)
- State Telecommunications ($1,347,000)
- Central Laundry ($137,000)
- Records Center ($82,000)

The deficits will be eliminated through charges for services in fiscal year 2009.

Note 19. Subsequent Events

Primary Government

On November 4, 2008 the voters authorized the State to issue $87,215,000 of transportation bonds and $2,500,000 of open space and recreational development bonds.

On December 2, 2008 the State of Rhode Island issued $107,820,000 in General Obligation Bonds with interest rates ranging from 3.00% to 6.60% with maturity dates of August 2009 through August 2024. This issuance included an $86,875,000 Consolidated Capital Development Loan of 2008, Series B, an $8,500,000 Capital Development Loan of 2008, Series C, and a $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D.

Subsequent to June 30, 2008, investments held within the pension trust funds have declined significantly in value consistent with overall declines in the domestic and international financial markets. At March 31, 2009, these declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the investments held within the pension trust funds, which includes diversification of holdings pursuant to an asset allocation model. Additionally, the impact on the funded status of the plans and required

contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing employed in the actuarial value of assets.

As of March 31, 2009 the Employees' Retirement System has successfully exited the securities lending program. As a result of this action, all securities on loan were called back, and collateral obligations were returned in whole.

The State's cash equivalent type investments at June 30, 2008 included approximately $83,765,000 invested with The Reserve – U.S. Government Fund which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. The State had approximately $62 million invested in The Reserve - U.S. Government Fund on September 22, 2008, the date redemptions were suspended. The Reserve liquidated the U.S. Government Fund making a partial distribution and then final distribution on January 16, 2009. The Office of the General Treasurer received full redemption of its shares in the Reserve - US Government Fund, plus accrued interest, at a rate above current market levels, without loss in value.

Funds on deposit with fiscal agent at June 30, 2008 as well as certain investments held within the discretely presented component units included guaranteed investment contracts (GIC's) with AIG Matched Funding a subsidiary of American International Group (AIG). Bond proceeds were invested in the GIC's pending disbursement for project costs. The AIG GIC's contained provisions that were triggered by a downgrade in the ratings assigned to the corporate issuer of the GIC's which occurred in September 2008. The credit rating downgrade allowed the State and the Rhode Island Clean Water Finance Agency (a discretely presented component unit) to request return of the invested funds which subsequently occurred.

The State Investment Commission has modified, due to the increased need for security, its short-term investment policy regarding Certificates of Deposits and Commercial Paper. Certificates of Deposits, regardless of duration, shall be fully collateralized, at a percent not to be below 102%. Further, investments in Commercial Paper will cease.

The State sold $350 million of General Obligation Tax Anticipation Notes in October 2008. The notes bear interest at 3.5% and are due June 30, 2009.

In March 2009, the State obtained an interest free $75 million line of credit from the Federal Unemployment Insurance Trust Fund. The line of credit will be used to fund unemployment insurance benefits.

Subsequent to June 30, 2008, in response to instability in the financial markets, the U.S. Treasury instituted a Temporary Guarantee Program for Money Market Funds. The program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. This program expires on April 30, 2009 unless extended by the U.S. Treasury. The State and its component units had significant amounts invested in money market funds at June 30, 2008. Money market funds must elect to participate in the Temporary

Guarantee Program for Money Market Funds. All the money market funds holding State funds at June 30, 2008 have elected to participate in the guarantee program.

In December 2008, the Board of the Employees' Retirement System approved an increase to the fiscal 2010 employer contribution rates for State employees from 20.69% to 25.03% of covered payroll. The fiscal 2010 contribution rates had previously been established and approved by the Board based on an actuarial valuation performed as of June 30, 2007. An increase in the fiscal 2010 employer contribution rate was recommended by the actuary in response to an expected decrease in covered payroll for fiscal 2010. This is due to a significant increase in the number of state employee retirements prompted largely by changes in retiree medical coverage effective October 1, 2008. The expected decrease in fiscal 2010 covered payroll requires that the amortization of the unfunded actuarial accrued liability be applied to a smaller payroll base thereby causing an increase in the employer contribution rate.

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

On April 2, 2009 the Rhode Island Economic Development Corporation, on behalf of the State issued $169,395,000 of Grant Anticipation Revenue Vehicle Bonds which are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects, and $12,410,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax.

In July 2008, the Rhode Island Convention Center Authority (RICCA) entered into a lease with the State Department of Administration and commenced operations of the Veterans Memorial Auditorium and Cultural Center (VMA). Operation of the VMA is shared by two facilities-management groups: Professional Facilities Management Inc. of Providence (PFM) and Spectacor Management Group (SMG). PFM will manage the marketing, bookings and box office; SMG will manage the physical plant, mechanical operations and security.

In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

Component Units

Effective July 1, 2008, the General Assembly reduced the amount of debt authorization available to the Rhode Island Industrial Recreational Building Authority from $80,000,000 to $20,000,000.

On August 14, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series B-1, Series B-2, Series B-3 and Series B-4) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series B-5). The Series B-1, Series B-2 and Series B-3 Bonds are to be used to refinance the 1996 Series 1, Series 2 and Series 3 Bonds. The Series B-4 and Series B-5 are for the purpose of financing student loans.

On November 25, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series C-1 and C-2) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series C-3). The Series C-1 and Series C-2 Bonds are to be used to refinance the 1995 Series 1 Bonds.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued the 2008 Series A Wastewater System Revenue Refunding Bonds in the principal amount of $66,360,000 maturing September 1, 2034. The Refunding Bonds were issued to refund the 2004 Series A Revenue Bonds. The 2008 Series A are Multi-Modal and have been issued in weekly rate mode with the interest rate determined weekly and interest paid monthly. The owner of the bonds in a weekly mode can require NBC (acting through its remarketing agent) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds. NBC has an irrevocable direct pay letter of credit issued by RBS Citizens, National Association. In the event that the remarketing agent is unable to remarket tendered bonds, the letter of credit provides that the bank be obligated to pay to the Trustee, the amount necessary to pay the principal and Purchase Price of and interest on the Bonds of up to 60 days at the maximum Rate of 10% on the Bonds. The letter of credit expires on July 16, 2020.

Subsequent to June 30, 2008 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

On November 20, 2008, the University of Rhode Island issued two series of bonds: $34.1 million Series 2008 A and $3.8 million Series 2008 B bonds (taxable). Proceeds of Series 2008 A bonds were used to refund the University of Rhode Island Series 2004 B bonds while Series 2008 B bonds proceeds were used to finance swap termination payments in connection with the termination of an interest rate swap dated December 22, 2004.

On August 26, 2008, R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued $64,720,000 of Homeownership Opportunity Bonds, Series 60.

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

On October 1, 2008 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,060,000.

RIHMFC has renewed its line of credit with Bank of America N.A. which expired in October 2008. Terms of the new agreement are as follows: a) Commitment Amount: $30,000,000, b) Maturity Date: 10/30/2009, c) Interest Rate: Variable rate tied to LIBOR.

As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit for fiscal year 2009 to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority's operations.

A forensic audit of the R.I. Resource Recovery Corporation is ongoing and has highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. Management has not yet determined the impact of the forensic audit, or other investigations of the corporation, other than the carrying value of certain assets held for development that were written down in fiscal year 2008.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,082,857	$ 1,069,100	$ 1,073,617	$ 4,517
General Business Taxes:				
Business Corporations	167,207	156,500	150,469	(6,031)
Public Utilities Gross Earnings	109,300	97,300	99,437	2,137
Financial Institutions	2,003	1,200	1,830	630
Insurance Companies	68,834	63,500	67,997	4,497
Bank Deposits	1,600	1,700	1,710	10
Health Care Provider Assessment	48,900	50,900	53,357	2,457
Sales and Use Taxes:				
Sales and Use	908,724	853,400	844,197	(9,203)
Motor Vehicle	50,235	45,200	48,610	3,410
Motor Fuel	1,100	1,290	991	(299)
Cigarettes	112,500	118,100	114,675	(3,425)
Alcohol	11,100	10,900	11,141	241
Other Taxes:				
Inheritance and Gift	30,100	38,000	35,334	(2,666)
Racing and Athletics	2,600	2,800	2,813	13
Realty Transfer Tax	13,800	10,900	10,223	(677)
Total Taxes	2,610,860	2,520,790	2,516,401	(4,389)
Departmental Revenue	362,870	357,500	356,546	(954)
Total Taxes and Departmental Revenue	2,973,730	2,878,290	2,872,947	(5,343)
Other Sources				
Gas Tax Transfer	4,685	4,535	4,514	(21)
Other Miscellaneous	140,279	180,970	181,810	840
Lottery	339,700	356,800	354,321	(2,479)
Unclaimed Property	14,600	15,500	15,387	(113)
Total Other Sources	499,264	557,805	556,032	(1,773)
Total General Revenues	3,472,994	3,436,095	3,428,979	(7,116)
Federal Revenues	1,723,323	1,780,991	1,740,283	(40,708)
Restricted Revenues	161,974	154,732	126,090	(28,642)
Other Revenues	57,174	55,956	58,639	2,683
Total Revenues	5,415,465	5,427,774	5,353,991	(73,783)
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,550	1,592	1,631	(39)
Federal Fund Total	238	229	234	(5)
** Restricted Receipts Total		119	73	46
Total-Central Management	1,788	1,940	1,938	2

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Legal Services				
Legal Support/DOT	122	236	142	94
General Revenue Total	1,837	2,255	2,493	(238)
Total-Legal Services	1,959	2,491	2,635	(144)
Accounts & Control				
General Revenue Total	3,253	3,499	3,465	34
Budgeting				
General Revenue Total	2,091	1,997	1,902	95
Purchasing				
General Revenue Total	2,399	2,184	2,178	6
Auditing				
General Revenue Total	1,792	1,690	1,621	69
Other			100	(100)
Total-Auditing	1,792	1,690	1,721	(31)
Human Resources				
Other Fund Total	793	528	1,384	(856)
General Revenue Total	10,067	10,179	9,678	501
Federal Fund Total	2,066	1,974	783	1,191
Restricted Receipts Total	578	484	499	(15)
Total-Human Resources	13,504	13,164	12,345	819
Personnel Appeal Board				
General Revenue Total	97	111	105	6
Facilities Management				
General Revenue Total	36,056	36,576	35,046	1,530
Federal Fund Total	7,214	7,774	1,766	6,008
Restricted Receipts Total	7,488	1,090	1,057	33
Other Fund Total	555	562	5,435	(4,873)
Total-Facilities Management	51,313	46,003	43,304	2,699
Capital Projects & Property Management				
General Revenue Total	3,749	3,334	3,291	43
Information Technology				
General Revenue Total	17,650	18,848	18,623	225
Federal Fund Total	7,390	5,602	5,520	82
Restricted Receipts Total	1,423	1,744	908	836
Other Fund Total	1,403	2,258	1,526	732
Total-Information Technology	27,866	28,452	26,577	1,875

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,101	986	1,025	(39)
Federal Fund Total	1,084	1,064	1,022	42
Restricted Receipts Total	2	2	1	1
Total-Library and Information Services	2,187	2,051	2,047	4
Statewide Planning				
General Revenue Total	3,793	3,782	3,730	52
Federal Fund Total	9,330	10,454	8,302	2,152
Federal Highway-PL Systems Planning	1,689	2,048	1,875	173
Air Quality Modeling	21	21	8	13
Total-Statewide Planning	14,833	16,304	13,914	2,390
Security Services				
General Revenue Total	19,933	19,689	19,900	(211)
Energy Resources				
General Revenue Total	2,237	2,606	2,350	256
Federal Funds Total	19,688	22,027	21,268	759
Restricted Receipts Total	200	509	70	439
Total-Energy Resources	22,125	25,143	23,689	1,454
General				
Miscellaneous Grants and Payments	661	661	652	9
Torts-Court Awards	400	408	326	82
EDC Airport Impact Aid		1,001	1,001	
State Employees/Teachers Retiree Health	1,442		1,428	(1,428)
Governor's Contingency Fund			128	(128)
Economic Development Corporation Grant	8,699	7,655	7,655	
Slater Centers of Excellence	3,000	2,919	2,919	
Economic Policy Council	300	292	292	
Dunkin Donuts Center Renovations	12,500	8,400	8,400	
Transfer to RICAP Fund		19,423	19,423	
Motor Vehicle Excise Tax Payment	135,500	135,317	135,278	39
Property Valuation	1,100	1,100	1,079	21
General Revenue Sharing Program	65,112	55,112	55,112	
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,384	10,384	10,384	
Resource Sharing and State Library Aid	8,773	8,773	8,746	27
Library Construction Aid	2,813	2,813	2,673	140
EPScore-EDC	1,500	1,460	1,460	
Police/Fire Incentive Pay	675	675	674	1
Federal Fund Total			4	(4)
Restricted Receipts Total	1,296	1,396	3,781	(2,385)
Total-General	281,922	285,555	289,180	(3,625)
Debt Service Payments				
RIPTA Debt Service	681	675	675	
Transportation Debt Service	35,442	33,569	33,413	156
RIRBA-DLT Temporary Disability Insurance	46	46	46	
COPS-DLT Building-TDI	359	284	277	7

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
COPS-DLT Building-Reed Act	26	7	7	
Investment Receipts-Bond Funds			63	(63)
Debt Service Payments	126,160	131,156	131,003	153
Federal Fund Total	1,178	947	931	16
Restricted Receipts Total	1,542	3,195	3,585	(390)
Total-Debt Service Payments	165,434	169,877	169,999	(122)
Retirement Alternative				
Pay Plan Reserve General Revenue	(9,105)			
Other Fund Total	(2,715)			
Federal Fund Total	(2,607)			
Restricted Receipts Total	(419)			
Total-Retirement Alternative	(14,846)			
Total-Department of Administration	601,399	623,486	618,189	5,297
Department of Business Regulation				
Central Management				
General Revenue Total	1,283	1,278	1,204	74
Banking Regulation				
General Revenue Total	3,083	2,958	2,857	101
Restricted Receipts Total	145	145	65	80
Total-Banking Regulation	3,228	3,103	2,922	181
Commercial Licensing and Racing & Athletics				
General Revenue Total	1,363	1,093	1,132	(39)
Restricted Receipts Total	607	553	436	117
Total-Commercial Licensing and Racing & Athletics	1,970	1,647	1,568	79
Board of Design Professionals				
General Revenue Total	406	392	347	45
Insurance Regulation				
Federal Funds	52	202	114	88
General Revenue Total	5,185	5,024	4,640	384
Restricted Receipts Total	856	969	864	105
Total-Insurance Regulation	6,093	6,194	5,618	576
Board of Accountancy				
General Revenue Total	155	151	153	(2)
Total-Department of Business Regulation	13,136	12,765	11,812	953
Department of Labor and Training				
Central Management				
General Revenue Total	195	183	140	43
Restricted Receipts	484	453	504	(51)
Total-Central Management	679	635	644	(9)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		75	63	12
Reed Act-Rapid Job Entry	799	795	589	206
Reed Act-Workforce Development	5,200	4,188	2,526	1,662
General Revenue Total	3	6		6
Federal Fund Total	13,368	20,279	14,281	5,998
Restricted Receipts Total	14,952	11,664	7,799	3,865
Total-Workforce Development Services	34,322	37,008	25,259	11,749
Workforce Regulation and Safety				
General Revenue Total	2,737	2,480	2,551	(71)
Income Support				
General Revenue Total	3,175	3,322	3,376	(54)
Federal Fund Total	14,757	15,238	14,602	636
Restricted Receipts Total	1,761	1,872	1,834	38
Total-Income Support	19,693	20,433	19,812	621
Injured Workers Services				
Restricted Receipts Total	11,087	11,086	9,961	1,125
Labor Relations Board				
General Revenue Total	473	428	310	118
Total-Department of Labor and Training	68,991	72,069	58,537	13,532
Legislature				
General Revenue Total	36,972	34,116	32,378	1,738
Restricted Receipts Total	1,524	1,452	1,452	
Total-Legislature	38,496	35,568	33,829	1,739
Total-General Assembly	38,496	35,568	33,829	1,739
Office of the Lieutenant Governor				
Lieutenant Governor	925	840	850	(10)
Department of State				
Administration				
General Revenue Total	1,685	1,658	1,757	(99)
Corporations				
General Revenue Total	1,799	1,854	1,914	(60)
State Archives				
General Revenue Total	89		109	(109)
Federal Fund Total	40	38	28	10
Restricted Receipts Total	443	559	420	139
Total-State Archives	573	597	557	40

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Elections				
General Revenue Total	583	611	688	(77)
Federal Fund Total	547	534	883	(349)
Total-Elections	1,130	1,146	1,571	(425)
State Library				
General Revenue Total	690	676	713	(37)
Office of Civics Public Information				
General Revenue Total	190	244	308	(64)
Total-Department of State	6,066	6,174	6,820	(646)
Treasury Department				
Treasury				
General Revenue Total	2,590	2,464	2,387	77
Federal Fund Total	291	280	237	43
Restricted Receipts Total	10			
Total-Treasury	2,891	2,744	2,624	120
State Retirement System				
Administrative Expenses-State Retirement System	6,132	6,330	5,688	642
Retirement-Treasury Investment Operations	877	917	833	84
Total-State Retirement System	7,009	7,246	6,520	726
Unclaimed Property				
Restricted Receipts Total	23,095	24,228	28,253	(4,025)
RI Refunding Bond Authority				
General Revenue Total	40	37	36	1
Crime Victim Compensation Program				
General Revenue Total	279	273	246	27
Federal Fund Total	1,625	870	563	307
Restricted Receipts Total	1,658	1,361	1,213	148
Total-Crime Victim Compensation Program	3,561	2,504	2,023	481
Total-Treasury Department	36,597	36,759	39,455	(2,696)
Commission for Human Rights				
General Revenue Total	984	952	952	
Federal Fund Total	405	371	389	(18)
Total-Commission for Human Rights	1,389	1,323	1,341	(18)
Board of Elections				
General Revenue Total	1,437	1,290	1,315	(25)
Federal Fund Total	587	631	611	20
Total-Board of Elections	2,024	1,921	1,926	(5)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Ethics Commission				
General Revenue Total	1,410	1,330	1,343	(13)
Office of Governor				
General Revenue Total	4,922	4,774	4,958	(184)
Public Utilities Commission				
General Revenue Total	661	648	475	173
Federal Fund Total	100	97	71	26
Restricted Receipts Total	6,335	6,194	4,888	1,306
Total-Public Utilities Commission	7,096	6,938	5,433	1,505
Rhode Island Commission on Women				
General Revenue Total	108	106	106	
Department of Revenue				
Director of Revenue				
General Revenue Total	752	432	452	(20)
Office of Revenue Analysis				
General Revenue Total	750	364	31	333
Property Valuation				
General Revenue Total	850	789	775	14
Taxation				
General Revenue Total	17,821	16,037	16,172	(135)
Federal Fund Total	1,235	1,160	1,190	(30)
Restricted Receipts Total	830	877	779	98
Motor Fuel Tax Invasion		129	72	57
Temporary Disability Insurance	910	791	876	(85)
Total Taxation	20,797	18,994	19,088	(94)
Registry of Motor Vehicles				
General Revenue Total	18,404	17,544	17,657	(113)
Federal Fund Total	100	969	281	688
Restricted Receipts Total	15	15	11	4
Total Registry of Motor Vehicles	18,518	18,528	17,949	579
Total-Department of Revenue	41,667	39,107	38,296	811
Office of Health and Human Services				
General Revenue Total	307	387	363	24
Federal Fund Total	5,826	7,159	3,169	3,990
Restricted Revenues Total	446	314	316	(2)
Total-Office of Health and Human Services	6,579	7,860	3,848	4,012

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	5,903	6,938	7,201	(263)
Federal Fund Total	3,360	2,852	2,867	(15)
Total-Central Management	9,263	9,790	10,068	(278)
Children's Behavioral Health Services				
General Revenue Total	18,806	16,664	15,803	861
Federal Fund Total	13,269	13,165	14,040	(875)
Total-Children's Behavioral Health Services	32,074	29,830	29,843	(13)
Juvenile Correctional Services				
General Revenue Total	29,680	29,520	30,172	(652)
Federal Fund Total	611	617	349	268
Restricted Receipts Total	6	10	23	(13)
Total-Juvenile Correctional Services	30,297	30,147	30,543	(396)
Child Welfare				
General Revenue	88,661	93,104	91,930	1,174
18 to 21 year olds	6,000	5,550	6,186	(636)
Federal Fund	58,427	58,687	48,520	10,167
18 to 21 year olds	4,545	4,383	6,441	(2,058)
Restricted Receipts Total	1,748	2,241	2,709	(468)
Total-Child Welfare	159,381	163,965	155,786	8,179
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Department of Children, Youth, and Families	231,215	233,932	226,441	7,491
Department of Elderly Affairs				
Intermodal Surface Transportation Fund	4,685	4,535	4,477	58
General Revenue Total	16,522	16,219	15,963	256
Safety and Care of the Elderly	1	1	1	
RIPAE	2,082	1,170	1,005	165
Federal Fund Total	13,057	12,946	11,980	966
Restricted Receipts Total	690	1,330	957	373
Total-Department of Elderly Affairs	37,036	36,200	34,383	1,817
Department of Health				
Central Management				
General Revenue Total	4,901	4,190	4,172	18
Federal Fund Total	4,856	8,366	5,574	2,792
Restricted Receipts Total	3,717	4,489	3,072	1,417
Total-Central Management	13,475	17,046	12,818	4,228
State Medical Examiner				
General Revenue Total	2,157	2,142	2,000	142
Federal Fund Total	142	132	155	(23)
Total-State Medical Examiner	2,299	2,273	2,155	118

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Health Service Regulation				
General Revenue Total	6,523	6,464	5,779	685
Federal Fund Total	4,914	6,784	4,847	1,937
Restricted Receipts Total	437	397	327	70
Total-Health Services Regulation	11,873	13,645	10,953	2,692
Family Health				
General Revenue Total	2,589	2,470	2,454	16
Federal Fund Total	29,851	33,972	47,125	(13,153)
Restricted Receipts Total	18,186	17,372	10,109	7,263
Total-Family Health	50,626	53,814	59,688	(5,874)
Environmental Health				
General Revenue Total	4,000	3,782	3,808	(26)
Federal Fund Total	6,125	5,953	5,180	773
Restricted Receipts Total	3,063	2,908	2,184	724
Other Fund Total		100	15	85
Total-Environmental Health	13,187	12,743	11,187	1,556
Health Laboratories				
General Revenue Total	8,171	6,822	6,567	255
Federal Fund Total	2,064	2,379	1,973	406
Total-Health Laboratories	10,234	9,201	8,540	661
Disease Prevention and Control				
General Revenue Total	6,148	5,301	5,205	96
Federal Fund Total	17,354	19,465	15,974	3,491
Walkable Communities Initiative	29	29	31	(2)
Total-Disease Prevention and Control	23,530	24,795	21,211	3,584
Total-Department of Health	125,224	133,518	126,552	6,966
Department of Human Services				
Central Management				
General Revenue	9,114	9,547	9,434	113
Statewide operating savings		(19,647)		(19,647)
Federal Fund	4,252	4,446	3,739	707
Statewide operating savings		(19,916)		(19,916)
Restricted Receipts Total	1,746	1,995	2,003	(8)
Total-Central Management	15,112	(23,575)	15,176	(38,751)
Child Support Enforcement				
General Revenue Total	3,831	3,236	3,101	135
Federal Fund Total	7,570	7,439	7,195	244
Restricted Receipts Total	50			
Total-Child Support Enforcement	11,450	10,675	10,296	379
Individual and Family Support				
General Revenue Total	24,755	22,809	22,623	186
Federal Fund Total	52,884	56,446	50,007	6,439

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Restricted Receipts Total	134	134	134	
Other funds total			600	(600)
Total-Individual and Family Support	77,772	79,389	73,364	6,025
Veterans' Affairs				
General Revenue Total	17,109	18,180	17,387	793
Federal Fund Total	6,385	9,436	6,596	2,840
Restricted Receipts Total	1,517	2,097	558	1,539
Total-Veterans' Affairs	25,011	29,713	24,542	5,171
Health Care Quality, Financing and Puchasing				
General Revenue Total	23,023	21,011	20,482	529
Federal Fund Total	43,747	41,881	38,446	3,435
Restricted Receipts Total	187	206	32	174
Total-Health Care Quality, Financing and Purchasing	66,957	63,099	58,959	4,140
Medical Benefits				
General Revenue Total				
Managed Care	259,158	258,634	247,455	11,179
Hospital	127,762	133,320	133,212	108
Other	55,381	53,200	80,310	(27,110)
Pharmacy	63,240	61,446	60,544	902
Long Term Care	171,867	171,700	158,177	13,523
Federal Fund Total				
Managed Care	293,563	292,566	293,488	(922)
Hospital	115,823	131,780	133,203	(1,423)
Long Term Care	189,938	189,700	174,663	15,037
Other	60,551	64,353	94,738	(30,385)
Pharmacy	24,000	23,454	22,434	1,020
Special Education	20,733	20,733	16,152	4,581
Restricted Receipts Total	5,590	4,262	4,300	(38)
Total-Medical Benefits	1,387,604	1,405,148	1,418,678	(13,530)
Supplemental Security Income Program				
General Revenue Total	28,456	28,039	28,021	18
Family Independence Program				
TANF/Families Independence Program	15,958	17,705	19,119	(1,414)
Child Care	7,442	10,438	12,689	(2,251)
Federal Fund Total	84,438	84,561	80,864	3,697
Total-Family Independence Program	107,839	112,703	112,672	31
State Funded Programs				
General Public Assistance	4,090	3,393	3,223	170
Federal Fund Total	85,553	93,368	102,603	(9,235)
Total-State Funded Programs	89,644	96,760	105,826	(9,066)
Total-Department of Human Services	1,809,844	1,801,952	1,847,534	(45,582)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Mental Health, Retardation, and Hospital				
Central Management				
Federal Fund Total	67	118		118
General Revenue Total	741	1,817	1,854	(37)
Total-Central Management	808	1,935	1,854	81
Hospital & Community System Support				
General Revenue Total	4,238	3,545	3,385	160
Federal Fund Total	373	413	300	113
Total-Hospital & Community System Support	4,611	3,959	3,686	273
Services for the Developmentally Disabled				
General Revenue Total	120,498	118,660	120,868	(2,208)
Federal Fund Total	136,747	134,506	137,498	(2,992)
Total-Services for the Developmentally Disabled	257,244	253,166	258,366	(5,200)
Integrated Mental Health Services				
General Revenue Total	43,959	42,010	42,716	(706)
Federal Fund Total	38,245	36,228	37,406	(1,178)
Total-Integrated Mental Health Services	82,204	78,238	80,122	(1,884)
Hospital & Community Rehabilitation Svcs				
General Revenue Total	57,020	51,728	56,712	(4,984)
Federal Fund Total	56,699	50,147	53,825	(3,678)
Restricted Receipts	2,950	2,504	2,486	18
Total-Hospital & Community Rehabilitation Svcs	116,669	104,379	113,023	(8,644)
Substance Abuse				
RICAP-Asset Protection				
General Revenue Total	17,005	16,438	16,417	21
Federal Fund Total	11,840	13,491	12,699	792
Restricted Receipts Total	90	90	102	(12)
Total-Substance Abuse	28,934	30,019	29,218	801
Total-Department of Mental Health, Retardation, and Hospital	490,470	471,695	486,269	(14,574)
Office of Child Advocate				
General Revenue Total	521	485	445	40
Federal Fund Total	40	38	40	(2)
Total-Office of Child Advocate	561	522	485	37
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	370	327	289	38
Federal Fund Total	18		(1)	1
Total-Rhode Island Commission of the Deaf and Hard of Hearin	388	327	289	38
RI Developmental Disabilities Council				
Federal Fund Total	461	406	395	11

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Governor's Commission on Disabilities				
General Revenue Total	536	351	350	1
Federal Fund Total	182	194	77	117
Restricted Receipts Total	51	14	13	1
Total-Governor's Commission on Disabilities	768	559	441	118
Office of Mental Health Advocate				
General Revenue Total	424	406	419	(13)
Department of Elementary and Secondary Education				
Education Aid				
General Fund Total	679,417	679,396	679,308	88
Federal Fund Total	1,119	75	7	68
Restricted Receipts Total	1,460	1,459	1,326	133
Total-Education Aid	681,996	680,931	680,640	291
Housing Aid				
General Revenue Total	52,862	49,653	49,652	1
Teachers' Retirement				
General Revenue Total	78,072	80,225	83,029	(2,804)
RI School for the Deaf				
Other Funds		10		10
Restricted Receipts Total		1		1
General Revenue Total	6,808	6,571	6,551	20
Federal Fund Total	368	271	133	138
Total-RI School for the Deaf	7,176	6,854	6,684	170
Central Falls School District				
General Revenue Total	43,795	43,416	43,416	
Davies Career and Technical School				
General Revenue Total	14,572	14,048	14,243	(195)
Federal Fund Total	1,237	1,425	1,104	321
Total-Davies Career and Technical School	15,809	15,473	15,347	126
Metropolitan Career and Technical School				
General Revenue Total	11,488	11,488	11,488	
Administration of the Comprehensive Education Strategy				
General Revenue Total	21,317	20,573	19,985	588
Statewide Uniform Chart of Accounts	1,100	1,100	1,154	(54)
Federal Fund Total	175,672	187,402	174,465	12,937
Restricted Receipts Total	1,190	1,053	855	198
HRIC Adult Education Grants	4,500	4,617	4,326	291
Total-Administration of the Comprehensive Education Strategy	203,778	214,745	200,786	13,959
Total-Department of Elementary & Secondary Education	1,094,975	1,102,784	1,091,042	11,742

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
General Revenue Total	8,136	7,908	7,908	
Federal Fund Total	3,526	5,301	4,925	376
Restricted Receipts-BOG	200	453	97	356
General Revenue Total-URI	77,036	74,897	74,897	
General Revenue Total-RIC	45,751	44,347	44,347	
General Revenue Total-CCRI	49,254	47,820	47,820	
Total-Board of Governors for Higher Education	200,488	196,377	195,004	1,373
Rhode Island State Council on the Arts				
Operating Support	1,536	733	743	(10)
Grants	1,241	1,966	1,369	597
Restricted Receipts Total		200		200
Federal Fund Total	706	672	612	60
Art for Public Facilities Fund	3,000	1,000	210	790
Total-Rhode Island Council on the Arts	6,484	4,571	2,934	1,637
Rhode Island Atomic Energy Commission				
URI Sponsored Research	191	240	238	2
General Revenue Total	820	799	834	(35)
Federal Fund Total	421	537	353	184
Total-Rhode Island Atomic Energy Commission	1,431	1,576	1,425	151
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunity	10,000	9,244	9,244	
Authority Operations and Other Grants	1,020	976	976	
Total-R I Higher Education Assistance Authority	11,020	10,220	10,220	
Historical Preservation and Heritage Commission				
General Revenue Total	1,578	1,487	1,495	(8)
Federal Fund Total	529	548	509	39
Restricted Receipts Total	496	492	191	301
Total-Historical Preservation and Heritage Commission	2,603	2,527	2,195	332
R I Public Telecommunications Authority				
General Revenue Total	1,364	1,316	1,316	
Department of Attorney General				
Criminal				
General Revenue Total	12,988	13,055	13,107	(52)
Federal Fund Total	1,323	1,275	1,202	73
Restricted Receipts Total	339	332	320	12
Total-Criminal	14,650	14,661	14,629	32

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Civil				
General Revenue Total	4,897	4,133	4,043	90
Restricted Receipts Total	634	608	548	60
Total-Civil	5,532	4,741	4,591	150
Bureau of Criminal Identification				
General Revenue Total	1,018	965	940	25
Federal Fund Total	57	118	97	21
Total-Bureau of Criminal Identification	1,074	1,083	1,037	46
General				
General Revenue Total	2,432	2,474	2,459	15
Total-Department of Attorney General	23,688	22,960	22,716	244
Department of Corrections				
Central Management				
General Revenue Total	10,466	9,088	8,405	683
Federal Fund Total	359	140	134	6
Total-Central Management	10,826	9,229	8,539	690
Parole Board				
General Revenue Total	1,259	1,214	1,222	(8)
Federal Fund Total	33	71	52	19
Total-Parole Board	1,292	1,285	1,274	11
Institutional Corrections				
General Revenue Total	160,572	159,947	170,207	(10,260)
Federal Fund Total	2,035	2,568	2,049	519
Total-Institutional Corrections	162,606	162,515	172,256	(9,741)
Community Corrections				
General Revenue Total	15,658	14,302	13,304	998
Federal Fund Total	380	804	454	350
Total-Community Corrections	16,038	15,106	13,758	1,348
General Revenue Total-Corrections	187,955	184,551	193,138	(8,587)
Federal Fund Total-Corrections	2,808	3,584	2,689	895
Total-Department of Corrections	190,762	188,135	195,827	(7,692)
Judicial Department				
Supreme Court				
General Revenue Total	26,369	25,792	25,211	581
Judicial Tenure and Discipline	120	116	108	8
Defense of Indigents	3,066	2,983	3,369	(386)
Federal Fund Total	122	365	250	115
Restricted Receipts Total	1,131	1,455	1,190	265
Total-Supreme Court	30,807	30,712	30,127	585

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Superior Court				
Federal Fund Total	535	217	155	62
General Revenue Total	20,700	19,595	19,635	(40)
Total-Superior Court	21,235	19,812	19,790	22
Family Court				
General Revenue Total	17,794	17,657	18,017	(360)
Federal Fund Total	1,407	2,097	1,468	629
Total-Family Court	19,201	19,755	19,485	270
District Court				
General Revenue Total	10,638	9,836	9,626	210
Traffic Tribunal				
General Revenue Total	7,387	6,820	6,835	(15)
Worker's Compensation Court				
Restricted Receipts Total	7,387	7,206	7,206	
Total-Judicial Department	96,656	94,141	93,068	1,073
Militia of the State				
National Guard				
General Revenue Total	1,761	1,755	1,586	169
Federal Fund Total	9,289	9,016	7,468	1,548
Restricted Receipts Total	145	160	31	129
Total-National Guard	11,195	10,931	9,086	1,845
Emergency Management				
General Revenue Total	803	743	734	9
Federal Fund Total	11,306	23,629	12,047	11,582
Restricted Receipts Total	263	142	127	15
Total-Emergency Management	12,371	24,513	12,908	11,605
Total-Militia of the State	23,566	35,445	21,994	13,451
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,733	4,879	4,945	(66)
Federal Fund Total		100	15	85
Restricted Receipts Total	1,297	875	875	
Total- E-911 Uniform Emergency Telephone System	6,030	5,854	5,834	20
State Fire Marshall				
General Revenue Total	2,671	2,355	2,204	151
Federal Fund Total	228	1,038	477	561
Total-State Fire Marshall	2,899	3,393	2,682	711
Fire Safety Code Board of Appeal and Review				
General Revenue Total	303	290	288	2

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Justice Commission				
General Revenue Total	161	232	232	
Federal Fund Total	4,152	4,510	4,145	365
Restricted Receipts Total	30	133	11	122
Total-Rhode Island Justice Commission	4,342	4,875	4,387	488
Municipal Police Training Academy				
General Revenue Total	429	428	434	(6)
Federal Fund Total	50	66	23	43
Total-Municipal Police Training Academy	479	494	456	38
Rhode Island State Police				
Airport Corporation	144	138	140	(2)
Traffic Enforcement-Municipal Training	379	342	253	89
Lottery Commission Assistance	142	137	141	(4)
Road Construction Reimbursement	2,367	2,356	1,957	399
General Revenue Total	52,058	50,689	51,467	(778)
Federal Fund Total	1,092	2,368	1,298	1,070
Restricted Receipts Total	312	461	218	243
Total-Rhode Island State Police	56,494	56,491	55,474	1,017
Office of Public Defender				
General Revenue Total	9,325	9,016	9,031	(15)
Federal Fund Total	422	359	272	87
Total-Office of Public Defender	9,747	9,375	9,303	72
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			(22)	22
General Revenue Total	6,043	5,768	5,789	(21)
Federal Fund Total	556	422	73	349
Restricted Receipts Total	2,505	2,508	2,169	339
Total-Office of Director	9,104	8,698	8,009	689
Natural Resources				
Blackstone Bikepath Design	788	788	236	552
DOT Recreational Projects	118	70	54	16
General Revenue Total	18,318	17,901	19,001	(1,100)
Federal Fund Total	17,159	17,910	8,684	9,226
Restricted Receipts Total	3,830	3,530	3,069	461
Total-Natural Resources	40,213	40,200	31,044	9,156

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Environmental Protection				
General Revenue Total	12,052	10,544	11,243	(699)
Federal Fund Total	10,438	12,525	9,267	3,258
Restricted Receipts Total	10,611	10,033	8,246	1,787
Total-Environmental Protection	33,101	33,103	28,755	4,348
Total-Department of Environmental Management	82,418	82,001	67,809	14,192
Coastal Resources Management Council				
General Revenue Total	1,880	1,941	1,985	(44)
Federal Fund Total	1,607	1,770	1,779	(9)
Restricted Receipts Total	1,022	395	120	275
Total-Coastal Resources Management Council	4,509	4,106	3,884	222
Water Resources Board				
General Revenue Total	1,893	1,629	1,226	403
Restricted Receipts Total	400	400	327	73
Total-Water Resources Board	2,293	2,029	1,553	476
Total Departmental Expenditures	5,349,750	5,359,493	5,339,363	20,130
Transfer of Appropriations at June 30, 2007 to RI Capital Fund			7,770	(7,770)
Transfer of Excess Budget Reserve to RI Capital Fund			44,369	(44,369)
Total Expenditures	5,349,750	5,359,493	5,391,502	(32,009)
Change in Fund Balance	$ 5,415,465	$ 68,281	(37,511)	$ (105,792)
Fund balance - beginning			144,166	
Fund balance - ending			$ 106,655	
General Revenue Total	$ 3,407,278	$ 3,367,814	$ 3,405,251	$ (37,437)
Federal Fund Total	1,723,323	1,780,991	1,741,158	39,833
Restricted Receipts Total	161,974	154,732	135,546	19,186
Other Fund Total	57,174	55,956	57,408	(1,452)
	$ 5,349,749	$ 5,359,493	$ 5,339,363	$ 20,130

General Fund - General Revenue Summary

General Revenue - Variance - Final Budget compared to Actual	$ (7,116)
General Revenue Expenditures - Variance - Final Budget compared to actual	$ (37,437)
Change in General Revenue Reappropriations Fiscal 2007 - Fiscal 2008	1,902
Other Adjustments	(299)
	$ (35,834)
Unreserved General Fund (General Revenue) Deficit - June 30, 2008	$ (42,950)

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,550	$ 136,050	$ 135,412	$ (638)
Departmental restricted revenue	662	1,445	(207)	(1,652)
Federal grants	274,707	239,425	196,327	(43,098)
Other revenues	3,019	11,192	5,386	(5,806)
Total revenues	418,938	388,112	336,918	(51,194)
Other financing sources:				
Operating transfers in			28,198	28,198
Payments from component units			52	52
Total revenues and other financing sources	418,938	388,112	365,168	(22,944)
Expenditures:				
Central Management				
Gasoline Tax	3,712	1,558	1,673	(115)
Federal Funds	17,167	17,788	7,298	10,490
Total - Central Management	20,879	19,346	8,971	10,375
Management and Budget				
Gasoline Tax	3,010	2,295	760	1,535
Total - Management and Budget	3,010	2,295	760	1,535
Infrastructure - Engineering				
Gasoline Tax	46,094	46,695	46,317	378
RICAP - RIPTA Land and Buildings				
Train Station				
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,346	1,226	8,120
Federal Funds	257,540	221,637	181,123	40,514
Restricted Receipts	662	1,445	(161)	1,606
Subtotal - Infrastructure - Engineering	307,296	280,467	228,505	51,962
State Match - FHWA			28,198	(28,198)
Total - Infrastructure - Engineering	307,296	280,467	256,703	23,764
Infrastructure - Maintenance				
Gasoline Tax	39,479	38,822	37,761	1,061
Outdoor Advertising	19	503		503
Radio System Upgrade		335		335
Nonland Surplus	288	336	270	66
Total - Infrastructure - Maintenance	39,786	39,996	38,031	1,965
Total Expenditures	370,971	342,104	304,465	37,639
Other financing uses:				
Transfers to other funds				
Gas tax			44,239	
Other			852	
Total expenditures and other financing uses			349,556	
Net change in fund balance			15,612	
Fund balance - beginning			32,819	
Fund balance - ending			$ 48,431	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Employees

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	679,538	679,538	0%	626,145	108.5%
06/30/2005	0	580,041	580,041	0%	575,613	100.8%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Teachers

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	10,243	10,243	0%	NA	NA
06/30/2005	0	8,477	8,477	0%	NA	NA

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Judges

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	14,024	14,024	0%	9,888	141.8%
06/30/2005	0	76	76	0%	5,685	1.3%

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-State Police

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	54,620	54,620	0%	15,977	341.9%
06/30/2005	0	51,037	51,037	0%	13,821	369.3%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

Other Postemployment Benefits - Rhode Island Retiree Health Care Benefit Plan-Legislators

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2007	0	29,764	29,764	0%	1,592	1869.6%
06/30/2005	0	3,919	3,919	0%	1,509	259.7%

Budget and Actual

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The annual budget is adopted on a comprehensive basis and includes activity that, for financial reporting purposes, is recorded in multiple funds. Consequently, the budgetary comparison schedules for an individual fund include amounts in the "actual" column that have no corresponding original or final budget amount. These amounts are principally interfund transfers which are not included in the comprehensive budget to avoid duplication but are appropriately reflected in the individual fund financial statements.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

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

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provision due to the enactment of

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2008

Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

The June 30, 2007 actuarial valuation reflects clarification of employees eligible for retiree health care within the judges and legislators plans as well as the benefits received upon attainment of Medicare eligibility. Further for teachers, the required contribution for teachers is not presented as a percentage of payroll since the required contribution by the State is for the Tier I subsidy for teachers who have elected to participate in the State's Retiree Health Care Benefit Plan.

Economic Information

The information contained herein was developed from reports provided by Federal and State agencies, which is believed to be reliable and may be relevant in evaluating the economic and financial condition and prospects of the State of Rhode Island. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors that may have a bearing on the State's fiscal and economic affairs. All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the State considers the sources to be reliable, the State has made no independent verification of the information presented herein and does not warrant its accuracy.

Overview

Population Characteristics. Rhode Island experienced an average annual population increase of 0.2 percent between 1994 and 2008. The U.S. Census Bureau estimated that Rhode Island's population declined by 0.2 percent in 2008. The 2000 United States census count for Rhode Island was 1,048,319 or 4.5 percent more than the 1,003,464 counted in 1990. In contrast, the total United States population increased by 13.1 percent between 1990 and 2000. The U.S. Census Bureau estimates that Rhode Island's population has increased by 2,469 to 1,050,788 as of December 2008.

Personal Income and Poverty. Per capita personal income levels in Rhode Island had been consistent with those in the United States for the 1994 to 2001 period. Since 2002, Rhode Island per capita personal income growth has accelerated relative to U.S. per capita personal income growth to the point where, in 2008, Rhode Island per capita personal income was $41,008 versus U.S. per capita personal income of $39,751. In addition, Rhode Island has maintained a poverty rate below the national average. Over the 2003 – 2008 period, Rhode Island's average poverty rate was 11.3 percent versus the U.S. average poverty rate of 12.6 percent.

Employment. According to the Rhode Island Department of Labor and Training, total Rhode Island nonfarm employment fell at a rate of 0.1 percent in 2007, 2.2 percent in 2008 and decreased 4.1 percent in 2008. The average annual growth rate for Rhode Island nonfarm employment for the 1995 – 2009 period was 0.4 percent.

Economic Base and Performance. Rhode Island has a diversified economic base that includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other historically industrial states, Rhode Island has seen a shift in employment from labor-intensive manufacturing industries to technology and service-based industries, particularly Education and Health Services.

Human Resources. Skilled human capital is the foundation of economic strength in Rhode Island. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Rhode Island population is well educated with 29.1 percent (2005-07 3-year average) of its residents over the age of 25 having received a Bachelor's degree or a Graduate or Professional degree according to the U.S. Department of Commerce Report of July 2009 from the Bureau of the Census. In addition, per pupil spending on public elementary and secondary education in Rhode Island has been significantly higher than the national average since the 1992-93 academic year. For 2006-07 Rhode Island spent 42.0 percent more per pupil than the national average.

Population Characteristics

Rhode Island is the second most densely populated state in the country, exceeded only by New Jersey. The population density of Rhode Island increased from 960.3 persons per square mile in 1990 to 1,003.2 persons in 2000. The density factor for the United States also increased during the last decade, from 70.3 persons per square mile in 1990 to 79.6 persons in 2000. Rhode Island's major metropolitan communities are located within Providence County. Recording an increase in population over the 1990 – 2000 census period, residents of Providence County also represent a larger percentage of the state's total population, from 58.0 percent in 1990 to 59.3 percent in 2000. The Capital City of Providence experienced an 8.0 percent increase in population over the last decade of the twentieth century, significantly higher than the 4.5 percent increase recorded statewide.

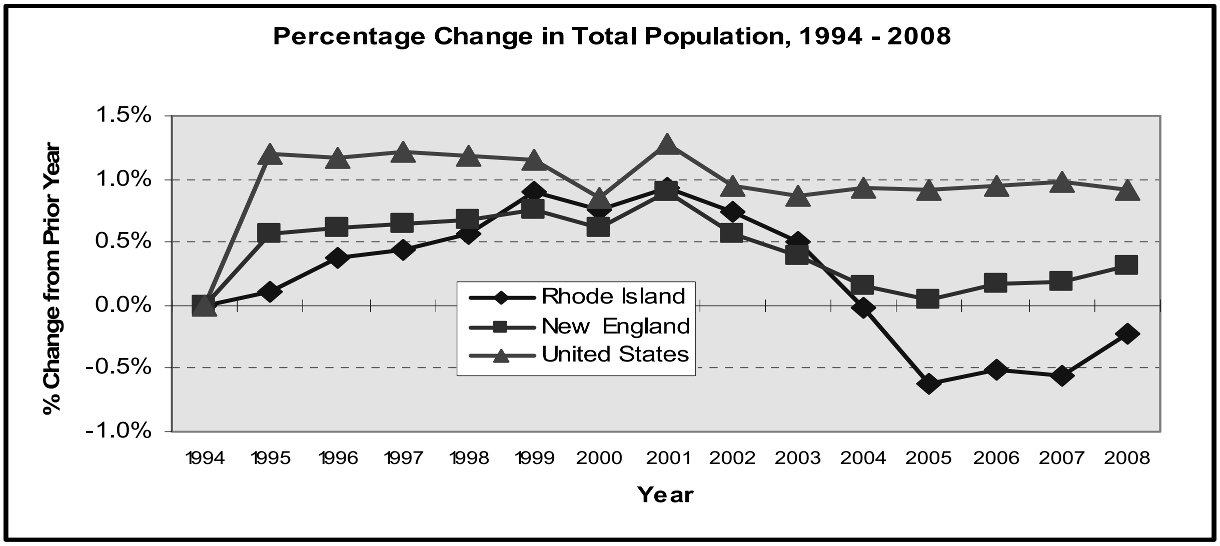
Between 1998 and 2008 Rhode Island's population increased by 1.9 percent, compared to a 4.2 percent increase for the New England region, and a 10.2 percent increase for the United States. As the following chart indicates, the percentage change in Rhode Island's population from 1994 to 1998 has lagged that of the New England region. The growth rate of Rhode Island's population was 1.5 percent for that period compared to New England's growth rate of 2.5 percent. From 1999 through 2003, however, Rhode Island's population growth rate was higher than that of the New England region, at 3.0 percent compared to 2.5 percent for New England as a whole. The 2008 population estimates indicate that Rhode Island's population growth rate, at –0.2 percent over 2007, is again lower than that of New England's growth rate of 0.3 percent. With respect to the United States, Rhode Island's population growth has been both lower and more erratic. Over the 1998 to 2008 period, the United States' average annual population growth rate was 1.0 percent.

Population, 1994 - 2008
(in thousands)

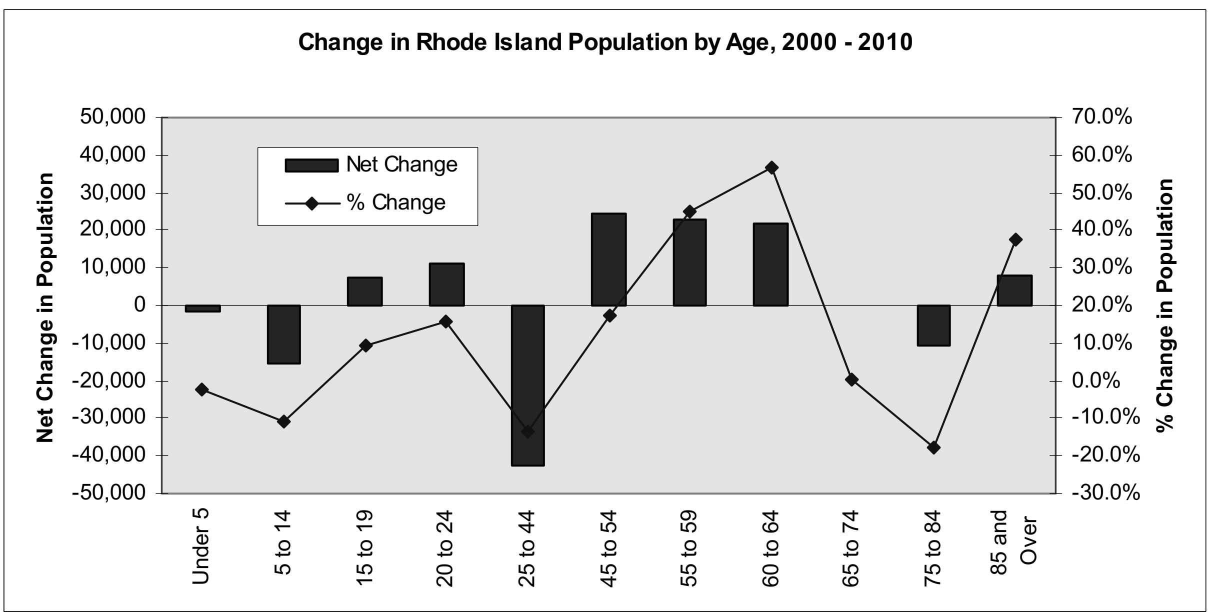
	Rhode Island		New England		United States	
Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1994	1,016	-	13,396	-	263,126	-
1995	1,017	0.1%	13,473	0.6%	266,278	1.2%
1996	1,021	0.4%	13,555	0.6%	269,394	1.2%
1997	1,025	0.4%	13,642	0.6%	272,647	1.2%
1998	1,031	0.6%	13,734	0.7%	275,854	1.2%
1999	1,040	0.9%	13,838	0.8%	279,040	1.2%
2000	1,048	0.8%	13,923	0.6%	281,422	0.9%
2001	1,058	0.9%	14,047	0.9%	285,040	1.3%
2002	1,066	0.7%	14,127	0.6%	287,727	0.9%
2003	1,071	0.5%	14,181	0.4%	290,211	0.9%
2004	1,071	0.0%	14,202	0.1%	292,892	0.9%
2005	1,064	-0.6%	14,208	0.0%	295,561	0.9%
2006	1,059	-0.5%	14,233	0.2%	298,363	0.9%
2007	1,053	-0.6%	14,259	0.2%	301,290	1.0%
2008	1,051	-0.2%	14,304	0.3%	304,060	0.9%

U.S. Census Bureau
U.S. Department of Commerce

The chart below displays the growth rate changes shown in the table above. Note the volatility in the population growth rate for Rhode Island as compared to the New England region and the United States.



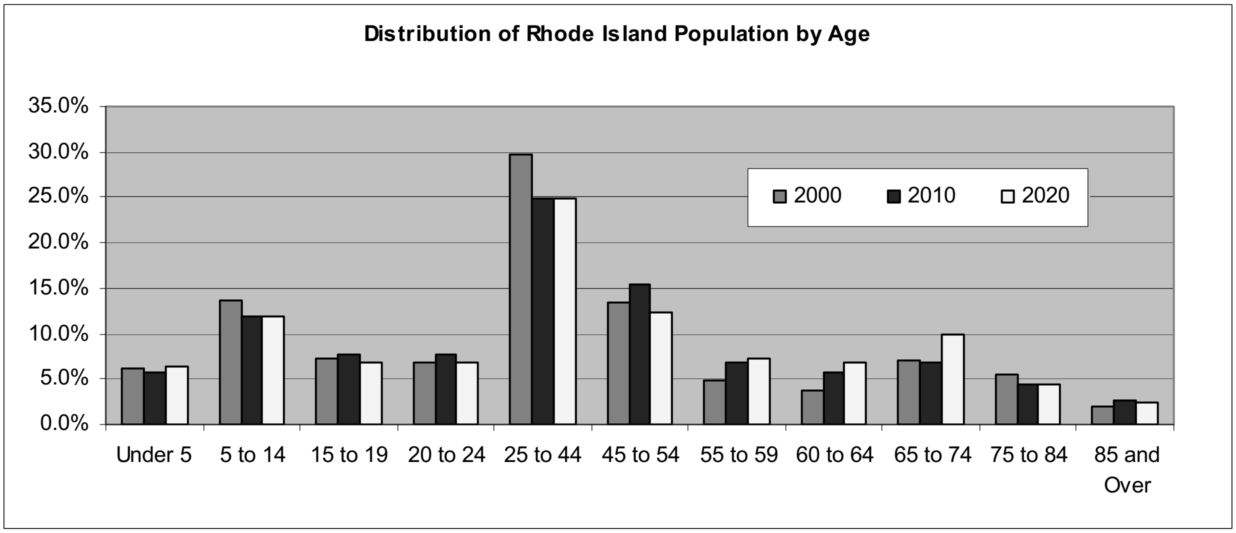
The following chart shows the net change in Rhode Island's population between 2000 and 2010 by age group. Note that, like the rest of the country, Rhode Island has seen a sharp change in the age distribution of its population in accordance with the chronological advancement of the "baby boom" generation. The upswing in Rhode Islanders in the "45 to 64" age group is a reflection of this.



U.S. Census Bureau
Projections: R.I. Statewide Planning

The U.S. Census Bureau projects that the 2000 to 2020 period will bring substantial changes to the state's age distribution. As the "baby boom" generation continues to age, the state should see a sizeable increase in its older population (i.e., 55 to 74). In addition, the state should experience a decline in its young adult to middle age population (i.e., 25 to 54) and relative stability in its youth to young adult population (i.e., under 5 to 24).

The chart below shows the projected graying of the Rhode Island population in 2020. In 2020, Rhode Island's population is projected to be distributed more heavily in the "55 – 74" age group while the percentage of people in the "15 – 54" age group declines from 2000 levels. In addition, the percentage of the population 85 and over is expected to rise significantly. The median age for Rhode Islanders in 1990 was 33.8 years and rose to 36.7 years in 2000. By 2020, the median age for Rhode Islanders is projected to rise to 39.2.



U.S. Census Bureau
Projection: R.I. Statewide Planning

Personal Income, Consumer Prices, and Poverty

Personal Income. The table below shows nominal and real per capita personal income for Rhode Island, New England, and the United States. Rhode Island's per capita nominal personal income exceeded that of the United States from 2001 to 2008. Over this period, Rhode Island per capita nominal personal income averaged $936 more than United States per capita nominal personal income. From 1998 to 2000 this relationship was reversed with United States per capita nominal personal income exceeding that of Rhode Island by an average of $442. Note that Rhode Island per capita nominal personal income has trailed that of the New England region throughout the entire period 1994 – 2008 by an average of $5,651. In fact, the gap between Rhode Island per capita nominal personal income and New England per capita nominal personal income has grown sharply over this time period peaking at $7,707 in 2008. Since 1994, the gap in nominal per capita personal income between Rhode Island and New England as a whole has more than doubled, increasing by 114.7 percent.

From 1994 to 1998, the relationship between per capita real income growth in Rhode Island alternately trailed and exceeded that of the United States. From 1998 – 2000, Rhode Island per capita real income growth once again trailed that of the United States. However, from 2001 – 2003, this pattern reversed itself again with Rhode Island real personal income per capita growth exceeding that of the United States. For the 2004 to 2006 period, United States real per capita income growth once again exceeded that of Rhode Island. The growth rate in real per capita personal income in the United States and Rhode Island converged in 2008. With respect to New England, Rhode Island per capita real income growth has generally lagged that of the region. Over the fifteen year period from 1994 to 2008, Rhode Island per capita real income growth has exceeded that of New England as a whole on four occasions, 1995 and 2001 – 2003.

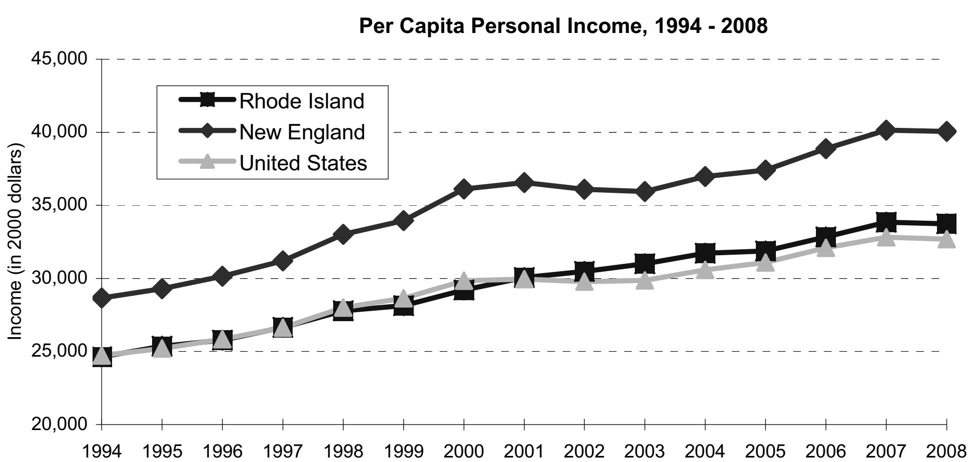
Per Capita Personal Income, 1994 - 2008

	Nominal Income (in current dollars)				Real Income (in 2000 dollars)			Percentage Change in Real Income		
Year	**R.I.**	**N.E.**	**U.S.**	**2000 Deflator**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**
1994	22,097	25,687	22,172	**89.65%**	24,647	28,651	24,731	-	-	-
1995	23,225	26,832	23,076	**91.58%**	25,361	29,300	25,199	2.9%	2.3%	1.9%
1996	24,106	28,194	24,175	**93.55%**	25,769	30,139	25,843	1.6%	2.9%	2.6%
1997	25,341	29,687	25,334	**95.12%**	26,640	31,209	26,633	3.4%	3.5%	3.1%
1998	26,670	31,677	26,883	**95.98%**	27,787	33,004	28,009	4.3%	5.8%	5.2%
1999	27,459	33,126	27,939	**97.58%**	28,141	33,949	28,633	1.3%	2.9%	2.2%
2000	29,215	36,120	29,847	**100.00%**	29,215	36,120	29,847	3.8%	6.4%	4.2%
2001	30,696	37,332	30,582	**102.09%**	30,066	36,566	29,955	2.9%	1.2%	0.4%
2002	31,555	37,378	30,838	**103.54%**	30,476	36,099	29,783	1.4%	-1.3%	-0.6%
2003	32,737	37,966	31,530	**105.60%**	31,002	35,954	29,859	1.7%	-0.4%	0.3%
2004	34,375	40,081	33,157	**108.39%**	31,714	36,978	30,590	2.3%	2.8%	2.4%
2005	35,575	41,736	34,690	**111.58%**	31,883	37,404	31,090	0.5%	1.2%	1.6%
2006	37,669	44,574	36,794	**114.68%**	32,848	38,870	32,085	3.0%	3.9%	3.2%
2007	39,829	47,221	38,615	**117.66%**	33,851	40,134	32,819	3.1%	3.3%	2.3%
2008	41,008	48,715	39,751	**121.59%**	33,727	40,066	32,693	-0.4%	-0.2%	-0.4%

Bureau of Economic Analysis
U.S. Department of Commerce

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

The chart below shows real per capita personal income in Rhode Island, New England and the United States since 1994. As is clear from the graph, Rhode Island real per capita personal income tracks closely with that of the United States until 2002 when Rhode Island real per capita income exceeded that of the United States, a gap that has grown over the 2003 – 2008 period. Rhode Island real per capita personal income has consistently lagged that of the New England region for the entire 1994 – 2008 period.



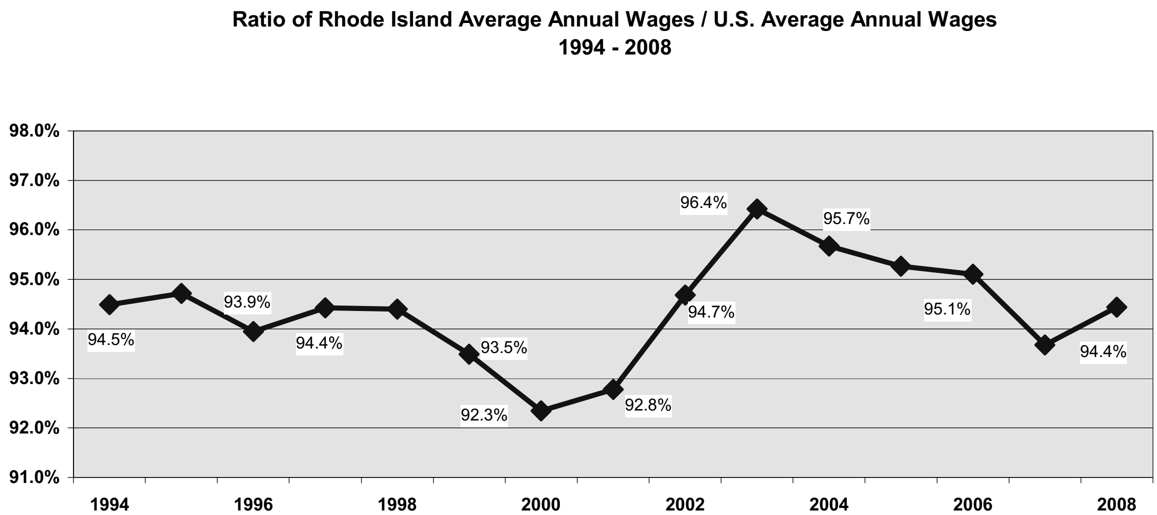
Average Annual Pay. Although the growth in Rhode Island per capita personal income has fluctuated, annual pay has grown steadily in Rhode Island over the past fourteen years. Average annual pay is computed by dividing total annual payrolls of employees covered by unemployment insurance programs by the average monthly number of these employees. Although average annual pay has increased consistently for the last fourteen years, the ratio of pay levels in Rhode Island to the United States has been on a downward trend since 2003. In 1994, average annual pay in Rhode Island was 94.5 percent of the national average. By 2000, the ratio had fallen to 92.3 percent. For 2002, average annual pay in Rhode Island rebounded to 94.7 percent of U.S. average annual pay. This was followed by a further increase to 96.4 percent in 2003, $36,415 for Rhode Island versus $37,765 for the United States as a whole. In 2004, 2005, 2006, 2007 and 2008 average annual pay in Rhode Island again fell as a percentage of average annual pay in the U.S. The relationship between Rhode Island and U.S. average annual pay is shown in the table below.

Average Annual Pay, 1994 - 2008
(in current dollars)

	Annual Pay			**Percentage Change**	
Year	**R.I.**	**U.S.**	**Ratio R.I. / U.S.**	**R.I.**	**U.S.**
1994	25,454	26,939	94.5%	-	-
1995	26,375	27,846	94.7%	3.6%	3.4%
1996	27,194	28,946	93.9%	3.1%	4.0%
1997	28,662	30,353	94.4%	5.4%	4.9%
1998	30,156	31,945	94.4%	5.2%	5.2%
1999	31,169	33,340	93.5%	3.4%	4.4%
2000	32,615	35,320	92.3%	4.6%	5.9%
2001	33,603	36,219	92.8%	3.0%	2.5%
2002	34,810	36,764	94.7%	3.6%	1.5%
2003	36,415	37,765	96.4%	4.6%	2.7%
2004	37,651	39,354	95.7%	3.4%	4.2%
2005	38,751	40,677	95.3%	2.9%	3.4%
2006	40,454	42,535	95.1%	4.4%	4.6%
2007	41,646	44,458	93.7%	2.9%	4.5%
2008	43,029	45,563	94.4%	3.3%	2.5%

Bureau of Labor Statistics
U.S. Department of Labor

The chart below plots the ratio of Rhode Island average annual wages to U.S. average annual wages over the 1994 – 2008 period.



Consumer Prices. The following table presents consumer price index trends for the Northeast region and the United States for the period between 1995 and 2009. 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 1995 to 2009, the consumer price inflation in the Northeast consistently exceeded that for the United States. During this period, the percent change in consumer price inflation in the Northeast region has been less than for the United States in each of the following years 1996, 1998, 1999 and 2007. In 2000 and 2001 the consumer price inflation rate in the Northeast region was equal to that of the United States. In 2002 - 2006, the consumer price inflation rate in the Northeast region has exceeded that of the United States by 0.5 percent, 0.5 percent, 0.8 percent, 0.2 percent, and 0.4 percent respectively. For 2009 the rate was 0.4 percent above the United States.

Consumer Price Index for All Urban Consumers (CPI-U), 1995 - 2009

	CPI-U		Ratio	Pct. Change	
Year	**Northeast**	**U.S.**	**Northeast/U.S.**	**Northeast**	**U.S.**
1995	159.1	152.4	104.4%	-	-
1996	163.6	156.9	104.3%	2.8%	3.0%
1997	167.6	160.5	104.4%	2.4%	2.3%
1998	170.0	163.0	104.3%	1.4%	1.6%
1999	173.5	166.6	104.1%	2.1%	2.2%
2000	179.4	172.2	104.2%	3.4%	3.4%
2001	184.4	177.1	104.1%	2.8%	2.8%
2002	188.2	179.9	104.6%	2.1%	1.6%
2003	193.5	184.0	105.2%	2.8%	2.3%
2004	200.2	188.9	106.0%	3.5%	2.7%
2005	207.5	195.3	106.2%	3.6%	3.4%
2006	215.0	201.6	106.6%	3.6%	3.2%
2007	220.5	207.3	106.4%	2.6%	2.8%
2008	229.3	215.3	106.5%	4.0%	3.8%
2009	229.3	214.5	106.9%	0.0%	-0.4%

Bureau of Labor Statistics
U.S. Department of Labor

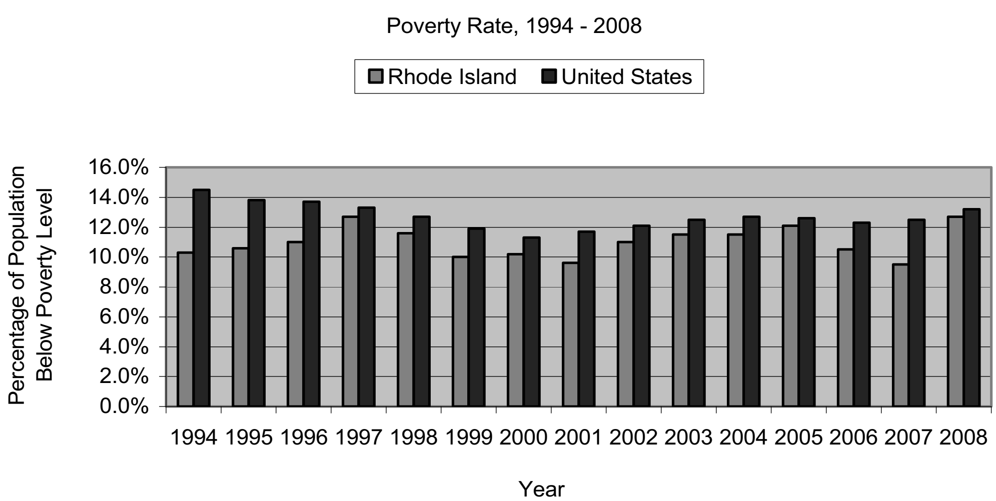
Poverty. From 1994 – 2008 the Rhode Island poverty rate has been below the poverty rate for the United States as a whole. The poverty rate is measured as the percent of a region's population that lives below the federal poverty level as determined by the U.S. Census Bureau. Between 1994 and 2008, the percentage of the Rhode Island population below the federal poverty line has varied from a low of 9.5 percent in 2007 to a high of 12.7 percent in 1997. During the same time period, the national poverty rate varied from a low of 11.3 percent in 2000 to a high of 14.5 percent in 1994. Interestingly, in the 2002, 2003, 2005 and 2008 periods, although Rhode Island's poverty rate has remained below that of the United States, the percentage change in Rhode Island's poverty rate has exceeded the percentage change in that of the U.S. These official poverty statistics are not adjusted for regional differences in the cost of living. The table below portrays the lower poverty rates in Rhode Island compared with the national average from 1994 through 2008.

Poverty Rate, 1994 - 2008

			Ratio	Percentage Change	
Year	**R.I.**	**U.S.**	**R.I./U.S.**	**R.I.**	**U.S.**
1994	10.3	14.5	71.0%	-	-
1995	10.6	13.8	76.8%	2.9%	-4.8%
1996	11.0	13.7	80.3%	3.8%	-0.7%
1997	12.7	13.3	95.5%	15.5%	-2.9%
1998	11.6	12.7	91.3%	-8.7%	-4.5%
1999	10.0	11.9	84.0%	-13.8%	-6.3%
2000	10.2	11.3	90.3%	2.0%	-5.0%
2001	9.6	11.7	82.1%	-5.9%	3.5%
2002	11.0	12.1	90.9%	14.6%	3.4%
2003	11.5	12.5	92.0%	4.5%	3.3%
2004	11.5	12.7	90.6%	0.0%	1.6%
2005	12.1	12.6	96.0%	5.2%	-0.8%
2006	10.5	12.3	85.4%	-13.2%	-2.4%
2007	9.5	12.5	76.0%	-9.5%	1.6%
2008	12.7	13.2	96.2%	33.7%	5.6%

U.S. Census Bureau

The bar chart below plots the data from the above table and demonstrates the poverty level of Rhode Island and the United States from 1994 – 2008. 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 1995 to 2009 period. The table reflects the new North American Industrial Classification System (NAICS) composition of employment.

Rhode Island Nonfarm Employment by Industry, 1995 - 2009

	Construction, Natural Resources & Mining		Manufacturing		Trade, Transportation & Utilities		Information, Financial Activities, & Business Services		Educational & Health Services		Leisure, Hospitality & Other Services		Government		Total Nonfarm Employment	
Year	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change	Number Employed	Percent Change
1995	13,600	-	80,300	-	75,600	-	77,600	-	77,200	-	54,600	-	61,300	-	**440,100**	**-**
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	21,200	1.0%	57,000	-2.9%	80,200	-0.7%	98,400	3.9%	92,900	2.1%	73,300	1.8%	65,500	-1.1%	**488,500**	**0.9%**
2005	22,100	4.2%	54,900	-3.7%	80,100	-0.1%	100,200	1.8%	95,300	2.6%	73,500	0.3%	64,900	-0.9%	**491,000**	**0.5%**
2006	23,100	4.5%	52,700	-4.0%	79,800	-0.4%	102,600	2.4%	97,100	1.9%	73,300	-0.3%	64,900	0.0%	**493,300**	**0.5%**
2007	22,500	-2.6%	50,700	-3.8%	79,800	0.0%	101,500	-1.1%	99,200	2.2%	74,600	1.8%	64,400	-0.8%	**492,600**	**-0.1%**
2008	20,600	-8.4%	48,000	-5.3%	77,300	-3.1%	98,800	-2.7%	99,900	0.7%	73,700	-1.2%	63,500	-1.4%	**481,700**	**-2.2%**
2009	18,000	-12.6%	43,200	-10.0%	73,200	-5.3%	94,200	-4.7%	99,700	-0.2%	71,800	-2.6%	61,800	-2.7%	**461,800**	**-4.1%**

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

As is evident from the table, between 1995 and 2009, total nonfarm employment in Rhode Island increased by 4.9 percent. During this time all sectors experienced overall increases, with the exception of Manufacturing and Trade, Transportation & Utilities which declined by 46.2 percent and 3.2 percent respectively. Employment growth slowed in 1996 to a 0.3 percent rate and then rebounded sharply over the 1997 to 2000 period during which time Rhode Island total nonfarm employment growth averaged 1.9 percent. In 2001, Rhode Island employment growth moderated to a rate of 0.4 percent with the onset of a national recession in March 2001. In 2002, it weakened further to a rate of 0.2 percent as the "jobless" recovery commenced in early 2002. In 2003, Rhode Island employment growth moved sharply upward to a rate of 1.0 percent then began increasing at decreasing rates of 0.9 percent, 0.5 percent and 0.5 percent for 2004, 2005, and 2006 respectively. The first decline in nonfarm employment came in the 2007 – 2009 period with decreases of 0.1 percent, 2.2 percent and 4.1 percent.

Non-farm Employment by Industry. The following table summarizes the changes in Rhode Island employment by sector from 1999 to 2009. Total nonfarm employment decreased by 0.8 percent during this period, and the composition of this total employment changed markedly. As is evident from the table, manufacturing employment decreased by 40.2 percent during this time period. Meanwhile, average employment growth for all other sectors, excluding government, increased 15.5 percent. The biggest gaining sector during this period was Educational & Health Services, which grew by 21.1 percent. Clearly, the Rhode Island economy underwent a significant restructuring during the 1999 to 2009 period, transforming from a manufacturing based economy to service based economy.

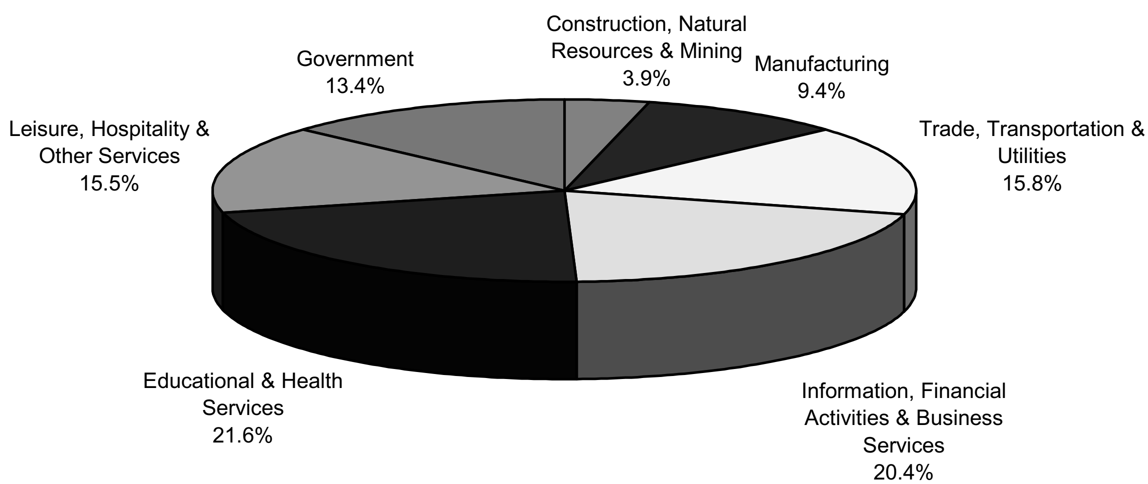
Rhode Island Nonfarm Employment by Industry, 1999 & 2009

Employment Sector	1999	% of Total	2009	% of Total	% Change 1999-2009
Construction, Natural Resources & Mining	18,000	3.9%	18,000	3.9%	0.0%
Manufacturing	72,200	15.5%	43,200	9.4%	-40.2%
Trade, Transportation & Utilities	75,700	16.3%	73,200	15.9%	-3.3%
Information, Financial Activities & Business Services	90,000	19.3%	94,200	20.4%	4.7%
Educational & Health Services	82,300	17.7%	99,700	21.6%	21.1%
Leisure, Hospitality & Other Services	64,000	13.7%	71,800	15.5%	12.2%
Government	63,400	13.6%	61,800	13.4%	-2.5%
Total Employment	465,500	100.0%	461,800	100.0%	-0.8%

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

The pie chart illustrates the composition of Rhode Island employment after the restructuring of the State's economy during the 1990s. The Educational and Health Services sector, with 21.6 percent of the nonfarm work force in 2009, is the largest employment sector in the Rhode Island economy, followed by Information, Financial Activities and Business Services (20.4 percent), Trade, Transportation and Utilities (15.9 percent), and Leisure, Hospitality and Other Services employment (15.5 percent).

Rhode Island Nonfarm Employment by Industry, 2009



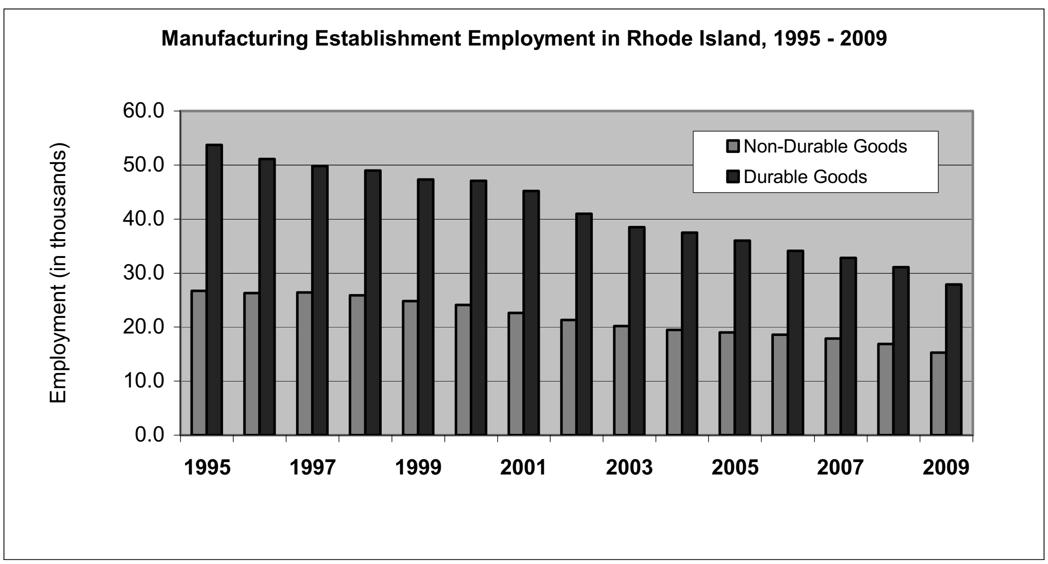
Manufacturing Employment. Like many industrial states, Rhode Island has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1995 and 2009, falling by 46.2 percent over this period. The rate of decline in manufacturing employment began to slow with the onset of the "Y2K expansion" that took hold in 1997. From 1997 to 2000, the decline in manufacturing employment was less than 2.0 percent per year with the exception of 1999. By 2000, this rate of decline had slowed to 1.4 percent. With the national economy slipping into recession in March 2001, the rate of decline in manufacturing employment accelerated to 4.8 percent in 2001. This rate of decline accelerated further in 2002 to 8.1 percent. Since that time, the rate of decline has again decelerated to 2.9 percent in 2004, 3.7 percent in 2005, 4.0 percent in 2006 and 3.8 percent in 2007. However, consistent with the overall contraction in the national economy, the rate of decline increased to 10.0 percent in 2009.

Manufacturing Establishment Employment in Rhode Island, 1995 - 2009
(In Thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Non-Durable Goods	26.7	26.3	26.4	25.9	24.8	24.1	22.6	21.3	20.2	19.5	19.0	18.6	17.9	16.9	15.3
Percentage Change	-	-1.5%	0.4%	-1.9%	-4.2%	-2.8%	-6.2%	-5.8%	-5.2%	-3.5%	-2.6%	-2.1%	-3.8%	-5.6%	-9.5%
Durable Goods	53.7	51.1	49.8	49.0	47.3	47.1	45.2	41.0	38.5	37.5	36.0	34.1	32.8	31.1	27.9
Percentage Change	-	-4.8%	-2.5%	-1.6%	-3.5%	-0.4%	-4.0%	-9.3%	-6.1%	-2.6%	-4.0%	-5.3%	-3.8%	-5.2%	-10.3%
Total Manufacturing Employment	80.3	77.4	76.2	74.9	72.2	71.2	67.8	62.3	58.7	57.0	54.9	52.7	50.7	48.0	43.2
Percentage Change	-	-3.6%	-1.6%	-1.7%	-3.6%	-1.4%	-4.8%	-8.1%	-5.8%	-2.9%	-3.7%	-4.0%	-3.8%	-5.3%	-10.0%

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

Employment in the manufacture of non-durable goods declined in every year since 1995 with the exception of 1997 when it grew at a rate of 0.4 percent. Despite a decline in employment, the manufacturing sector continues to be a significant component in Gross State Product, as evidenced by its production in terms of dollars. (See "Economic Base and Performance" below.)



Largest Employers in Rhode Island. The following table lists, in descending order by employment, the 50 largest employers in Rhode Island for 2008. Together, the top 100 employ an estimated 156,000 persons, which is one-third of total nonfarm wage and salary employment in the State, excluding municipal employment.

Rhode Island's Largest Employers

Employed	Employer	Industry
15,978	State of Rhode Island - *excluding URI, RIC, and CCRI*	Government
11,772	Lifespan	Health Care and Social Assistance
9,700	U.S. Government (excluding military)	Government
6,200	Roman Catholic Diocese of Providence	Other
6,193	Care New England	Health Care and Social Assistance
5,954	CVS Caremark Corporation	Retail Trade
5,500	Citizens Financial Group, Inc.	Finance and Insurance
4,877	Brown University	Educational Services
4,385	Stop & Shop Supermarket Co., Inc. (Royal Ahold)	Retail Trade
4,000	Bank of America	Finance and Insurance
2,851	Rhode Island Association for Retarded Citizens (ARC)	Health Care and Social Assistance
2,545	University of Rhode Island	Educational Services
2,300	Fidelity Investments	Finance and Insurance
2,143	General Dynamics Corp.	Manufacturing
2,084	WAL-Mart	Retail Trade
2,079	St. Joseph Health Services of Rhode Island	Health Care and Social Assistance
2,056	MetLife Insurance Co.	Finance and Insurance
2,050	The Jan Companies	Other
1,920	Shaw's Supermarkets (Supervalu, Inc.)	Retail Trade
1,780	The Home Depot, Inc.	Retail Trade
1,672	Raytheon	Manufacturing
1,488	Memorial Hospital of Rhode Island	Health Care and Social Assistance
1,470	Roger Williams Medical Center	Health Care and Social Assistance
1,452	Roger Williams University	Educational Services
1,282	Amica Life Insurance Company	Finance and Insurance
1,270	Johnson & Wales University	Educational Services
1,260	Cox Communications, Inc.	Information
1,228	Rite Aid Pharmacy	Retail Trade
1,205	Verizon Communications	Information
1,200	Amgen, Inc.	Manufacturing
1,198	Landmark Health Systems	Health Care and Social Assistance
1,167	Securitas AB	Administrative and Waste Services
1,144	American Power Conversion Corporation	Manufacturing
1,143	Blue Cross & Blue Shield of R.I.	Finance and Insurance
1,100	U.S. Security Associates, Inc.	Administrative and Waste Services
1,089	McDonald's	Other
1,080	AAA Southern New England	Administrative and Waste Services
1,074	GTECH Corporation	Information
1,050	National Grid	Utilities
1,015	South County Hospital	Health Care and Social Assistance
1,000	Hasbro, Inc.	Manufacturing
1,000	Sovereign Bank	Finance and Insurance
1,000	United Parcel Service, Inc.	Transportation and Warehousing
990	Chelo's Restaurants Corporate Offices	Other
950	Veterans' Administration Medical Center	Health Care and Social Assistance
936	Rhode Island College	Educational Services
930	Providence College	Educational Services
925	Newport Harbor Corporation	Other
912	Rhode Island School of Design	Educational Services
900	Twin River (BLB Investors)	Other

R.I. Economic Development Corporation, Research Division.

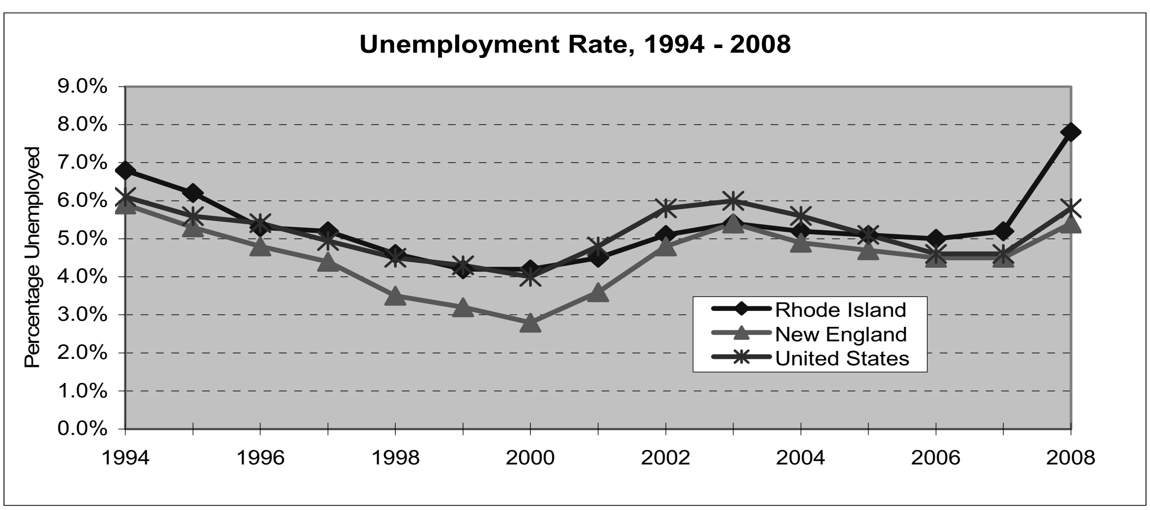
Unemployment. From 1994 to 1995, the Rhode Island unemployment rate was higher than the national unemployment rate. This pattern remained until 1996 when once again the unemployment rate in Rhode Island was less than that for the United States. From 1996 to 2001, Rhode Island's unemployment rate tracked closely with that of the United States. In 2002, the United States unemployment rate again rose above Rhode Island's. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rate averages of Rhode Island, New England, and the United States between 1994 and 2008.

Annual Average Civilian Labor Force and Unemployment, 1994 - 2008
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			R.I. Rate as a %
Year	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**R.I.**	**N.E.**	**U.S.**	**of U.S.**
1994	516	7,041	131,056	35	415	7,976	6.8%	5.9%	6.1%	111.5%
1995	509	7,053	132,304	31	375	7,407	6.2%	5.3%	5.6%	110.9%
1996	517	7,118	133,943	28	340	7,231	5.3%	4.8%	5.4%	98.0%
1997	532	7,228	136,297	28	315	6,729	5.2%	4.4%	4.9%	105.2%
1998	534	7,257	137,673	24	253	6,204	4.6%	3.5%	4.5%	102.2%
1999	541	7,327	139,368	23	234	5,879	4.2%	3.2%	4.3%	97.7%
2000	543	7,348	142,583	23	204	5,685	4.2%	2.8%	4.0%	105.0%
2001	545	7,424	143,734	25	266	6,830	4.5%	3.6%	4.8%	93.8%
2002	554	7,496	144,863	28	363	8,376	5.1%	4.8%	5.8%	87.9%
2003	564	7,508	146,510	30	407	8,771	5.4%	5.4%	6.0%	90.0%
2004(d)	555	7,476	147,401	29	366	8,140	5.2%	4.9%	5.6%	92.9%
2005(d)	562	7,515	149,320	28	353	7,579	5.1%	4.7%	5.1%	100.0%
2006(d)	571	7,598	151,428	29	343	6,993	5.0%	4.5%	4.6%	108.7%
2007(d)	572	7,633	153,124	30	340	7,077	5.2%	4.5%	4.6%	113.0%
2008(d)	568	7,669	154,287	44	415	8,961	7.8%	5.4%	5.8%	134.5%

Bureau of Labor Statistics
U.S. Department of Labor
(d) Reflects revised population controls and model reestimation.

In January 2010, the State's unemployment rate was 12.7 percent, 131 percent of the U.S. unemployment rate of 9.7 percent. The chart below graphs the unemployment rates for Rhode Island, New England, and the United States over the 1994 - 2008 period. This graph portrays Rhode Island's laggard status with respect to New England as a whole. This relationship between the Rhode Island unemployment rate and that for the New England region has been consistent over an extended period of time.



Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide benefits for eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Rhode Island Unemployment Compensation Trust Fund and financed through employer contributions.

Economic Base and Performance

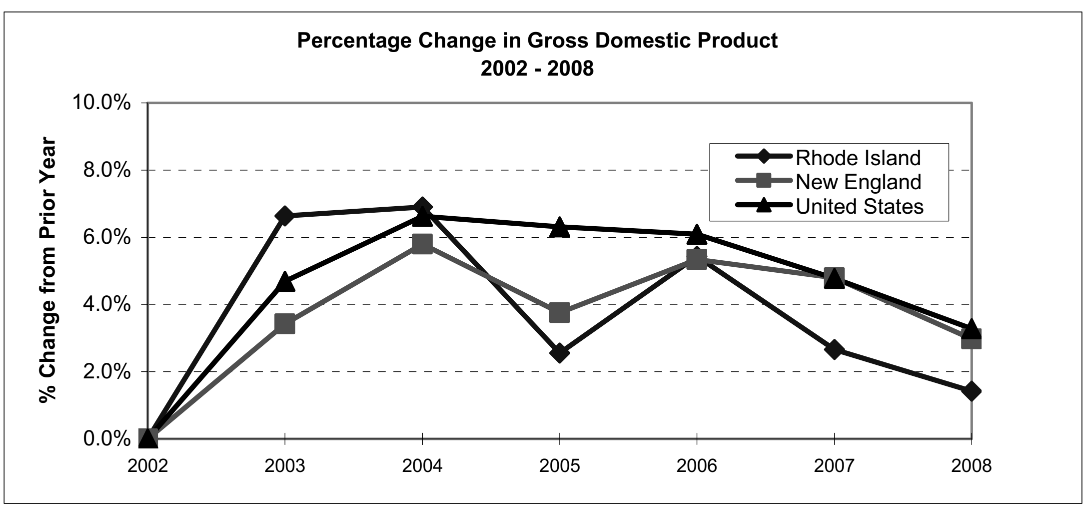
From 2003 - 2004, growth in Rhode Island Gross Domestic Product (GDP) was greater than GDP growth in the United States. For 2005 - 2008 Rhode Island GDP growth fell behind that of the United States. During the 2003 - 2004 period, Rhode Island GDP growth exceeded that of New England as well. In 2005, both United States GDP growth and New England GDP growth overtook that of Rhode Island for the first time in three years. The table below gives the Gross Domestic Product and the annual growth rates for Rhode Island, New England, and the United States over the 2002 - 2008 period.

Gross Domestic Product, 2002 - 2008
(millions of current dollars)

	Rhode Island		New England		United States	
Year	**GDP**	**Change**	**GDP**	**Change**	**GDP**	**Change**
2002	36,909	-	591,733	-	10,398,402	-
2003	39,357	6.6%	612,006	3.4%	10,886,172	4.7%
2004	42,073	6.9%	647,473	5.8%	11,607,041	6.6%
2005	43,148	2.6%	671,797	3.8%	12,339,002	6.3%
2006	45,491	5.4%	707,672	5.3%	13,090,776	6.1%
2007	46,699	2.7%	741,597	4.8%	13,715,741	4.8%
2008	47,364	1.4%	763,683	3.0%	14,165,565	3.3%

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

The graph below plots the percentage change in GDP for Rhode Island, New England, and the United States over the 2002 - 2008 period. It demonstrates that from 2002 to 2004, Rhode Island's GDP continued to rise at a faster pace than the nation and the region. The upswing in the growth of Rhode Island's GDP has been attributed in part to large gains in productivity of the state's labor force. Some of this productivity gain has been the result of the restructuring of the state's economy away from low value-added manufacturing to higher value-added services, such as those associated with the Finance, Insurance and Real Estate sector.



Economic Base and Performance -- Sector Detail. The economy of Rhode Island is well diversified. The table below shows the contribution to the Rhode Island Gross Domestic Product (GDP) of several industrial and non-industrial sectors. As is apparent, Rhode Island has experienced positive growth in all sectors from 2002 to 2008.

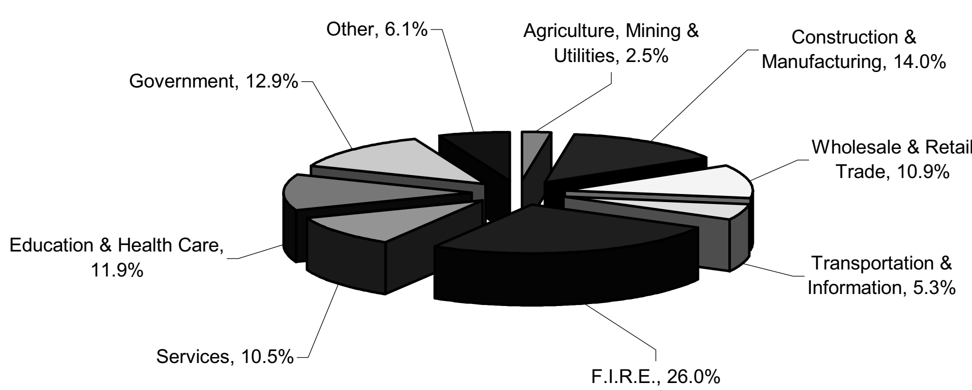
Gross Domestic Product by Industry in Rhode Island, 2002 - 2008
(millions of current dollars)

Industrial Sector	2002	2003	2004	2005	2006	2007	2008
Agriculture, forestry, fishing and hunting	83	88	94	93	94	102	76
Mining	19	20	29	33	34	40	46
Utilities	671	739	794	796	934	961	1,047
Construction	1,730	1,925	2,001	2,190	2,311	2,157	1,995
Manufacturing	4,126	3,806	4,320	3,919	4,533	4,735	4,650
Wholesale Trade	1,862	1,988	2,104	2,208	2,275	2,402	2,375
Retail Trade	2,472	2,613	2,692	2,774	2,785	2,896	2,778
Transportation and warehousing, excluding postal service	557	615	624	632	670	690	709
Information	1,355	1,483	1,675	1,769	1,715	1,691	1,803
Finance and insurance	4,804	5,075	5,434	5,280	5,571	5,364	5,315
Real estate, rental and leasing	5,000	5,553	6,043	6,279	6,451	6,790	6,986
Professional and technical services	1,859	1,948	2,119	2,229	2,533	2,522	2,667
Management of companies and enterprises	517	813	795	927	1,027	1,095	1,118
Administrative and waste services	831	885	974	1,058	1,081	1,141	1,175
Educational services	779	825	896	951	1,004	1,071	1,129
Health care and social assistance	3,397	3,618	3,829	4,031	4,205	4,363	4,527
Government	4,615	4,992	5,183	5,390	5,604	5,853	6,095
Other	2,232	2,371	2,467	2,589	2,664	2,826	2,873
Total GDP	**36,909**	**39,357**	**42,073**	**43,148**	**45,491**	**46,699**	**47,364**

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

The pie chart below shows the share of total Rhode Island Gross Domestic Product in 2008 attributable to each of the industry sectors noted above.

GDP by Industry in Rhode Island, 2008



Finance, Insurance and Real Estate. This is the largest sector in the economy of Rhode Island in terms of number of dollars. F.I.R.E.'s contributed 26.0 percent of GDP in 2008. In 2008, F.I.R.E. accounted for $12.3 billion of total gross domestic product of $47.4 billion. For the period 2002 - 2008 this sector expanded by a respectable 25.5 percent.

Construction and Manufacturing. In 2008, Construction and Manufacturing was the second largest sector in Rhode Island at $6.6 billion, or 14.0 percent of the total Gross Domestic Product. This sector increased by 13.5 percent from the 2002 level although it decreased in percent contribution to GDP. In 2002, Construction and Manufacturing comprised a slightly larger piece of GDP at 15.9 percent of the total.

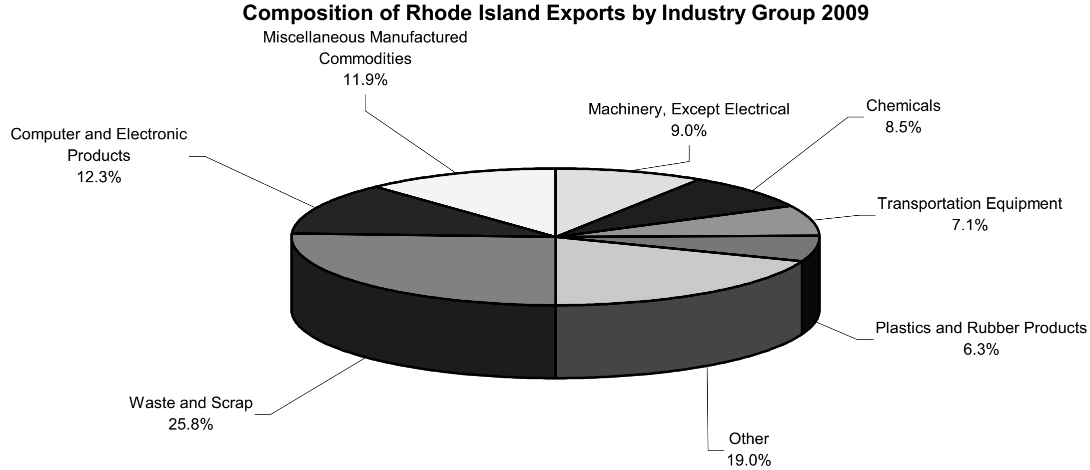
Government. At 12.9 percent of GDP in 2008, the Government sector has grown slowly and steadily since 2002. Yet, due to the gains in other sectors, particularly F.I.R.E., Government contributes only slightly more as a percentage of GDP in 2008 than it did in 2002. In 2002, the Government sector accounted for 12.5 percent of GDP. The growth rate in 2003 was 8.2 percent, in 2004 it was 3.8 percent, in 2005 it was 4.0 percent, in 2006 it was 4.0 percent, in 2007 it was 4.4 percent and in 2008 it was 4.1 percent. In 2008, the Government sector contributed $6.1 billion to total gross state product.

Services. Services consists of professional and technical services, management services, administrative and waste services, educational, health care and social assistance, as well as other non-government services. Since 2002, Services have remained an integral sector accounting for 28.5 percent of Rhode Island's GDP in 2008. From 2002 to 2008, Services have grown by 40.3 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 2006 was $1.53 billion. This represented 3.37 percent of Rhode Island Gross Domestic Product of $45.5 billion. In 2009, Rhode Island's exports decreased to $1.50 billion, a decrease of 2.4 percent over 2006 levels.

Composition of Rhode Island Exports by Industry Group 2009



The most important exports, as shown in the pie chart above, were waste and scrap (25.8 percent), computer and electronic products (12.3 percent), miscellaneous manufactured commodities (11.9 percent) and machinery, except electrical (9.0 percent).

The table below provides greater detail of Rhode Island exports by industry (in thousands of dollars) for the 2006-2009 period.

Rhode Island Exports by Industry, 2006 - 2009
(in thousands of dollars)

	2006	2007	2008	2009
Total All Industries	1,531,603	1,648,710	1,976,689	1,495,231
Waste and Scrap	278,607	396,185	520,535	385,309
Computer and Electronic Products	178,502	214,302	186,558	184,611
Miscellaneous Manufactured Commodities	222,223	201,929	296,299	178,229
Machinery, Except Electrical	173,097	179,062	245,289	134,996
Chemicals	137,369	164,687	175,538	126,452
Transportation Equipment	49,357	63,660	78,816	106,307
Plastics and Rubber Products	87,860	94,251	115,873	94,626
Primary Metal Manufacturing	129,864	87,626	98,760	65,596
Fabricated Metal Products, NESOI	55,571	48,610	48,158	46,713
Electrical Equipment, Appliances and Component	68,517	72,611	76,427	45,892
Fish - Fresh, Chilled or Frozen & Other Marine Products	35,882	23,859	30,367	29,395
Textiles and Fabrics	29,286	26,724	25,592	21,454
Paper	17,948	15,866	16,064	12,772
Minerals and Ores	2,856	1,486	1,285	11,725
Printing, Publishing and Similar Products	11,996	8,048	10,417	10,401
Food and Kindred Products	8,949	5,007	7,184	8,398
Textile Mill Products	4,681	5,084	6,061	6,966
Nonmetallic Mineral Products	8,906	9,296	8,477	5,692
Furniture and Fixtures	4,773	5,900	6,845	4,166
Special Classification Provisions, Nesoi	10,594	9,066	4,442	4,131
Apparel and Accessories	3,683	4,683	6,942	3,746
Leather and Allied Products	2,842	4,018	3,522	2,588
Used or Second-Hand Merchandise	3,894	1,335	2,783	2,407
Wood Products	504	633	840	793
Livestock and Livestock Products	660	1,301	546	581
Forestry Products, Nesoi	710	568	62	425
Goods Returned to Canada (Exports Only); U.S. Goods	836	381	503	332
Petroleum and Coal Products	644	914	1,378	292
Prepackaged Software	556	91	184	112
Beverages and Tobacco Products	78	105	255	73
Agricultural Products	358	1,422	687	51
Oil and Gas	0	0	0	0

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

Housing

The following table shows the number of housing permits authorized on an annual basis in Rhode Island, New England, and the United States. In 1999 the number of housing permits authorized in Rhode Island increased by 22.5 percent. In 2009, the number of housing permits authorized decreased by 20.6 percent in Rhode Island, compared to a decrease of 26.8 percent for New England and a decrease of 37.8 percent for the United States.

Housing Permits Authorized, 1995 - 2009
(seasonally adjusted)

	Rhode Island		New England		United States	
Year	Total Permits	Percent Change	Total Permits	Percent Change	Total Permits	Percent Change
1995	2,290	-	37,392	-	1,337,000	-
1996	2,360	3.1%	40,016	7.0%	1,420,000	6.2%
1997	2,721	15.3%	42,274	5.6%	1,442,000	1.5%
1998	2,651	-2.6%	47,906	13.3%	1,619,000	12.3%
1999	3,248	22.5%	47,381	-1.1%	1,662,000	2.7%
2000	2,651	-18.4%	43,751	-7.7%	1,600,000	-3.7%
2001	2,400	-9.5%	42,921	-1.9%	1,639,000	2.4%
2002	2,614	8.9%	47,309	10.2%	1,750,000	6.8%
2003	2,467	-5.6%	48,446	2.4%	1,889,000	7.9%
2004	2,504	1.5%	56,116	15.8%	2,058,000	8.9%
2005	2,911	16.3%	56,746	1.1%	2,162,000	5.1%
2006	2,267	-22.1%	48,198	-15.1%	1,846,000	-14.6%
2007	1,898	-16.3%	36,478	-24.3%	1,391,000	-24.6%
2008	1,158	-39.0%	24,035	-34.1%	897,000	-35.5%
2009	919	-20.6%	17,602	-26.8%	558,000	-37.8%

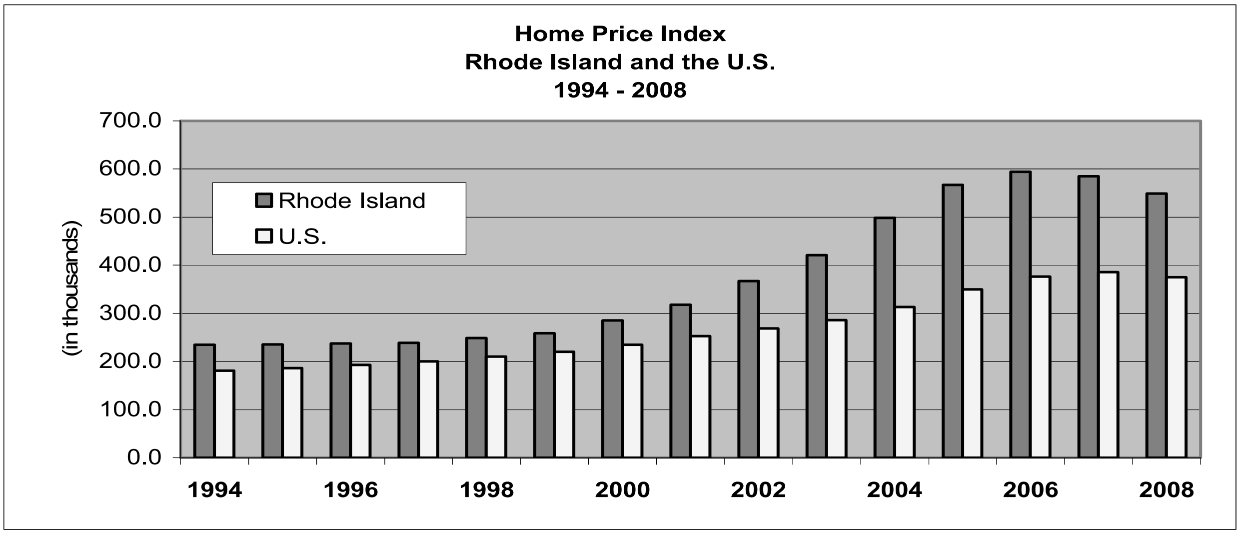
Federal Reserve Bank of Boston
U.S. Census Bureau

From 1994 – 1999 one of the strongest sectors of the state's economy had been housing. Over this period, existing home sales in Rhode Island grew at a minimum annual rate of 7.4 percent. In 1998 alone, they shot up 20.0 percent. Following this period of rapid growth, existing home sales decreased by 5.5 percent in 2000. Since then, existing home sales have been erratic. On a seasonally adjusted annual basis, existing home sales for Rhode Island, New England and the United States appear in the table below.

Existing Home Sales, 1994 - 2008
(seasonally adjusted at annual rates, in thousands)

	Rhode Island		New England		United States	
Year	Sales	Percent Change	Sales	Percent Change	Sales	Percent Change
1994	10.8	-	208.2	-	3,889.3	-
1995	11.6	7.4%	198.5	-4.7%	3,846.0	-1.1%
1996	12.8	10.3%	216.7	9.2%	4,162.8	8.2%
1997	14.0	9.4%	238.2	9.9%	4,364.3	4.8%
1998	16.8	20.0%	267.8	12.4%	4,962.8	13.7%
1999	18.1	7.7%	270.7	1.1%	5,171.7	4.2%
2000	17.1	-5.5%	259.3	-4.2%	5,187.5	0.3%
2001	18.1	5.8%	261.5	0.8%	5,326.7	2.7%
2002	17.2	-5.0%	279.0	6.7%	5,952.8	11.8%
2003	16.8	-2.3%	265.8	-4.7%	6,175.9	3.7%
2004	19.0	13.1%	307.4	15.7%	6,721.7	8.8%
2005	19.8	4.2%	-	-	7,064.0	5.1%
2006	18.5	-6.6%	-	-	6,510.0	-7.8%
2007	16.6	-10.3%	-	-	5,671.8	-12.9%
2008	13.5	-18.7%	215.9	-	4,896.5	-13.7%

Federal Reserve Bank of Boston
National Association of Realtors



Federal Reserve Bank of Boston; Federal Housing Finance Agency

The home price index for Rhode Island and the United States (not seasonally adjusted) appear in the above chart. While the Rhode Island home price index was 129.9 percent of the U.S. average in 1994, by 1999 it had fallen to 117.3 percent of the U.S. average. Since 1999, the Rhode Island home price index has climbed relative to the U.S. average, hitting a peak of 162.3 percent in 2005. Since then, the Rhode Island index has stayed well above the U.S. average and in 2008 stands at 146.4 percent of the U.S. level.

Military Contracts

Following a peak in the value of Department of Defense contracts awarded to Rhode Island firms in 1990 of $554 million, defense related contracts declined 29.6 percent by 1993 to $390 million. By 1994, the value of defense related contracts had rebounded to $422 million, up 8.2 percent from 1993. From 1995 to 1998, contracts again declined as the country cashed in the “peace dividend” from the end of the Cold War. In 2003 contracts had risen again to $499 million, up 36.7 percent from the previous year and in 2004 contracts declined again by 16.2 percent to $418 million. In 2005 contracts awarded to Rhode Island remained flat at $418 million. The relationship of the defense industry to the Rhode Island economy is reflected in the following table, which shows the value of Department of Defense contract awards between 1990 and 2006. Since 1990, Rhode Island’s share of New England contract awards has decreased from 3.9 percent to 2.1 percent of such awards in 2006.

Department of Defense Contract Awards, 1990 - 2006
(in millions)

Fiscal Year	R.I.	N.E.	U.S.	R.I. Percentage of New England	R.I. Percentage of U.S.
1990	554	14,271	121,254	3.9%	0.5%
1991	413	13,889	124,119	3.0%	0.3%
1992	455	11,033	112,285	4.1%	0.4%
1993	390	10,789	114,145	3.6%	0.3%
1994	422	9,329	110,316	4.5%	0.4%
1995	388	9,374	109,004	4.1%	0.4%
1996	334	9,237	109,408	3.6%	0.3%
1997	275	9,152	106,561	3.0%	0.3%
1998	217	9,284	109,386	2.3%	0.2%
1999	312	9,456	114,875	3.3%	0.3%
2000	418	8,745	123,295	4.8%	0.3%
2001	283	11,094	135,225	2.6%	0.2%
2002	365	13,029	158,737	2.8%	0.2%
2003	499	17,544	191,222	2.8%	0.3%
2004	418	19,062	203,389	2.2%	0.2%
2005	418	20,699	236,987	2.0%	0.2%
2006	431	20,243	257,456	2.1%	0.2%

Department of Defense

Travel and Tourism

According to the most recent Rhode Island travel and tourism industry report, the 2008 Tourism Satellite Account produced by Global Insight and published on September 27, 2009, travel and tourism sales in Rhode Island were $5.73 billion. This generated 45,538 jobs (9.4% of total state employment) and $1.37 billion in employee compensation (5.5% of the state total). Visitation to Rhode Island fell 6.8% in 2008 to 16.80 million travelers. Leisure visitation fell by 4.3% while business travel experienced a 17.8% decline during 2008.

Business spending made up just over 26% of total expenditures in 2008, compared to just under 20% of total visitation. Business expenditures were down 0.6% in 2008, mainly due to a low concentration in shopping (the lowest performing statewide category) and a strong concentration in entertainment (the best performing statewide category).

Leisure spending fell over 8.5% in 2008, which is a faster rate of decline than leisure visitation, with leisure visitors cutting back on spending in categories like shopping and entertainment. Looking forward, IHS Global Insight forecasts total U.S. leisure travel to rebound quicker and more significantly than business travel, which should benefit R.I. as the concentration of leisure visitors is higher here than in the entire U.S.

Each R.I. visitor/traveler generates about $467 in expenditures, $58 of which goes to R.I. businesses that do not directly “touch” that visitor. Every 160 visitors create a new R.I. job. Each visitor creates about $115 in tax receipts, $63 of which goes to state & local authorities. It takes only 235 visitors to pay for one Rhode Island public school student for one year. Each R.I. visitor generates $174 in wages paid to R.I. workers employed across an array of industries. Each visitor adds about $333 to the State’s Gross State Product.

Travel and tourism industry expenditures decreased in 2008 by 5.5%. The entertainment sector had the largest percentage increases in 2008 at 1.5%. Accommodation sales decreased by 1.1%, while transportation decreased by 2.3%. The largest decrease was in the food and shopping sectors with 10.8% and 18.6% decreases to expenditures respectively. Travel and tourism annual salary grew by 3.9% and fell 0.6% for total Tourism. While tourism is responsible for 4.1% of R.I. GSP, it contributed 13.8% of state government revenue in 2008.

Human Resources

The availability of a skilled and well-educated population is an important resource for Rhode Island. The level of education reached by the population of Rhode Island compares favorably with the United States as a whole, as the following chart demonstrates. Although spending on education is not necessarily an indication of results, it is important to note that Rhode Island spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Rhode Island has been significantly higher than the national average since 1993. The ratio of Rhode Island spending to the national average has varied from 124.2 percent in 1992-93 to a high of 142.2 percent in 2005-06. For the 2006-07 academic year Rhode Island spent 42.0 percent more on public elementary and secondary education than the United States average: $14,674 per student compared to a national average of $10,337 per student. The following table shows expenditures per pupil for Rhode Island and the United States since the 1992-93 academic year. It should be noted that data for the 2006-07 school year is the most recent available at this time from the National Center for Education Statistics.

Current Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Years 1992-93 - 2006-07
(Based on Average Daily Attendance)

Academic Year	Rhode Island	United States	Ratio (R.I./U.S.)
1992-93	6,938	5,584	124.2%
1993-94	7,333	5,767	127.2%
1994-95	7,715	5,989	128.8%
1995-96	7,936	6,147	129.1%
1996-97	8,307	6,393	129.9%
1997-98	8,627	6,676	129.2%
1998-99	9,049	7,013	129.0%
1999-00	9,646	7,394	130.5%
2000-01	10,116	7,904	128.0%
2001-02	10,552	8,259	127.8%
2002-03	11,377	8,610	132.1%
2003-04	12,279	8,900	138.0%
2004-05	12,685	9,316	136.2%
2005-06	13,917	9,788	142.2%
2006-07	14,674	10,337	142.0%

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

For the 2006-07 academic year, Rhode Island per pupil expenditures was the fourth highest in the nation. The following table shows each of the fifty states and the District of Columbia ranked in terms of average expenditure per pupil.

National Ranking of Expenditure per Pupil in Public Elementary and Secondary Schools
Academic Year 2006-07
(Based on Average Daily Attendance)

Ranking	State	Expenditure	Ranking	State	Expenditure
1	District of Columbia	19,861	26	Oregon	9,762
2	New York	17,182	27	Indiana	9,727
3	New Jersey	16,650	28	Louisiana	9,650
4	**Rhode Island**	**14,674**	29	Georgia	9,615
5	Vermont	14,219	30	Kentucky	9,303
6	Wyoming	14,219	31	Missouri	9,266
7	Connecticut	14,143	32	Washington	9,233
8	Alaska	13,508	33	South Carolina	9,226
9	Massachusetts	13,338	34	North Dakota	9,203
10	Maryland	12,820	35	Arkansas	9,152
11	Maine	12,628	36	Colorado	9,110
12	Delaware	12,612	37	Florida	9,055
13	Hawaii	12,084	38	California	9,029
14	Pennsylvania	11,995	39	New Mexico	8,876
15	New Hampshire	11,347	40	Iowa	8,789
16	Michigan	10,932	41	Alabama	8,743
17	Virginia	10,913	42	South Dakota	8,506
18	Illinois	10,816	43	Texas	8,484
19	Wisconsin	10,813	44	North Carolina	8,373
20	Ohio	10,792	45	Nevada	8,372
21	Nebraska	10,711	46	Arizona	8,038
22	Kansas	10,280	47	Mississippi	7,988
23	Montana	10,244	48	Oklahoma	7,968
24	Minnesota	10,185	49	Tennessee	7,843
25	West Virginia	10,080	50	Idaho	7,074
			51	Utah	6,116

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

According to the Rhode Island Office of Higher Education, in fall 2008, the total enrollment in Rhode Island institutions of higher education was 88,671 students, up 9.0% from the 81,382 students from 2006. Enrollment in the public sector totaled 42,601 (48%) and 46,070 in the independent sector (52%).

In 2007, Rhode Island institutions of higher education conferred 16,847 degrees and certificates. Rhode Island public institutions conferred 5,532 awards while the private sector conferred 11,315.

APPENDIX B

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Delivery]

State of Rhode Island and Providence Plantations
State House
82 Smith Street
Providence, Rhode Island 02903

Re: $78,960,000 State of Rhode Island and Providence Plantations General Obligation Bonds Consolidated Capital Development Loan of 2010, Refunding Series A (the "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 Bonds, constituting the Consolidated Capital Development Loan of 2010, Refunding Series A pursuant to Section 35-8-21 of the Rhode Island General Laws, as amended. 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 _________, 2010 (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 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 Bonds as the same shall come due.

2. The interest on the 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 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 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 Bonds.

We call your attention to the fact that interest on the 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 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 Bonds from gross income, to the extent provided in the Code, and to refrain from taking any action which would cause interest on the Bonds to become includible in gross income. The opinions given herein are subject to the State's compliance with such requirements.

We express no opinion regarding other federal tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

3. The Bonds are exempt from Rhode Island personal income 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.

It is to be understood that the rights of the holders of the 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.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreement, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion letter is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion letter to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretation thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

APPENDIX C

Table of Refunded Bonds

SUMMARY OF BONDS TO BE REFUNDED

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Consolidated Capital Development Loan of 2000, Series A:					
SERIALS	07/15/2011	5.000%	2,890,000.00	07/15/2010	101.000
Consolidated Capital Development Loan of 2001, Refunding Series B:					
SERIALS	06/01/2012	5.250%	6,400,000.00	06/01/2011	100.000
	06/01/2014	5.000%	3,800,000.00	06/01/2011	100.000
			10,200,000.00		
Consolidated Capital Development Loan of 2001, Series C:					
SERIALS	09/01/2012	5.500%	7,215,000.00	09/01/2011	101.000
	09/01/2013	5.500%	7,595,000.00	09/01/2011	101.000
	09/01/2014	5.500%	7,990,000.00	09/01/2011	101.000
	09/01/2018	5.000%	9,810,000.00	09/01/2011	101.000
	09/01/2019	5.000%	10,325,000.00	09/01/2011	101.000
	09/01/2020	5.000%	10,870,000.00	09/01/2011	101.000
			53,805,000.00		
Consolidated Capital Development Loan of 2002, Series B:					
SERIALS	11/01/2013	5.250%	3,645,000.00	11/01/2012	100.000
	11/01/2014	5.250%	3,795,000.00	11/01/2012	100.000
	11/01/2015	5.250%	3,955,000.00	11/01/2012	100.000
			11,395,000.00		
			78,290,000.00		

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS • GENERAL OBLIGATION BONDS CONSOLIDATED CAPITAL DEVELOPMENT LOAN OF 2010, REFUNDING SERIES A

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